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Looking back just a few months, no one could have predicted that the world would be combating a global pandemic of such scale. The result has been mass casualties globally, dire economic circumstances, and a need to rethink how we do everything from working to learning. By necessity, colleges and universities have transitioned their students to distance learning, while their employees have adjusted to working remotely. Endowments have experienced declines in value, compelling institutions to revisit their financial modeling and forecasting.

Some might argue that institutions should have been better prepared. Others could argue that the Academe has shown great resilience in its ability to react to events and collaborate with faculty, students and peers to ensure that safety is the top priority, while trying to provide its communities with a high-quality education and some level of normalcy. Remote learning, once widely considered a nice alternative revenue stream, has become a mandatory vehicle for business continuity. The transition to totally virtual classrooms has not come without hurdles, but most colleges and universities have shown agility in the face of adversity.

While the future is still uncertain, it’s clear that COVID-19 will have a lasting effect on the way the Academe operates moving forward. Challenges will continue for all colleges and universities throughout 2020 and beyond. There may be fewer options and the academic landscape will undoubtedly look different, but higher education remains a cornerstone of the US and Global economies, and will be part of the solution as we move forward.

Please see below for links to resources related to COVID-19 that you may find useful.
As the pace of change within higher education continues to accelerate, institutions face increased risks which generally fall into one of the following four categories:

• **Brand preservation and reputation** – Actions or events attributable to an institution that may damage its ability to fundraise and attract and retain the best faculty, staff and students. How institutions respond during the current crisis will shape how they are viewed for future generations.

• **Information security** – Incidents that compromise sensitive information and can result in significant financial, regulatory and reputational consequences. Often these are the results of cyber attacks, data-rich environments, and the decentralized nature of higher education institutions. This has become increasingly important in a near-virtual world.

• **Regulatory** – The risk of noncompliance with laws and regulations can be challenging given the number of rules that must be adhered to. Additionally, disparate systems can create limitations to efficiently monitoring compliance on a proactive basis. The rapidly shifting policy landscape adds further challenges as institutions navigate those regulations that could have lasting impact beyond the current pandemic.

• **Operational** – Colleges and universities are large, complex and decentralized organizations that strive to balance student life needs with teaching and research functions, all while navigating a resource constrained environment. Revenue models are being challenged and institutions will need to rethink operating models.

In this edition of Perspectives in Higher Education, we highlight ten areas that fall within these overarching risk categories. From a reputational standpoint we highlight the current climate around accepting donations and the impact that certain gifts may have on an institution’s brand. Related to information security, utilizing big data and addressing the potential perils associated with a large system implementation are items that should be considered. Within the regulatory environment, the government’s focus on foreign influence in academic research, as well as our annual update on happenings in Washington, offer our views on rules and regulations that are affecting the industry. Finally, related to operational risk, we address such topics as talent retention in the workforce and leading through economic uncertainty, as well as considerations around transactional activity within the industry.
This publication shares our insights on several of the challenges and opportunities facing higher education institutions, while offering an informed point of view on how colleges and universities might respond, as well as how to prepare to emerge stronger in the long term. As a market leader in providing audit, tax and advisory services to the higher education industry, we have been honored to work with many of the nation’s premier educational institutions in addressing their most pressing challenges. These opportunities provide us with a national view into industry issues, which we leverage to bring value-added advice to our clients.

While this document is not meant to be comprehensive in nature, it draws upon our understanding of the diverse nature of higher education institutions that have complex educational, research and clinical activities, and can serve as a broad platform for discussing these issues in a proactive and collaborative manner.

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Background

Before the novel coronavirus (COVID-19) pandemic, the US was in the longest economic expansion in its history. The pandemic has caused dramatic swings in global markets, travel restrictions, business interruptions and a bleak financial outlook for 2020. The economic consequences of the crisis are driving changes to the US and global economies so quickly that forecasting is even more challenging than usual. The Chief Executive’s April 2020 survey found that CEO confidence in the current business environment fell by 34% since March. Yet, optimism for business conditions one year from now remains positive among those polled.

Additionally, PwC’s COVID-19 CFO Pulse survey, taken in March 2020, noted the top three concerns of CFOs are (1) the potential for a global recession (2) the financial impact, including the effect on results of operations, liquidity and capital resources, and (3) the decrease in consumer confidence, reducing consumption. The survey noted that finance chiefs are broadening cost-reduction measures and looking to shift supply chain strategies as a growing majority fear a significant impact on their business.

