Perspectives in higher education

Spring 2022

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Introduction

We are living in a time when the world, the nation and the higher education industry face no shortage of challenges. On a global basis, although the severity of the COVID-19 pandemic is diminishing, the crisis in Ukraine demonstrates how quickly a worldwide emergency can commence. Domestically, such issues as inflation, environmental concerns and racial justice continue to be top of mind with both the government and the public. Each of these international and national issues is affecting higher education, along with other items that are specific to the sector. For example, related to the invasion of Ukraine, some institutions are severing ties with Russia, evaluating relationships with Russian oligarchs and reviewing study abroad programs in the region. On a national basis, the effects of inflation are causing institutions to deal with higher vendor costs, and shortages of labor are driving up salaries and wages.

In the 2022 edition of “Perspectives in Higher Education,” we highlight several items that are top of mind in the industry. These include environmental, social and governance (ESG) considerations, expansion of an organization’s enterprise risk management program, and concerns around cybersecurity. We also explore the ongoing digital transformation of higher education and provide our annual update on happenings in Washington. Finally, we provide commentary on what role institutions can play in developing the leaders of tomorrow, how organizations can protect themselves from the increased occurrences of fraud within the industry, and we discuss what can be done to enhance a culture of trust.

Notwithstanding the ongoing changes within the industry and continued pressures from external forces, the US higher education system is maintaining its prominence around the globe and setting the standard for many other countries. Approaching change in a proactive and positive manner will enable success and continued leadership in the years ahead.

This document shares PwC’s insights into the key challenges and related opportunities facing colleges and universities, and offers an informed point of view on how institutions might respond. As a leader in providing audit, tax and consulting solutions to the higher education industry, PwC has been honored to work with many of the nation’s premier educational institutions in addressing their most pressing challenges.

We hope you use this document as a platform for discussion on the items most pertinent to your institution. Please feel free to contact Chris Cox at (508) 259-1557 or christopher.cox@pwc.com or Tom Gaudrault at (207) 232-0499 or thomas.k.gaudrault@pwc.com with any questions or comments.

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Introduction

Environmental, social and governance

Discussions around environmental, social and governance (ESG) issues continue to be on the top of agendas in boardrooms and among senior leaders of organizations. From divestiture of ESG-unfriendly companies, to climate change initiatives, to considerations around ESG reporting and related disclosures, the pace of conversations and expected actions on these and other ESG topics is accelerating. In the 2021 edition of “Perspectives in Higher Education,” we provided an overview of ESG metrics and reporting, as well as certain areas that higher education institutions could consider embracing as they started their ESG journey. The following ESG update provides an overview of where higher education institutions have been focusing and what more could be done to strengthen the ESG process.

Areas of ESG focus

ESG is evolving from a way to enhance an institution’s brand among its stakeholders to a way to measure its overall performance. The evolution of ESG has brought certain areas into the spotlight for higher education, including the following:

Environmental and social

Over the past year, demands by certain constituents for the divestiture of fossil fuel and other non-ESG investments increased. Such demands may broaden to investments that benefit foreign governments, such as Russia given the recent crisis in Ukraine. Institutions have responded by not only selling portions of the investment portfolio, but also establishing formal policies and procedures around evaluating fund managers' ESG programs, including their diversity and inclusion initiatives. Additionally, certain institutions have established sustainable investment task forces or committees. These groups are setting parameters on what types of investments will and will not be made by an institution. On the flip side of selling investments, higher education institutions have begun issuing bonds for green, social, sustainable or sustainability-linked purposes. This emerging ESG investment category started with overseas higher education institutions several years ago and is now seen in the US municipal securities market.

Environmental

The emphasis on climate change by the Biden administration (including the rejoining of the United States into the Paris climate accord) and by various regulators has directed attention to climate-related risks. The higher education industry is seen as important to the response to climate change through its research and education of students. Institutions are formalizing their climate commitment by establishing carbon-neutral goals, reviewing renewable energy alternatives, and devoting research resources to climate initiatives. Additionally, curriculums in certain science, technology, engineering, and mathematics courses (STEM) are being updated to incorporate additional elements surrounding climate change. State and local regulations continue to require disclosures around climate impact.
Colleges and universities continue to focus on such social issues as diversity, equity and inclusion, talent attraction and labor management. Over 100 college presidents participate in the CEO Call to Action for Diversity and Inclusion, where they have pledged to create a more diverse and equitable workforce by:

- Cultivating environments that support open dialogue on complex conversations around diversity, equity and inclusion
- Implementing and expanding education and training in unconscious bias
- Sharing best-known diversity, equity and inclusion programs and initiatives
- Engaging trustees when developing and evaluating diversity, equity and inclusion strategies

Various ESG topics continue to be included on trustee agendas. These include gender and racial diversity within the governing board, pay equity discussions, and ethics and compliance procedures. Discussions continue to evolve on oversight of overall ESG initiatives and board responsibilities.

ESG-related reporting is receiving heightened attention. Certain overseas regulators have already incorporated elements of ESG into mandatory reporting requirements and the SEC has proposed rule changes that would require registrants to include certain climate-related disclosures. Additionally, in December 2021, the Municipal Securities Rulemaking Board (MSRB) issued a request for information (RFI) to solicit public input on ESG practices in the municipal securities market. In the RFI, several questions are directed to municipal issuers — including colleges and universities that finance with tax-exempt bonds. The questions include:“(1) Are you currently providing ESG-Related Disclosures or ESG-related information beyond the legally required disclosures in your offering documents, continuing disclosures or other investor communications?” and “(2) Do you believe the information included in ESG-Related Disclosures should be standardized?” Along with the MSRB, rating agencies of colleges and universities are asking questions around ESG initiatives at institutions.

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Our perspective – Advancing the ESG program

Given the evolving ESG areas of focus, higher education institutions should consider the following as they look to formalize or advance their ESG initiatives:

**Embed ESG into strategy and purpose**

Institutions have the opportunity to build meaningful ESG efforts throughout their business — from supply chains to environmental footprints, from recruiting efforts to executive leadership composition. ESG strategy should align with the institution’s overall mission of research and education. Broader public awareness about sustainability and institutional responsibility means organizations can differentiate themselves by acting to build ESG strategies that can enhance their reputation with stakeholders including students, faculty, staff and donors.