The level of uncertainty regarding how COVID-19 will impact society and business around the globe is adding to the intensity of the challenges organizations are facing. Until recently, colleges and universities were focused on such areas of uncertainty as the following:

• Maintaining enrollment despite negative perceptions of the value of higher education and declining international enrollment.
• Evaluating student debt given the growing levels that graduates are facing.
• Developing new revenue streams due to potential declines in government funding, which has heightened the focus on strengthening philanthropy and outreach to non-federal funding sources such as foundations and corporations.

The pandemic is causing massive disruption for colleges and universities, having far-reaching impacts on students, faculty, and staff, as well as on institutional operations and finances. The virus poses multiple challenges in building a pathway to recovery, going beyond the concerns that were top of mind for many institutions before the crisis.

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1 Forbes, Longest economic expansion in United States history, David John Marotta, January 21, 2020
2 Chief Executive Magazine, Melanie C. Nolan, April 6, 2020
Impact on educational institutions

For colleges and universities, the crisis brings to the forefront numerous financial and logistical hurdles. Closing campuses, transitioning to online classes, canceling events and providing support to the campus community all come at a cost. Although the severity of the financial impact will differ, all will be impacted and need to adapt to uncertainties and uncharted territory. To sustain themselves and stay competitive, it is critical that institutions innovate the traditional business model to adjust quickly and keep pace with market conditions. How well an institution responds and navigates through the economic uncertainty will depend on how prepared it is to handle the economic pressures.

The CARES Act which created a $31 billion Education Stabilization Fund, with approximately $14 billion going directly to higher education, will provide some relief to colleges and universities, but it is only a small amount compared to what institutions expect to spend. “For fiscal 2020, Moody’s estimates the higher education sector would have incurred approximately $640 billion in expenditures before the impact of the coronavirus. Of the $14 billion allocated to higher education, universities need to use at least half for emergency financial aid to students. The remainder can be used to offset lost revenue and increased expenses due to the coronavirus. Assuming half is allocated to financial aid, the remainder is equal to around 1% of total university expenditures. Lost revenue and additional expenditures related to the coronavirus outbreak are likely to exceed the amount of aid colleges and universities receive, according to Moody’s. Therefore, financial performance for the sector is expected to tighten.”

Colleges and universities are examining budgets and building in scenario planning to evaluate what could be done to stabilize and mobilize in the short-term, and strategize longer term. These scenarios include such assumptions as the duration of the crisis, volatility of the stock market, impacts on fundraising, and changes in the amount of student financial aid awarded. Institutions are also focusing closely on liquidity under best- and worst-case scenarios. Sensitivity analyses and stress testing the impact on both traditional and nontraditional revenue streams and cost models are being incorporated into the financial planning process. Examples of the strategies that institutions are considering implementing to help counter the effects of the crisis and economic downturn include the following:

- Evaluating the salary base by considering hiring freezes, temporary salary cuts, furloughs and headcount reductions.
- Assessing administrative cost controls, such as deferring purchases, freezing discretionary expenditures and evaluating the overall supply chain.
- Deferring or foregoing capital projects and expenditures.
- Assessing the viability of summer programs, the timing of the start for the fall semester, and determining how sustainable remote learning is for faculty and students.
- Analyzing endowment spending and potential changes to the institutional spending rate.
- Evaluating the faculty model, such as consideration of part-time contingent faculty members.

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- Developing tactics around new services and innovative offerings to attract new and nontraditional student populations.
- Scrutinizing the affordability of the institution's tuition rates and related financial aid policies.
- Assessing partnerships with other institutions to capture efficiencies and move into new markets.
- Considering new revenue sources to fund future initiatives.
- Examining profitability of academic offerings and departments, including assessing the impact of curriculum changes and/or eliminating courses or majors that are not supported by the number of participating students.
- Increasing advancement efforts such as focusing on nontraditional givers.
- Outsourcing and shared services opportunities.
- Pursuing automation solutions for business process efficiencies.

Continuous communication is taking place with the campus community to keep constituents informed and to help reduce anxiety and stress during the crisis. Leaders across the institution are involved in assessing revenue and cost strategies that can be operationalized in a short-term or sustained downturn in the economy.

Our perspective

The COVID-19 crisis impacts all institutions, including universities with large endowments, as well as tuition dependent colleges. Institutions will need to assess operational budgets under various scenarios and determine the financial, operational, and strategic levers that can be pulled to respond, stabilize and recover as mindsets shift from crisis-mode to an opening back up of the economy. Short- and long-term financial strategies and planning should be integrated across the institution. University leaders and board members should work collaboratively to ensure that measures taken are aligned with the strategic goals of the institution.

Institutions should also consider whether changes to their traditional business model should be made in order to adjust to a post-pandemic world. Analyzing how processes, technologies and resources are used to deliver educational services and integrating data throughout processes may provide different solutions and enable more informed decisions. Incorporating business intelligence and analytics is an important element not only in scenario planning but also managing the activities of the institution in a more connected way.

To navigate the economic uncertainties, extensive communication with, and support from, leadership, the board and other stakeholders is paramount. A forward looking, well-structured and organized approach can enable colleges and universities to assess their strategic initiatives and risks and opportunities when developing a path forward.
Background

Over the past three years, with the support of the Republican-controlled Senate and Republicans in the House of Representatives, the Trump administration has continued to carry out its deregulatory agenda. While the Democratically-controlled House has been unable to block the agenda, members have utilized their oversight power to scrutinize and oppose the rollbacks. Deregulation has only accelerated as the government shifted into response-mode for the crisis, with many changes to the regulatory landscape expected to last beyond the pandemic.

COVID-19 Response Efforts

Higher education institutions face historic challenges and changes as a result of COVID-19. Recognizing this, Congress included several provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act to aid institutions and their students. Included in the Act was language to support students by:

- Allowing institutions to continue issuing Federal Work Study payments.
- Preventing the semester's subsidized loans and Pell grants from counting against lifetime eligibility limits for students who dropped out due to the outbreak and waiving requirements that the loan amounts be returned to the Department of Education (ED).
- Clarifying that leaving school due to the outbreak will not impact a student’s satisfactory progress standing.
- Providing flexibility on National Service Corps program requirements.
- Requiring ED to extend its mid-March decision to defer student loan payments, principal and interest, and halt wage garnishments for six months, without penalty to the borrower, for all federally owned loans.

For colleges and universities, the CARES Act provided the following assistance:

- Waived the institutional matching requirement for campus-based aid programs at public institutions.
- Allowed institutions to award Supplemental Educational Opportunity Grants to undergraduate and graduate students impacted by the outbreak.
- Allowed Historically Black Colleges and Universities (HBCUs) to defer Capital Financial loan payments and waived certain grant outcome requirements for HBCUs and Minority Serving Institutions (MSIs).
- Loosened allowable uses of funds for several other institutional grant programs.
Additionally, the CARES Act included an economic stabilization fund to provide grants to colleges and universities for emergency financial aid, addressing financial impacts due to the pandemic. FEMA also provided disaster relief funds for such items as repurposing university spaces to meet the needs of overwhelmed healthcare facilities.

Separately, ED issued proposed rules to govern distance learning and to provide institutions with additional time to submit their career and technical education plans during the pandemic. With the majority of campuses shuttered, institutions were forced to make a sudden shift to online learning. As SAT and ACT exam dates are also postponed, a growing number of colleges are waiving the exam component of their applications.

The Office of Management and Budget has also issued several memorandums to the heads of executive departments and agencies noting the following key items to date:

• Providing a six-month extension for submitting Uniform Guidance audits with year-ends through June 30, 2020 (extension should presumably be due to a COVID-19 matter, but that is not explicitly stated).
• Federal agencies can allow grant recipients to continue to charge salaries and benefits to currently active federal awards consistent with the recipients' policy of paying salaries from all funding sources; federal and non-federal (subject to other caveats provided on this topic). However, there is no mention of award budgets being increased to cover the additional costs.
• Instructs federal agencies to require recipients to maintain records and cost documentation to substantiate the charging of any cancellation or other fees related to interruption of operations or services. Other areas of guidance in the memo include exemptions of certain procurement requirements, extensions of currently approved indirect cost rates, and other various application and reporting waivers and extensions.

In addition, many Federal agencies have issued guidance to implement the above noted OMB memorandums for their specific programs. ED has also issued guidance which modifies existing student financial aid administrative requirements to facilitate college and university efforts to convert classroom instruction to distance learning, as well as temporary relaxation of certain financial aid program compliance requirements to accommodate the remote working environment.