**Measure for transparency and accountability**

Many higher education institutions are still at the beginning stages of ESG reporting. Thought should be given to what processes are needed to capture necessary information. With the focus on ESG reporting by the municipal bond market and rating agencies, reviewing current ESG reporting and improving it will allow for a greater ability to tell the institutional ESG story.

**Create a practical plan for action**

Creating value and impact through ESG means viewing it as more than an obligatory requirement. This can be accomplished by developing a tangible and practical plan that can be acted on. It requires people and technology working together so that organizations can see more, go deeper and act faster to make ESG-driven changes to their operations, value chain and institution.

**Establish ESG oversight**

As senior leadership and the board discuss where ESG could be assigned, consideration should be given to a specific committee’s capacity, skills and interest. For instance, the compensation committee may be interested in accountability through compensation while the audit committee may be interested in reporting and metrics.

Embracing ESG initiatives and related reporting will allow institutions to measure the performance in a variety of ways that could help provide what multiple stakeholders want to know about the organization. Forward-looking institutions should see the value of being the front-runner on ESG issues as it can connect to their long-term success.
Higher education institutions are operating in an increasingly regulated and dynamic environment, with many actively responding to risks generated by the COVID-19 pandemic, student demands and activism, and expectations from trustees to continue to advance their mission and strategic goals. These factors have led many senior leadership teams to revisit their enterprise risk management (ERM) functions with the goal of increasing their ability to identify earlier, appropriately prioritize, and respond to/mitigate their risks.

ERM functions commonly exist in close relationship with an institution’s other risk functions, such as internal audit, compliance, risk management (e.g., insurance) and legal. Leading institutions reflecting an understanding of these critical relationships have targeted their future ERM function as an integrated risk management (IRM) function that aligns discrete risk and control functions around a common operating model, governance framework and standards.

Additionally, depending on the maturity, size and scope of an institution’s risk functions, it has been leading practice to adopt a “fit for purpose” program that considers those relationships and available resources that can be dedicated to the ERM or IRM function (for simplification purposes, ERM or IRM will be referred to solely as ERM unless otherwise specified).

As an institution considers the modernization of its ERM function, it is important to revisit the core principles of the ERM program. Leading ERM programs should help to identify risks, consider how those risks affect the organization’s ability to meet goals, assess how the organization is managing risks, and inform what more should be done to mitigate them.

### Technology and ERM

Technology can empower an ERM program to broaden its reach, capabilities and effectiveness. However, it is important to start with the people and process aspects of enhancing an ERM program before building out system customizations.

A variety of technology solutions are in use. Certain institutions are considering either instituting new governance, risk and compliance systems, or leveraging existing systems (e.g., a ticketing system) where additional functionality could be deployed. Examples of leveraging technology for ERM programs include:

- Managing the ERM life cycle of identify, assess, manage, monitor and report
- Enabling cohesive issues management
- Driving automation and real-time risk reporting
- Data auditing and mining
- Creating a single and direct data source
- Eliminating redundant activities
- Increasing efficiency in testing, monitoring and oversight of risks
## Common challenges with ERM functions in higher education

The following table highlights common ERM challenges that institutions experience and leading practices that can be initiated to respond to these challenges.

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<th>Leading practices</th>
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<td>“We’ve started and stopped our ERM program multiple times; it has not been sustainable in the past.” Where does ERM fit in an organization and how do you keep it going?</td>
<td>A fit for purpose ERM methodology approach creates a program that is tailored to your organization, including its culture and resources. Build a program that is sustainable with your budget and your stakeholders’ time. <strong>Support from leadership at the top of the institution is required for long-term success.</strong></td>
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<td>“Our ERM program feels dated and stale.” How do we modernize it and reinvigorate engagement between the university community and our ERM program?</td>
<td>Conduct a targeted fit for purpose ERM program assessment that identifies gaps against leading practices and creates a tactical, strategic management action plan. <strong>Showing historical value and plans for the future will assist with community engagement with your refreshed ERM program.</strong></td>
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<td>“Our ERM program seems like a board exercise only.” It does not have the attention of senior leaders, and nothing tangible comes out of the effort put into it.</td>
<td><strong>Connecting ERM to strategy engages leadership and establishes that an ERM program is perceived as value-add and not another risk documentation exercise.</strong> Coordinating with partner risk functions helps reduce time needed from senior leaders and sends the message that the ERM program does not operate or exist in a vacuum. Additionally, building or leveraging a tool that connects existing systems can accelerate partnership with risk functions.</td>
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<td>“We have struggled with launching an ERM program in the past, and with limited resources, we will need input from a variety of business owners.” How do we educate our institution, gain consistency in application and help align it with the business?</td>
<td><strong>Your ERM program launch should start with education and training to engage risk practitioners, business units and leadership.</strong> Additionally, using accelerators such as templates and tools, as well as educational training materials that are customized to your organization, will help drive speed and consistency in application and execution.</td>
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<td>“Our institution’s operational leaders and our mature internal audit and compliance functions are managing risks every day.” How is ERM additive to the organization and how do we keep it from being seen as duplicative?</td>
<td><strong>ERM should be accretive to your existing risk functions and harmonize existing risk management activities.</strong> Successful ERM programs also consider how to use your existing technology, as well as potentially tailoring new applications to enhance not only your ERM program, but also operational functions, compliance and internal audit.</td>
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Our perspective – leading practices

At a fundamental level, an ERM framework is designed to support consistent and repeatable risk management processes. By adopting a comprehensive risk management framework, institutions have the opportunity to further embed their ERM program into their normal operating processes and routines, further maturing their risk management capabilities. Consideration should be given to the following:

**Establish risk culture and tone at the top** - Establish a common understanding of the core values, business drivers, appetite and tolerance, cross-functional partnership and desired behavior to align the institution in achieving its ERM and strategic goals. This includes expectations at the trustee/audit committee level and senior leadership of the institution.

**Identify risks** - Evaluate the process to assemble a comprehensive list of risks, including threats and opportunities that could affect the achievement of objectives.

**Assess risks** - Examine risks considering both the likelihood of the risk and the impact of the risk on the achievement of objectives.

**Manage risks** - Make the appropriate actions, decisions and controls with clear decision-making and accountability to effectively manage risk drivers to a level that allows the organization to achieve its objectives.

**Monitor and report** - Establish a standard process to monitor how risks are changing and if risk responses are successful, and communicate the status of addressing the risks.

**Align roles and responsibilities across functions** - Establish a common framework (processes, governance, methodology and reporting standards) to drive connectivity across the various functions and to harmonize risk information and insights.

As an institution looks to launch, modernize or expand an ERM program, it is critical for long-term success to obtain key leadership support from the top of the institution, demonstrate how the program is connected to larger risk mitigation initiatives, and connect it to the goals and strategy of the institution and its leaders.
Cybersecurity considerations

Breadth and depth of vulnerabilities

A recent study found that education was the third most affected sector by cybersecurity breaches worldwide. The most common security vulnerabilities for the industry are in application security, endpoint security, and software and patching updates. In 2020, ransomware attacks increased by a factor of 7, because of both the pandemic and the fact that many educational institutions are seen by attackers as low-effort targets with potentially high rewards. Relevant education records can fetch about $265 apiece on the black market, with some breaches historically exposing millions of records each.

By the nature of the cybersecurity threat landscape, an organization’s cybersecurity risk will increase depending on several factors. These include the following:

- Type of data hosted
- The data’s attractiveness to malicious actors based on their ability to exploit the data
- Value of the data itself (e.g., black market value, organization’s willingness to pay)

The variety and higher value data types managed by higher education institutions often result in a broader attack surface. An attack surface is defined as the points where an organization secures, hosts, processes and uses its data. The overall attack surface includes the systems, data and software that the organization must protect to strengthen its security posture.

Due to the diversification of data, software, systems, users and the decentralized nature of the organization, higher education institutions have one of the broadest attack surfaces available for potential attackers. Higher education attack surfaces manifest when managing aspects such as institutional finances and donations, credit card data and student health information.

The breadth of an institution’s attack surface results in significant cybersecurity implications. First, the variety in exploitable system types leads to an overall increase in attractiveness as a target for attackers. With more options available, attackers know they are more likely to be successful. In response, institutions must bear the additional cost burden of securing the entire attack surface. Finally, managing the attack surface day to day requires additional effort and personnel because of increased scope. Both actions ultimately aim to reduce the impacts of a breach by an attacker that has successfully exploited the surface.

Breaches can create long-lasting effects on both availability and confidentiality of university data. For example, one recent breach had impacts on universities where data was exploited through a vulnerability in secure data transfer software. The attackers stole valuable data from these universities and published it online. Other exploited vulnerabilities are as follows:

- Social engineering (41% of higher education incidents)
- Phishing (30% of users were victims of phishing)

The higher education attack surface has expanded because of the effects of COVID-19 and the necessity of remote working and learning. Faculty, students and staff are now connecting from home on their own devices and with a variety of applications, portals and other technologies with their own attack surfaces and unique vulnerabilities. Bring your own device (BYOD) introduces a unique set of challenges, including the lack of network segmentation and security controls between personal and university data.

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Increase in attack volume and complexity

In recent years, malicious attacks have increased in both frequency and intricacy. Threat actors have especially exploited the uncertainty of the pandemic to create coronavirus-related phishing emails. New requirements for remote work and learning and the increased use of virtual private networks (VPNs) and teleconferencing software open up opportunities for attackers to theme phishing attacks to these solutions. Attacks targeted at universities are primarily after data such as Social Security numbers, medical/health information and credit card information, all routinely collected by institutions.

Ransomware remains a major threat to universities. Often these attacks rely on sophisticated social engineering campaigns that use phishing to obtain initial access before executing malicious code on the university’s network. According to PwC’s 2021 US Digital Trust Insights Snapshot survey, 64% of chief information security officers and chief information officers expect a jump in reportable ransomware and software supply chain incidents. Along with the increased volume of these incidents, ransomware demands — and payments — are on the rise. In the United States, Canada and Europe, the highest ransom payment doubled to $10 million in 2020. This record was quickly toppled in March 2021 with news of a $40 million payment.¹

The Cybersecurity Maturity Model Certification (CMMC)

The Cybersecurity Maturity Model Certification (CMMC) will apply to future contracts between the government and higher education institutions. The CMMC is a National Institute of Standards and Technology (NIST) based certification that focuses on protecting Controlled Unclassified Information (CUI) and Federal Contract Information (FCI) broken into three levels. An organization’s required CMMC level will depend on the contractor’s relationship with CUI/FCI.

Many universities depend on federal funding. When CMMC is fully implemented, transmitting, processing, or storing FCI/CUI by higher education institutions will require certification at CMMC Level 2 per guidelines outlined in CMMC 2.0. Higher education institutions seeking CMMC compliance have a projected implementation deadline of 2023. To reinforce such a standard, the Department of Justice launched the Civil Cyber-Fraud Initiative under the False Claims Act, with the objective of pursuing contractors who do not meet cybersecurity requirements.²

The prevalence of ‘shadow IT’ and the impact on cybersecurity

Higher education institutions often rely on an information technology (IT) budget that is separated by department. Since separate budgets are often less than a single organizational budget, the time it takes to complete the process and receive necessary funding for a project can be long and complicated. As a result, shadow IT often becomes prevalent when authorized, secure versions of an IT solution either do not exist or the process to create a new solution is perceived to be cost prohibitive. Shadow IT introduces risk by broadening an organization’s attack surface and increasing the number of unauthorized injection points in the environment. It also often leads to a situation where the IT department does not have full visibility into its environment, leading to a false sense of security.

Our perspective

With new cybersecurity trends and variations on existing trends more prevalent than ever, higher education institutions need a comprehensive response. Consideration should be given to the following:

- Fully understand your attack surface and threat environment, and prioritize areas to secure.
- Anticipate the needs of new compliance responsibilities, especially those related to the federal government.
- Perform threat modeling, especially on common university phishing and ransomware attacks. In addition to well-known threats, ensure that lesser-known threats are treated as viable and are modeled accordingly.
- Understand that the need for shadow IT is often fostered by existing processes and culture. When it comes to the IT approval cycle, integrate all departments in order to reduce the time required to deploy a new product. Encourage users to consult the IT department about issues and educate them about the risks of do-it-yourself IT. Finally, ensure there is a master list that is available to users, with approved systems and applications along with deployment guidance.
- Review web traffic logs to monitor for the use of shadow IT (e.g., file sharing, video conferencing and collaboration tools), and work to implement and move users toward business-approved and secured solutions (e.g., using cloud access security brokers and web proxy filtering).
- Ensure that on-premises security controls still apply to systems when they are not on the internal network.
The past two years have forced the higher education community to take a closer look at many different aspects of their operations. This has included assessing and understanding the degree to which digital technology is disrupting their organizations, while at the same time taking advantage of the current circumstances to become highly functioning digital universities. Higher education institutions are in various stages of their digital journey, with research showing 13% of colleges and universities engaging in digital transformation (Dx) today, 32% developing a digital strategy, 38% exploring Dx and 17% investing no time in Dx.6