Stepping back from the current crisis, President Trump has generally proposed cuts to the Department of Education and specifically to student financial aid programs. His 2021 budget proposal included a $5.6 billion funding cut to ED from current enacted levels. Among its provisions, the President’s budget proposes to implement a new, single Income Driven Repayment (IDR) plan that would cap loan payments at 12.5% of discretionary monthly income, limit loan payments to 15 years for undergraduate borrowers and 30 years for graduate borrowers, and forgive any remaining debt owed. It would also set borrowing limits for Parent PLUS and graduate student loans, eliminate Public Service Loan Forgiveness, and eliminate subsidized student loans, meaning that students would incur interest immediately on student loans rather than after they graduate.

Former Vice President Joe Biden has shared forms of education policies ranging from explicit education platforms to statements at town halls. His proposal focuses on lowering student debt and making college more affordable. He does not advocate for a complete cancellation of student loan debt. His plan centers around revamping income-based repayment programs and streamlining the Public Service Loan Forgiveness (PSLF) program to provide up to $10,000 in loan forgiveness for each year of qualifying public service employment instead of requiring borrowers to wait until the end of the
10-year service period to receive repayment assistance. He also supports up to two years of tuition-free community college and an increase in Pell Grants.

**Appropriations and Legislation**

In December 2019, President Trump signed a $1.4 trillion appropriations package that boosted spending for certain higher education priorities, such as Federal Work-Study and MSIs. Overall, the budget gave the Education Department $72.8 billion in discretionary spending: $325 million set aside for HBCUs; $143 million designated for Hispanic-serving institutions; $1.1 billion for federal TRIO programs; $365 million for GEAR UP; and $130 million for the Office of Civil Rights. Notably, ED issued a final rule in October 2019 to loosen federal standards for college accreditors, arguing that the changes would spur innovation. In addition, President Trump also signed the FUTURE Act in December, which secured a 10-year renewal of mandatory federal funding for HBCUs. The bill seeks to provide a more seamless sharing of tax data so students can speed up the financial aid application process. Congress included technical changes to the first round of COVID-19 aid in the CARES Act to improve its implementation and provide additional support to student borrowers.

**Higher Education Act Reauthorization**

Despite two years of efforts to reauthorize the Higher Education Act (HEA), lawmakers have yet to reach an agreement. The legislation, which supports a variety of federal aid programs that benefit both students and institutions, has not been reauthorized since 2008. House Education and Labor Chair Bobby Scott (D-VA) and Ranking Member Virginia Foxx (R-NC) have held five bipartisan hearings to address issues stalling the HEA reauthorization process. After the hearings, Chair Scott released a report, "Don't Stop Believin’ (in the value of a college degree)," which details the issues addressed in his HEA reauthorization bill. On October 15, 2019, the committee unveiled its long-awaited reauthorization bill, the College Affordability Act (H.R. 4674). The legislation would facilitate access to tuition-free community college, increase Pell Grants and other forms of student aid, and allow existing federal student borrowers to lower their interest rate. However, it is unlikely the bill will gain traction in the Senate, given the current lack of support from conservatives in the House.

In the Senate, both Senate HELP Chair Alexander and Ranking Member Patty Murray (D-WA) have outlined their priorities. Ranking Member Murray’s goals echo those of Chair Scott’s, while Chair Alexander’s include withholding students’ loan payments from their paychecks based on income, and tracking student loan repayment at the program level. Though there is bipartisan support for streamlining the FAFSA application process and collecting better data on student outcomes, the proposal to deduct loan payments from students’ paychecks has drawn criticism from Democrats and consumer protection advocates alike. After months of stalled talks, Chair Alexander introduced the Student Aid Improvement Act (S. 2557) in September 2019, which would offer a path to piecemeal reauthorization of the HEA. This legislation would simplify the FAFSA and expand Pell Grants for short-term training programs.
Congressional Oversight

Both the Senate HELP and the House Education and Labor Committees have conducted oversight hearings on an assortment of education-related issues, including a March 2019 hearing in which Education Secretary Betsy DeVos defended ED’s higher education priorities. Members questioned Secretary DeVos on a number of concerns, including the ED’s budget plans. Specifically, Democrats inquired as to how ED is implementing its Borrower Defense to Repayment rules, which officially took effect last year, and its gainful employment rules. Most recently, Secretary Devos appeared before the committees in late February and early March 2020 to present the administration’s fiscal year 2021 budget request. Members pressed her on the proposed cuts to ED funding and her preparedness for the then-imminent COVID-19 outbreak. In addition, the administration finalized changes to Title IX, which bars gender discrimination at institutions receiving federal funds. These, as well as the June 2019 repeal of the Obama-era gainful employment regulations and the Borrower Defense to Repayment rules, have been the subject of several House oversight hearings.

Tax Developments

As a result of COVID-19, the IRS and other government agencies have provided relief through legislation, administrative guidance and programs. Tax-related provisions issued in the first wave of relief with particular impact to institutions of higher education are listed below; other general employer-related and charitable provisions such as qualified disaster relief under Section 139 and existing IRS guidance on employee relief funds and paid leave sharing programs can also play an important role in this crisis.

The IRS postponed filing and payment of federal income taxes for returns due April 15, 2020 to July 15, 2020, including Form 990, Return of Organization Exempt From Income Tax, and Form 990-T, Exempt Organization Business Income Tax Return. The CARES Act allows delayed payment of the 2020 employer portion of social security taxes from the date of enactment through December 31, 2020. Half of the deferred tax is to be deposited by December 31, 2021 and the remainder by December 31, 2022. The CARES Act also created a partial “above-the-line” charitable contribution deduction. Non-itemizers can deduct up to $300 for cash contributions made to public charities. The CARES Act also lifts the existing annual cap on deducting charitable contributions for individuals who itemize, raising the cap to 100% of adjusted gross income for cash contributions made in 2020 to public charities. The CARES Act also provides a new temporary refundable 50% employee retention credit for employers subject to full or partial business suspension due to the COVID-19 emergency, or for employers whose gross receipts have significantly declined due to COVID-19.

It has been over two years since President Trump signed the Tax Cuts and Jobs Act (TCJA), but much uncertainty remains regarding the application of some of the provisions of the law that are most impactful to colleges and universities. Although the IRS has issued limited non-binding guidance regarding the 1.4% excise tax on the investment assets of certain private colleges and universities and the 21% excise tax on “excess” compensation, organizations are still waiting for detailed regulations even as they are required to file returns and pay taxes based on inadequate guidance. In April 2020, the IRS published proposed regulations on segmenting of UBTI. Although the proposed regulations provide clarity around some issues, questions remain, and the IRS is seeking comments from the public, which are due by June 23, 2020.
In one bright spot, the unpopular tax on employee transportation benefits was retroactively repealed by a provision inserted in the fiscal year 2020 appropriations package enacted in December. Many institutions have already made tax payments that reflected the impact of the tax and may be entitled to refunds. In general, organizations seeking refunds may need to file amended Forms 990-T. The IRS has provided additional refund guidance via IRS.gov.

Our perspective

Higher education is already a frequent topic of discussion on the 2020 campaign trail in both congressional and presidential races. While some relevant legislation has been introduced, and even passed the House, the partisan nature of the measures could prevent further progress once they reach the Senate. The issues summarized here are a high-level overview of noteworthy matters in the higher education space, but the landscape will continue to evolve over the fourth year of the Trump administration, as new rules are introduced and finalized, the COVID-19 outbreak response continues and legislation and campaign proposals are rolled out.
Background

Over the past two years there has been a significant increase in awareness among the nation’s research universities and academic medical centers that their fundamental premise of open and collaborative research has made them susceptible to state sponsored espionage and foreign influence. Nations conducting these activities seek to take advantage of federally funded research to benefit their local economies and industries, including issuing patents and publishing research derived from stolen information. Institutions face significant reputational risk from these activities including negative press associated with termination of researchers, scrutiny from regulators, loss of resources invested into stolen research, or halting critical momentum related to time sensitive research.

Federal sponsors have responded to the rising threat of foreign influence by issuing new requirements, clarifying existing requirements and introducing new policies, rules and regulations.

Highlights include:

- The Department of Energy (DOE) issued two significant memos; one in 2018 discussed restrictions on collaborating with researchers from “sensitive” countries, the other from January 2019 includes a policy on foreign government talent recruitment programs.
- The National Institutes of Health (NIH) issued notices calling attention to its Financial Conflict of Interest regulation, and concerns of foreign influence.
- The National Science Foundation (NSF) issued a dear colleague letter on research protection in July 2019, reminding readers of its requirements for accurate and timely financial disclosure reports.
- The Department of Education (ED) is conducting investigations related to Section 117 of the Higher Education Act amid concerns that institutions have not been reporting foreign gifts as required.