The number of students taking online courses is expanding rapidly. According to a Global Market Insights report, the global e-learning market was at $250 billion in revenue in 2020. This is expected to surge at a compound annual growth rate of 21% through 2027, to $1 trillion.7 In addition, the demand for science, technology, engineering, and mathematics (STEM) graduates is outpacing the supply, and students are focused more than ever on gaining digital experience and skills in order to secure future employment. While most institutions have managed to successfully teach and work remotely, university stakeholders are demanding better access to reliable data, cutting-edge technology, and digital services.

Although quickly responding to the digital needs of faculty, staff and students is important, it is critical to have a clear vision and strategy to truly harness the benefits that digital transformation can bring to an institution. Consideration should be given to the overall ecosystem of the university, including various departments such as admissions, finance, human resources, library, facilities and student services. Engaging key stakeholders and understanding the needs and challenges of the institution may take more time, but it can help prioritize the funding and needed resources while avoiding unnecessary costs.

Several universities have put energy into changing or upgrading their enterprise resource planning landscape and using such a change as a catalyst for a larger digital transformation. Others have focused on gaining a better understanding of emerging technologies. For example, virtual reality has allowed students to experience new ways of working, while drone technology provides an opportunity to bring the campus to life for prospective students. Additionally, by combining large amounts of data with artificial intelligence and machine learning, meaningful and insightful information is becoming more readily available to tackle complex challenges.

To become a leading digital university, it is also important to understand the capabilities and different roles that departments and individuals need to play. In some instances, there is a misunderstanding that digital is primarily about the use of technology or tools. The conversation can focus too much on a few key technology vendors and how their products will provide quick wins. To avoid this, a clear and transparent communication plan is important to set the right expectations. This plan would describe the changes, potential impact and opportunities that will result from digital transformation.

Equally important when embarking on a digital journey is providing the right training and support to faculty, staff and students. Building digital skills starts with building digital acumen, which can happen by providing curated and targeted content for individuals. In addition, it is important to have a mechanism for individuals to practice what they are learning, apply their new skills in their role and share this knowledge with others. Developing a strong change management plan through a robust communication plan, ongoing training and hands-on learning can lead to a better alignment between the university’s goals and the individuals who are directly involved, as well as play a key role in the digital transformation.

Reflecting on lessons learned

Regardless of where an institution is on its journey to becoming a digital university, reflecting on lessons learned from other organizations and industries can provide insights into both challenges experienced and desired outcomes. The areas that should be considered include the following:

- **Measuring the value of a digital program**: As it relates to determining value of a digital program, an institution should consider both the quantitative and qualitative value including such items as cost avoidance, improvement in quality and controls, and time savings/capacity created.

- **Ensuring that the underlying business process is “healthy” before automation is applied**: Generating and maintaining a healthy pipeline of automation opportunities are important, but not before evaluating the stability of the underlying business process. It is essential to first focus on simplifying, improving and potentially eliminating steps in a business process. This can lead to quicker value realization and speedier development of a digital solution.

- **Developing the right governance and operating model to support the continuous creation of digital solutions**: When moving beyond the first few digital solutions, the right governance and operating model should be considered, including the type of capabilities needed, and the roles and responsibilities of the information technology (IT) department, as well as business owners. For example, while IT may assist with the development and maintenance of a variety of digital solutions, the business owners may take the lead in identifying the right opportunities for automation. In certain cases, the business owner can build “simple” automations that can be easily maintained by the end user.

- **Establishing the ability to stay current on the latest technology that is suitable for an institution**: Lastly, the speed at which the technology solutions are being introduced and used has accelerated, causing challenges with staying current on the latest technology. Thus, it is important to focus on evaluating digital solutions and creating a robust digital toolkit that is “fit for purpose.” In addition to selecting the right digital solution, it is crucial to plan for the appropriate training that is required across all the key stakeholders, not just IT personnel.
Our perspective – implementing a digital strategy

As an institution embarks on implementing a digital strategy, the following key elements should be considered to help maximize value and avoid common pitfalls:

1. **Set the right foundation**
   - Institutions should look to evaluate and incorporate additional “fit for purpose” technologies over time to drive greater end-to-end automation (supported by a technology roadmap), but also govern and streamline the tools, as needed.

2. **Build a flexible center of excellence (CoE)**
   - Roles and responsibilities are key. Institutions should drive execution while also providing governance and oversight, as well as advice to the broader organization (including standards and methodologies, and guidance on opportunities to automate).

3. **Align automation efforts with broader IT objectives**
   - An automation CoE should not sit in a vacuum. It is important to align the automation CoE with the broader digital strategy and IT objectives in order to find the right solution for the business problem at hand. Automation should be an inherent part of the digital transformation strategy rather than a “tactical” proposition.

4. **Long-term focus on scaling**
   - If a limited number of the operating model elements are in place, scaling digitization efforts across the enterprise will prove challenging. Some of the key challenges include positioning of automation, disruption due to new ways of working, and ongoing monitoring and support. The key elements need to be prioritized and planned for over the course of one to two years. While the initial goal may be to get the organization to accept and participate in new ways of working by adopting digital solutions, in order to scale, an institution will need an operating model that optimally manages a large volume of digital solutions. Laying out short-, medium- and long-term requirements against key objectives is critical.

5. **Focus on risk and governance**
   - Focus on creating a robust governance framework from the beginning to avoid key risks and initial program failures. This framework includes helping to establish clear goals, identifying the appropriate “value” measure, understanding the different types of digital solutions, and aligning the right type of multiyear investments to help drive the outcome desired.