Institutions are taking the risk of foreign influence seriously and have commenced implementing action plans to mitigate the associated risks.
Impact on educational institutions

Many institutions have felt the impact of enhanced scrutiny through external or internal investigations. More than 70 institutions are investigating 180 individual cases involving potential theft of intellectual property, and the NIH has referred 24 cases with potential evidence of criminal activity to the inspector general’s office of the Department of Health and Human Services. Common cases or infractions have included undisclosed relationships with foreign universities or foreign funding on grant applications, attempted export of research to foreign agents, and incomplete foreign gift reporting. In many cases, institutions have determined that their current policies, compliance programs, faculty and administrator training, and data security practices have not been sufficient to prevent instances of foreign meddling in their research.

The resulting impact to institutions has included negative press coverage, termination of impacted researchers, and potential loss of research funding. The impact to individual researchers has been more difficult to prove, however, they include instances where it appears that research was published or commercialized abroad prior to being completed in the United States. Below are some examples of foreign influence in research events that have been published in the last year:

- **Conflicts of Interest (COI):**
  - April 2019: Three scientists at a healthcare entity were terminated for inappropriately sharing research with third parties and failure to disclose conflicts of interest.
  - May 2019: Two faculty members at an institution were terminated due to lack of disclosure of research relationships with China.
  - August 2019: A professor at a university was indicted for an alleged undisclosed full-time appointment with a Chinese university while conducting research funded by US federal research contracts from the DOE and NSF.
  - December 2019: A research institute settled civil charges with the Justice Department over failing to disclose foreign funding from China for researchers that were also receiving funding from NIH.

- **Foreign Gift Reporting:**
  - June 2019 through February 2020: ED opened several investigations at universities with allegations that they may not have complied with foreign gift reporting disclosure requirements per section 117 of the Higher Education Act.

- **Foreign Talents Program:**
  - January 2020: A university identified faculty members who were participating or were seeking to participate in a foreign talents program. Four faculty members left the university in relation to the investigation.
  - January 2020: A faculty member was charged with misleading the Defense Department and the NIH about his participation in China’s Thousand Talents Plan.

Future examples of foreign influence in research are likely to continue to gain regional and national press and could generate long-term impacts on the sector including continued investigations, federal funding decisions, and fines and penalties.

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4 NY Times, Vast Dragnet Targets Theft of Biomedical Secrets for China, November 4, 2019
Our perspective

While there may be additional updates on regulations from federal sponsors, institutions have commenced adopting practices to address the underlying risks related to the security of their research, theft of intellectual property, new reporting requirements, and undue foreign influence on their mission. While these are important actions institutions are taking, they must also guard against the perception that application of new policies, controls, or processes are targeted against certain ethnic groups, which may prevent them from attracting the best and brightest researchers from across the world.

To enhance controls and processes and to better protect research and reputation from undue foreign influence, we recommend the following:

• **Compliance programs** - As part of an overall response to foreign influence in research, institutions should revisit the role that their compliance program can play in conveying the tone at the top, providing oversight, training and awareness, and coordinating with the other lines of defense. Other lines of defense can include internal audit, department administrators, and faculty. An effective compliance program can help an institution gain confidence that its policies and procedures are effective and working as intended.

• **Conflicts of interest (COI)** - Undisclosed COI are one of the major risk areas that have resulted in negative press and termination of researchers. Refreshing conflict of interest policies and providing additional clarity can bring potentially troublesome relationships to light. Institutions should conduct due diligence reviews of annual disclosures, management action plans, and potential undisclosed conflicts using publicly available information if they have specific concerns. Additionally, institutions should require that annual disclosures be a mandatory process, consider documenting reasonable repercussions for failure to disclose, and convene a group to review complex COI cases. This group should ideally have knowledge of the researchers and their financial interests.

• **Peer review** - To enhance their risk position, institutions should consider assessing the adequacy of relevant peer review policies and procedures, and make enhancements as needed. Depending on the assessed risk, institutions should monitor faculty travel plans, and limit the ability to transfer information to flash drives or through USB ports. Revamped peer review programs can protect an institution’s faculty from the perception of or actual theft of research.

• **Network and data security** - Institutions are moving toward industry standards, such as ISO or NIST SP 800-171 to provide a framework for their policies, and guidance for control and process development. This should include considering the deployment of increased encryption, multi-factor authentication, and virus scanning for devices on their networks. Institutions should also revisit their data governance policies and consider providing faculty with secure data enclaves as resources to facilitate their research and engagement with data collected from third parties.

• **Export control compliance** – To assist compliance with export, trade and financial obligations, including screening of foreign visitors on campus and in laboratories, institutions should consider utilizing third party service providers that specialize in this service. Additionally, policies and procedures should be reviewed, and institutions should consider becoming members of the Association of University Export Control Compliance Officers, which facilitates the sharing of leading practices related to export controls.

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5 American Association of Medical Colleges, Foreign data theft: What academic institutions can do to protect themselves, Ken Budd, November 4, 2019
• **Foreign gift reporting** - Institutions should examine their internal gift acceptance policies and compare those practices to recent concerns from the Department of Education regarding disclosures and classification. It may be worth leveraging third party service providers to validate funds are not coming from federal restricted party lists. For those institutions with decentralized advancement functions, additional outreach, monitoring, and development of standard templates should be utilized to mitigate risk.

The risks associated with foreign influence in research continue to evolve, along with expectations from regulators and sponsors. While institutions have already started to respond to these risks, continued vigilance and further enhancements to policies, controls, and processes will be necessary to protect an institution’s faculty, research, and reputation.
Background

In recent months, higher education institutions have faced questions regarding public trust and unprecedented regulatory scrutiny. While the highly publicized scandals and allegations of bribery and corruption in admissions and athletics continue, public scrutiny of philanthropy and donors has intensified. Headlines have included institutions that accepted gifts or have buildings, scholarships or professorships funded by disgraced corporations, celebrities or other discredited individuals. The Department of Education has also become involved in gift reporting by enforcing laws that require colleges and universities to be more transparent about their foreign contracts and gifts.

The focus on philanthropy has led to the potential for reputational and financial risks for institutions. The focus can touch upon a wide-range of areas within a university including:

- **Admissions** - How do donations from a parent or relative impact the admissions process and potential decision to admit?
- **Capital projects** - How do gifts earmarked for capital projects impact these projects, such as in the choice of potential contractors and vendors? Are there guidelines in place regarding capital gifts? If there is a subsequent issue with a donor and there are naming rights to a building, are there policies in place or clauses in the original donor agreement to address this?
- **Research** - How do donations from corporate or other sponsors impact the scope and direction of research? Are donations from foreign sources influencing the path of scientific study or resulting in conflicts of interest?
- **Accounting and finance** - Are gifts and pledges properly treated for accounting and financial reporting purposes?

It can be challenging to know where to draw the line on gift acceptance, as donations may be connected to controversy directly or indirectly - whether it be the nature of the business making the donation, beliefs of the donor, or the impact a construction gift may have on the environment. Questions around how an institution decides whose money to accept and whether an institution is more conscientious now than in the past are top of mind for colleges and universities.
Impact on educational institutions

Given the spotlight on philanthropy, institutions are revisiting their written gift acceptance policies and procedures. Leading practice is to have policies that address tainted money, conflicts of interest, and other ethical dilemmas, according to the Association of Fundraising Professionals. The Chronicle of Higher Education recently reviewed gift acceptance policies at various institutions and noted that the policies vary widely in how well they describe the universities’ ethical and reputational stances. To introduce and harmonize standards across academia, industry groups are producing guidelines on how to determine whether to accept a donation.

Beyond just policies, universities are reviewing their donors in more detail and involving personnel throughout the university in decision-making processes. “Knowing-your-donor” is critical; similar to how many institutions implement know-your-customer and third-party due diligence programs and processes, colleges and universities are now facing a similar need to perform or enhance philanthropy and donor development diligence. This includes addressing both institutional and reputational risks brought on by donors and changing societal expectations.

Robust donor diligence programs are including end-to-end process designs that map key decision points to internal controls. Leading practices that are being implemented include risk-ranking of donors and donation amounts, standardizing assessments of donor profiles, confirming completeness of conflict of interest disclosures, monitoring of donor involvement with university officials, and periodic testing of the process itself.

University leadership has started to consider decentralized donor relations functions, the number of university representatives involved, and how processes can be improved to enable compliance and consistency. Prior to accepting higher risk gifts, institutions are bringing potential gifts forward to established committees for approval, implementing advisory groups, engaging external consultants and even inviting students to participate in the groups/committees. Some believe that bringing students into the discussion may result in policies and responses that are consistent with the institution’s values and mission. To supplement this preventative process, colleges and universities are developing crisis response programs to minimize detrimental effects on reputation.