Reflecting on the past two years, every sector has been disrupted in ways never imagined. It is not surprising that organizations have reevaluated their priorities, including the need to accelerate their digital journey. For a higher education institution to create a meaningful and sustainable digital change, it is critical that there is strong executive commitment and that those leaders are involved not only in the start of the process, but throughout the entire digital journey.
Introduction

President Biden campaigned on sweeping higher education policies that many advocates praised as long overdue reforms. However, after a year into his first term, many of his administration's proposed reforms have been either stalled or removed from the president's key domestic agenda, the Build Back Better Act. With Democrats' slim majority in Congress, combined with a host of other domestic and geopolitical priorities, it is unclear how many of the president's higher education priorities will be able to move forward this year, especially as the midterm elections move closer.

Funding for Higher Education: President Biden signed a $1.5 trillion spending bill on March 15 that funds the government through the end of September. The package includes all 12 annual appropriations bills for fiscal year 2022 along with $3 billion for higher education programs, and will fund increases for most Title IV programs at the Department of Education. The maximum Pell Grant will receive a $400 boost under the legislation, bringing it to $6,895. The legislation also provides $885 million to assist historically Black colleges and universities (HBCUs), tribal colleges and universities, and other primarily minority serving institutions (MSIs), an increase of $96 million over fiscal year 2021. President Biden also released his fiscal year 2023 budget plan on March 28, where he proposed a $1,775 increase in the maximum Pell Grant bringing the award to $8,670. The president's fiscal year 2023 budget proposal also includes a provision that would permanently exclude discharged student loan debt from counting towards an individual’s taxable income, among other provisions. However, the president's budget is a recommendation and there is no guarantee Congress will pass a bill at the president's requested funding levels.

Additionally, the Biden administration’s key domestic agenda, the $2 trillion Build Back Better Act (H.R. 5376 (117)), also includes funding for higher education priorities. The reconciliation bill passed the House in November 2021 after months of negotiations, but has not yet been considered by the Senate over objections with certain provisions from key Democratic Senators. Because the measure is being considered through the budget reconciliation process, the support of all 50 Democratic Senators is needed to pass the bill through the Senate. The House-passed version would invest over $20 billion in higher education initiatives and $40 billion for workforce development programs. This includes:

- Expanding federal financial aid eligibility to certain students with Deferred Action for Childhood Arrivals (DACA), Temporary Protected Status, or Deferred Enforced Departure status;
- Creating a five-year $500 million Retention and Completion Grants program to increase college completion rates;
- Funding grants to support teacher retention and training; and
- Investing in MSIs.

The Build Back Better Act initially included a provision to allow students to attend two years of community college for free. The program would have delivered on a key promise President Biden made on the campaign trail in 2020, but it was ultimately cut from the bill in October.  

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COVID-19 response: The COVID-19 pandemic continued to have a significant impact on higher education with inconsistent policies on remote learning, masks, vaccines and social distancing in place across the country. Teacher and staff shortages also strained the higher education system. Following the enactment of the American Rescue Plan (ARP) Act last year, the Biden administration oversaw the investment of over $40 billion in ARP funds to institutions of higher education via emergency grants. The funds were distributed to over 5,000 colleges and universities, and half of the funds were awarded directly to students in the form of emergency financial aid.10 Ahead of the 2021–22 school year, the Biden administration launched the COVID-19 College Vaccine Challenge,11 a joint initiative between the White House and the Department of Education to increase vaccination rates among young adults. The administration also established a separate partnership with community colleges to host vaccination clinics for students, staff and members of the local community.

Higher Education Act reauthorization: Attempts to reauthorize the Higher Education Act (HEA) were disrupted by the pandemic and remain unfinished. House Education and Labor Committee Chair Bobby Scott (D-VA) penned a reauthorization bill in the previous congressional session, the College Affordability Act (H.R. 4674 [116]), but he has not yet reintroduced the bill in the 117th Congress. Senate Health, Education, Labor and Pensions Committee Chair Patty Murray (D-WA) and Ranking Member Richard Burr (R-NC) have similarly been inactive on the matter this Congress. Analysts believe a reauthorization bill is unlikely to be introduced and pass in the remaining months of the 117th Congress, especially as other matters, like key aspects of the Biden administration’s legislative agenda and the situation in Ukraine, continue to pull members’ focus.

Student loan considerations: The Biden administration extended the moratorium on federal student loans several times in 2021 in response to the pandemic. The most recent extension was announced in April and will pause federal student loan repayment, interest and collections through August 31, 2022. Roughly 43 million borrowers are covered by this relief, which began in March 2020. The Biden administration is also weighing whether to forgive additional student loans through executive action. Previously, the Biden administration approved the cancellation of about $16 billion in student loans since January 2021. This targeted cancellation was approved in part through the Total and Permanent Disability discharge program ($7.8 billion forgiven), Public Service Loan Forgiveness program ($5 billion forgiven), and the approval of Borrower Defense claims ($415 million forgiven). The Federal Student Aid (FSA) Office also recently released a plan to modify its program for collecting and managing federal student loan payments. FSA plans to award multiple contracts to loan servicers that will each be responsible for managing their own piece of the federal student loan portfolio. Initially, borrowers would continue to make payments and manage their loans through the individual websites of their loan servicers, but then they would transition it to a single payment portal on StudentAid.gov.

Immigration: The Biden administration took steps in 2021 to strengthen the STEM student pipeline by allowing STEM graduates to remain in the United States for longer periods, potentially creating a bridge to other longer-term residency options for these individuals. In January 2022, the administration expanded eligibility for Optional Practical Training (OPT) for F-1 students to include 22 new STEM degrees. The program allows them to stay in the United States for an additional 24 months on top of their initial 12 months of OPT.12 In addition, in 2021 the Department of State’s Bureau of Educational and Cultural Affairs launched a two-year initiative to allow degree-seeking J-1 students and graduates in STEM fields to remain in the United States for three years, doubling the previous 18-month cap.13

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Biden administration personnel: The Department of Education continued to staff up in 2021, including through the confirmations of James Kvaal as Under Secretary of Education; Roberto Rodriguez as Assistant Secretary for Planning, Evaluation and Policy Development; Gwen Graham as Assistant Secretary for Legislation and Congressional Affairs; and Sandra Bruce as inspector general. Additionally, Richard Cordray, a former Obama administration official who ran the Consumer Financial Protection Bureau, is now running the FSA Office at the Department of Education.

With the 2022 midterms quickly approaching, many analysts expect the political climate to become only more challenging to move higher education policies forward. With a slim Democratic majority in Congress, inflation and geopolitical tensions, and with the administration’s key domestic agenda currently stalled, higher education policies may not receive the focus many advocates hope for or that Biden campaigned on for the remainder of this year.
Compliance and monitoring for fraud have increased in importance given the current environment -- defrauders taking advantage of the pandemic, weakened controls given staffing issues and the remote work phenomenon -- to exploit businesses and individuals alike. A recent Global Study on Occupational Fraud and Abuse by the Association of Certified Fraud Examiners noted that the nonprofit sector is “particularly vulnerable because of less oversight and lack of certain internal controls.” One merely needs to read the popular press to learn of an increase in public reports of fraud at colleges and universities. This suggests that institutions may be acutely susceptible to fraud events, for the macro reasons set forth above, but also given the inherently decentralized structure of higher education.

Many universities continue to expand their footprint, opening new departments and providing wider ranges of services. However, such expansion has not always been matched with corresponding growth in important functions that serve as “gatekeepers” to guard and enhance the internal control environment, namely finance, compliance and internal audit. What’s more, as universities become more complex as a result of the expanded range of services offered, so do the infrastructure requirements, including the internal control and governance functions. Experience has shown that these functions have not grown, evolved, or adapted effectively to address more complex challenges posed by the current university model—and, consequently, the risk of fraud and abuse has been elevated.

There are several financial, operational and reputational risks that are greater in higher education than in corporate entities of similar size and scale. These include:

- **Historical underinvestment in ongoing monitoring of transactions to detect fraud and other inappropriate activity compared with corporate entities**
- **The high degree of decentralization across the various schools, departments and units**
- **The level of autonomy granted to faculty**

Fraud events can create long-term damage to an institution, not just from the direct monetary loss from the fraud but also from the reputational impact that can reverberate for years. The damage can be compounded when viewed in the light of potential skepticism among donors who could feel less secure in giving to institutions that cannot adequately control funds. That skepticism is the same for governments and their appetite for awarding grants or contracts if they do not have confidence that the public funds will be handled and used properly.

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Unique risks faced by higher education

Because of its unique characteristics, the higher education industry faces distinct challenges and threats that could be mitigated with the proper controls. However, when left unaddressed, these threats can harm the reputation and brand of an institution. Some of the key risks related to fraud can include the following:

- An inadequate control environment and limited oversight, ongoing monitoring, and training by central functions. Roles, responsibilities and accountability may not always be clearly defined across the university and the various departments and units.
- Potentially weakened controls/enforcement during the pandemic (e.g., remote work, consolidation of duties from higher turnover).
- The potential for regular engagement in behaviors designed to circumvent or avoid central controls.
- Fraudsters who are continually innovating to come up with new scams and approaches that are targeting higher education institutions. The rapid shift to remote work and the related changes in business practices and purchasing patterns have exacerbated the changing risk profile.
- Employee theft that could occur through procurement fraud, fictitious vendors, contract bid rigging, grant fraud, purchase card abuse, and use of college endowment funds in violation of the gift provisions.
- Myriad departments that may have disparate systems and software applications, limited transaction monitoring, and minimal data integrity reviews.
- A perception that higher education institutions are easy targets with deep pockets.

Of higher education institutions have experienced fraud and/or economic crime within the last 24 months

Of institutions that experienced fraud, reported the fraud to have been asset misappropriation, the most common fraud event reported

Of the fraud was detected via suspicious activity monitoring

Of fraud was perpetrated by an internal perpetrator

Source: PwC Global Economic Crime Survey

Common challenges

Higher education, just like corporate entities, has experienced rapid change in work practices and purchasing patterns due to the pandemic, and this has led to new behaviors. At the same time, fraudsters are increasingly technologically competent at accessing an organization’s data and systems to perpetrate fraud. These internal and external pressures have converged to add stress to an institution’s finance and compliance departments. Entities may be at a crossroads in determining how to allocate and spend resources. This has highlighted the need to get the most out of digital investments and upskill the workforce, which is important in enhancing and deploying the tools and methods used in fraud detection.
Our perspective

With fraud risks and exposures more prevalent than ever, there are several areas where higher education institutions can focus to help mitigate the risks:

- **Perform fraud risk assessments:** Evaluate the state of the institution's anti-fraud capabilities.

- **Use technology proactively:** Consider the deployment of preventive fraud analytics as a tool to identify potential issues in advance of their evolution into significant fraud matters. The use of new technology tools and analytics can enable existing internal audit functions to deploy resources in a more effective and efficient manner by identifying and prioritizing areas of the institution with existing or emerging risk factors.

- **Increase the use of advanced technological tools:** Artificial intelligence and machine learning are being more widely adopted in the corporate space as companies seek to be more agile and enhance the effectiveness and efficiency of fraud risk management efforts.

- **Identify risks in real time:** Empower teams to detect and assess anomalous or problematic activity as it occurs. Enhanced reporting and data visualization tools have been useful for assessing the changing risk profile and identifying red flags.

- **Assess opportunities to centralize or enhance controls:** Colleges and universities often have a very decentralized environment, which can lead to varying controls and procedures across the institution and can create an environment of elevated risk. This can highlight the importance of assessing existing internal controls, policies and procedures to determine if any changes need to be made.

- **Investigate internal fraud incidents promptly:** A leading practice to avoid getting embroiled in a new fraud incident is to investigate and learn from the last one. Prompt investigation of — and response to — the discovery of fraud can help prevent a spiral of consequences that have been seen in the past.

- **Reinforce tone at the top:** Conduct required annual training that includes an emphasis on the importance of internal controls and ethical business conduct.

The stakes can be high for any institution hit by fraud: Faith and trust in the institution, revenue, employee morale and the potential for further investigations are at risk. With the right steps, institutions that experience fraud can resolve the uncertainties of regulatory matters expeditiously and protect themselves. For institutions that learn, adapt and adjust to the changing environment, the risk of fraud can be mitigated.
Preparing tomorrow’s leaders today

The pandemic has accelerated many trends that have been observed for years, even decades. As noted in a recent PwC article, “Adapting to a New World,” five global forces, which together have been termed ADAPT, have been changing the way millions of people live and work: Asymmetry of wealth and opportunity, Disruption wrought mainly by technology and climate, Age disparity and the stress caused by the very young and very old populations, Polarization leading to the breakdown in global and national consensus, and the loss of Trust in the institutions that underpin and stabilize society.

These trends have given rise to global challenges that call for a new kind of leadership, one in which leaders embody and negotiate a set of apparent contradictions in order to thrive in a rapidly changing world: the six paradoxes of leadership. For instance, it used to be accepted that leaders could be either great visionaries or great operators. Today’s leaders, however, should embody both qualities. They should also be at once tech-savvy and deeply human; good at forming coalitions and making compromises, all while being guided by their integrity; deeply humble and aware of their limitations while at the same time showing the way and making big decisions; globally minded as well as deeply rooted in their local communities; and constantly pushing for innovation while being grounded in their organization’s core identity. As the world seeks to repair and reconfigure in response to the COVID-19 pandemic — and to prepare itself to be resilient in future crises — there is an urgent need for leaders to understand, accept and embrace these paradoxes.

Higher education plays a key role in preparing the leaders of tomorrow for tackling the challenges the world faces. In fact, leaders have dual responsibilities: They themselves should navigate the paradoxes of leadership and prepare the next generation of leaders to do the same.

Six paradoxes of leadership defined

- **Globally minded localist**
  How do you navigate a world that is increasingly both global and local?

- **High-integrity politician**
  How do you navigate the politics of getting things to happen and retain your character?

- **Humble hero**
  How do you have the confidence to act in an uncertain world and the humility to recognize when you are wrong?

- **Strategic executor**
  How do you execute effectively while also being highly strategic?

- **Tech-savvy humanist**
  How do you become increasingly tech-savvy and remember that organizations are run by people, for people?

- **Traditioned innovator**
  How do you use the past to help direct your future success?
Preparing the leaders of tomorrow

The paradoxes of leadership provide a helpful framework for universities to think through how to prepare the next generation of leaders:

Students will need exposure to both global and local influence. Universities should consider adding global forces and geopolitics to everyone’s curriculum and teaching students how to understand the world “on the world’s terms,” rather than through the lens of US politics, economics and values. Partnering with universities in other regions of the world could be one way to achieve this exposure, but more scalable solutions may be needed as well. Universities and students should also engage more actively with their local communities, for example by working over extended periods on community projects.

In an ecosystem where companies, institutions and individuals must collaborate to create value, leaders should be able to accrue support, negotiate, form coalitions and partnerships, and overcome resistance. Universities can help prepare tomorrow’s leaders to succeed in this world by orchestrating ways to get diverse groups of students to work together while teaching them the power of purpose and trust to align teams around a common goal. In addition to the well-established team exercises, projects should focus on complex outcomes and therefore require input from diverse students, often even students working toward different degrees. Self-awareness and character are important ingredients of integrity. Institutions can help students discover what drives and motivates them, what they naturally excel at, and what they struggle with.

Universities have traditionally been good at conveying a strong fact basis, aiming for students to “know it all.” With change in the world happening so quickly, it is also important for students to learn how to “learn it all.” Seeking out, hearing and understanding others’ voices is important for students to become humble heroes. Universities can help them by teaching civility and creating a culture that is about respectful discovery of other perspectives. This might manifest itself in the books that are read in class, the seminar speakers who are invited to campus, and the movies that are shown.

Universities typically excel at teaching the latest developments in any given field. For future leaders to become strategic executors, however, two more aspects will be helpful: The first is a more integrated view of the world. If tomorrow’s leaders are to shape the future, they should understand risk and regulations, competition of various political systems, dependency of economies, past crises and how they have changed people’s perception, ethical and social considerations, and many more. The world’s massive problems, such as climate change, mobility, and healthcare, can’t be solved by experts in single disciplines. They require an integrated view, and universities can help lay the groundwork for it. The second aspect is the ability to effect organizational change, not just in theory but also in practice. To help future leaders learn how to drive change, universities should consider embedding students into change projects for extended periods, having them work with organizations in their local communities so they learn how to make things happen in the real world.

For leaders to become tech-savvy humanists, traditional pure engineering or liberal arts programs should be expanded. Future leaders will need engineering and computer science programs with some social science and liberal arts overlay, and vice versa. Universities should therefore add to their tech curriculums elements of psychology, sociology and political science, just as philosophy, international relations, education and business curriculums should include elements of machine learning and artificial intelligence.

Most students would agree that innovation is non-negotiable in order to succeed in today’s world. What they may not fully appreciate, though, is the perseverance it takes to make innovation work and the need to have purpose drive the focus of one’s energy. Exposing students to design thinking, linking them up with local entrepreneurs who work on scaling up innovation, inviting innovators to hold seminars and tell their personal stories of failures and successes, and organizing “innovation challenges” in which students can develop ideas could be helpful for promoting innovation.
Navigating the 6 paradoxes of leadership for those at the top of higher education institutions

In addition to preparing the next generation, those in a leadership role can use the six paradoxes when reflecting on the skills of their own executive team and when moving their institution forward. By thinking and engaging globally and working with people from diverse backgrounds and cultures, leaders can gain access to insights and talent in the global marketplace. At the same time, being aware of and responsive to the needs of the local communities and ecosystems in which they operate is becoming increasingly important for executive leaders. By orchestrating dialogue and exposing people to new ideas, all while being clear about what is fact versus fiction, leaders can make sure important dialogue is maintained in an often-polarized environment. The current environment also calls for humble hero leaders, people who are willing to make bold decisions, for example by reimagining the value their university is going to create in the world, and who have the humility to acknowledge what they do not know.

Additionally, by understanding how their organization needs to change in a world shaped by global forces and being able to make the change happen on the ground, leaders emphasize their roles as strategic executors. Embracing a tech-savvy attitude allows a leader to investigate how their organization could use digital technologies to make higher education accessible to more students. Finally, by focusing on what is unique to their institution and how they can use that uniqueness to create value, leaders become traditioned innovators for their organization.

Higher education plays a key role in helping society tackle the global crises the world faces and has the opportunity to help produce a highly positive outcome. The six paradoxes of leadership, when applied to future leaders and universities’ own leaders, can provide a useful framework for thinking about what might be involved.
Building a culture of trust

In the wake of highly visible breaches of trust within the higher education sector — from the Varsity Blues scandal, to foreign influence in research, to accusations of price fixing in financial aid — institutions are taking a hard look in the mirror. The questions arise. How can one embed trust across an organization, make it stick, and then turn it into a competitive advantage? Why do some organizations struggle to build trust, while others forge stronger relationships, even after a crisis?

According to PwC’s 2021 Trust in US Business Survey, the top two challenges to building organizational trust are diverse stakeholder perspectives and current company culture. Higher education institutions have long been familiar with the need to serve multiple stakeholders, including students, faculty, staff, donors and board members, often with contradictory expectations. In addition to balancing the stakeholder landscape, institutions are now expected to take a stand on critical social and public policy issues, while contending with increased public visibility into business operations. Top this off with a decentralized organizational structure, and the challenges for sustaining a consistent culture increase.

There can be the temptation to respond reactively — shutting down and becoming more opaque, or erring on the side of complete transparency — both of which have the potential to backfire. What is needed is not a reactive response to crisis or demand, but a mindful shaping of a trust-based culture from the ground up.

The opportunity

For organizations that build a resilient culture of trust and transparency, the benefits go beyond positive public perception.

PwC’s Trust Survey found that 73% of leaders across industries, including the public sector and government, say that trust helps “a lot” with customer loyalty, and between 48% and 58% say trust helps “a lot” in nine other critical areas, including growth, brand and employee retention.¹⁵ These findings are relevant to the higher education sector.

Although many people recognize the importance of a culture of trust and transparency, there can be misconceptions about how to build it in meaningful ways. The following breaks down a few of the myths.
**Myth #1: Trust is just a feeling.** Trust is a tangible asset and competitive advantage for higher education. When it is defined in terms of organizational strategy and stakeholder relationships, institutions can take the steps needed to build it, rebuild it and sustain it. A simple exercise can help to align key goals with organizational strategy and culture, and gain clarity on the elements of trusted stakeholder relationships:

1. **Identify two or three key issues that are most important to the institution.** These might be issues that the organization has struggled with in the past or challenges to recover from — or long-term goals where one can make a meaningful difference in the world.

2. **Inventory the ecosystem of internal and external stakeholder groups that are relevant to each issue,** to which the institution will be accountable.

3. **Identify the information these stakeholder groups will need from the institution related to the issue,** and how stakeholders want communication within the context of various expectations.

4. **Map the connection points across stakeholder needs and expectations,** and flag any conflicts or inconsistencies. Consider where there might be opportunities to bring in select stakeholders as partners in the process of creating sustainable solutions.

**Higher education example:** “University A” wants to focus on transforming and increasing transparency around the admissions process. In doing so, it considers the stakeholder groups related to this effort, which might include prospective students and parents, ranking organizations, internal admissions committees, athletics departments, and the board of trustees. The leadership team assesses the information that these stakeholders may need — including additional clarity around the weight given to various qualifications when applying, athletic scholarships available by sport, or the likelihood of admission for waitlisted applicants. By connecting these stakeholder expectations with the admissions strategy, the university can build trust and support a culture of transparency.

**Myth #2: Trust breaches happen because of a lack of good intentions.** Institutional “good intentions,” articulated in an organization’s mission, vision and values, are only as strong as the processes that support them and the culture that ensures that they are consistently brought to life. Trust isn’t just about saying we'll do the right thing — it’s also about organizational competence.

When building trust across an organization, there will be many points of accountability and moments when trust can succeed or fail. PwC’s 2021 Trust Survey found that in most organizations, all leadership roles are at least partly responsible for building trust, which can be a good thing — but can also create challenges when it comes to accountability and progress toward goals. This can be felt even more acutely within the diffuse power structure of higher education institutions.

Steps can be taken to reinforce trust-based principles across the institution and ensure that good intentions convert to action:

- **Identify one or two key roles that can take the lead in aligning leadership around top priorities and focus the entire organization on the most important trust initiatives.**

- **Have an action plan for handling unintended consequences.** When a mistake happens, institutions can rebuild trust by ensuring consistency around what is said, the actions that are taken, and the follow-up on progress toward fixing it.

- **Hold groups and teams accountable to trust-related goals,** while lessening the emphasis on individual achievements.

- **Drive progress toward the organization’s mission, values and goals by building consensus about key behaviors that support those priorities and creating the right incentives to make those behaviors stick.**
Higher education example: Leadership at “University B” is working to expand its STEM footprint. To build consensus, the dean of an engineering school collaborates with other deans to focus all parties on the collective goal and to ensure that all voices are heard. Working collaboratively around this goal can assist with creating an expectation that high-level institutional goals may need to be prioritized above individual school or departmental objectives. This, in turn, drives trust — unifying leaders across the university and ensuring consistent priorities.

Myth #3: More transparency is always better. When going beyond baseline reporting requirements, consider what is critical to communicate based on the issues the institution prioritizes and related stakeholder expectations.

While the right level of transparency will be different for every initiative or issue, leadership can work through the following considerations to build a transparency strategy that is fit for purpose:

• Is the level of transparency on a given issue commensurate with how important the issue is to the organization?
• When sharing data and information with stakeholders, can a reasonable commitment be made to follow up with them with updates on progress, and provide explanations if targets are missed?
• Where are there opportunities to talk about progress, not perfection — as steps on the journey toward bringing the institution’s mission and vision to life?
• Is there transparency about the processes that will be employed to drive success and the metrics that will be used to measure it?
• Can an authentic story be told about why decisions are being made in the interest of the institution’s mission, vision and values — even if those decisions seem counterintuitive?

Higher education example: Rather than simply communicate the details of tuition increases, “University C” decides to enhance the degree of financial transparency overall. Leaders then consider how they might share additional data — such as average cost per student, the number of students who pay full tuition or details around the distribution of endowment earnings for scholarship purposes. In their annual report, they contextualize current-state data against their future targets, and identify key ways they’ll achieve progress toward their goals of cost reduction and increased financial aid.

Our perspective

When a culture of trust is embedded across an institution, goals become clearer, processes become more effective and communications enhance stakeholder relationships. And, if bad things do happen, that culture of trust also provides the ability to rebuild in a way that focuses the conversation on an organization’s mission, vision and values.

While the actions that drive such a culture shift might not please all stakeholders, all at once, they can do something even grander than that — they can be a stake in the ground, establishing a commitment to a future state and the steps along the journey.

Trust presents an enormous opportunity for differentiation — and, with it, the ability to retain the top faculty, attract the top students, inspire the community, and have the greatest possible social impact.

To learn more about PwC’s commitment to building trust in society, visit “Tomorrow Takes Trust” (https://www.pwc.com/us/en/about-us/tomorrow-takes-trust.html) and learn more about the PwC Trust Leadership Institute.
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