Philanthropy risk and compliance impact many functional areas of a university given the number of representatives involved in donor relations, the endowment, and the overall financial sustainability process. Below is a partial list of functional areas that are increasingly being consulted when assessing or developing a philanthropy compliance and due diligence program:

- Philanthropy, donor and alumni relations (e.g., Vice President of Development and Philanthropy, Director of Alumni Relations, and Endowment Officers)
- Internal financial controls and accounting (e.g., Chief Financial Officer, Vice President of Finance, and Controller)
- Admissions, scholarships, and financial aid (e.g., Dean of Admissions, Director of Admissions, and Director of Financial Aid)
- Athletics (e.g., Director of Athletics and Assistant Directors of Athletics)
- Research (e.g., Vice President of Research)
- Internal Audit (e.g., Internal Audit Director or Manager)
- Legal and Compliance (e.g., General Counsel or Vice President of Ethics and Compliance)

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6 The Chronicle of Philanthropy, Donor Demands, Conflicts of Interest, and Tainted Money Are Fundraisers’ Top Ethical Concerns, Eden Stiffman, Oct 24, 2019
8 The National Interest, Higher Education Institutions Address the Danger of Donor Dollars, Deni Elliott, Nov 18, 2019
Our perspective

University officers should review their policies, processes, and controls for philanthropy and donor development. Particular attention should be given to key decision points in the process, standardized processes versus exceptions and the overall control environment. Institutions should map out how decisions regarding the acceptance of gifts impact other areas of the university and should consider where enhancements need to be made. Additional areas for university consideration are as follows:

- **Donor due diligence and compliance tracking** – Assessing the institution’s policies and controls around philanthropy and donor development including verification of potential donor credentials, identifying potential high-risk donors, interactions with other departments, and documenting oversight and controls in place.

- **Automated fraud detection** - Using artificial intelligence and other technologies, digitize and analyze information so that an institution can quickly get to facts and make decisions. For example, donor information could be compared to adverse press and media coverage, and database checks could be run for potential litigation, sanctions, or disqualifications against individuals.

- **Intelligence capabilities** - Utilize data analytics to make informed decisions, pursue opportunities, protect against threats, and react more confidently to difficult situations. Consider third-party vetting, social media monitoring, and integrity due diligence to help leaders build resilient strategies to protect reputation.

- **Training** - Develop a strong tone at the top, emphasizing an organizational commitment to integrity and ethical behavior. As part of remediation efforts, impacted organizations may consider ways to support the development of an ethical culture, including training key employees on how to recognize and report inappropriate behavior as it relates to admissions activities. An institution should take the time to review and test its controls and should think critically about potential weaknesses and exposure areas.

- **Development of the future compliance program** - Institutions should think holistically about how they prevent and detect improper behavior. This could include developing new policies and procedures related to philanthropy and donor development, including the proper identification, vetting, and monitoring of donors. Establishing new audit procedures related to internal controls should include a closer assessment of the individuals and/or departments that play a larger role throughout the process.

Institutional leaders, including the board of trustees, should make sure donors and other philanthropic endeavors align with the mission, values, and strategic plan of their organization.
Background

The value of higher education has never been more challenged than it is today. Moody's has maintained its downgrade of higher education for the second year in a row. The cost of education has increased nearly eight times faster than wages between 1989 and 2016 and continues to rise. Parents are not just asking whether it is worth sending their child to college, they are asking why it costs so much to do so — this has been further accelerated by the need to conduct online classes during the COVID-19 crisis and for the foreseeable future. The climate of change that pervades the industry means many institutions are forced to respond accordingly. In reaction, institutions are assuming more debt, recruiting applicants from a broader diversity, looking for innovation opportunities, and pursuing deals.

Deals activity in higher education is driven by the same major factors that affect other businesses including demographics, technology, and costs. Enrollment is down due to decreases in the number of high school graduates. Technology is causing unparalleled disruption changing the nature of brick-and-mortar instruction and further questioning the value of a traditional education. As institutions deal with these forces and find ways to preserve their core missions, they are increasingly looking at partnering.

9 Forbes. College Enrollment Declines Again. It’s Down More Than Two Million Students In This Decade., December 19, 2019.
Impact on educational institutions

Over the last decade, higher education has seen all manner of deals — from focused partnerships (such as the 50-year, $1 billion public-private partnership between University of Iowa and the French multinational energy company, Engie) to mergers (Thomas Jefferson University-Philadelphia University) and large divestitures (Vanderbilt - Vanderbilt Medical Center). At the core of every deal is the question, how does this deal help the institution thrive in this market? The answers differ widely — for the University of Iowa it is finding a financial vehicle to meet their evolving infrastructure needs, understanding that running solo might not keep pace with the energy and utilities market. In Vanderbilt’s case, the dynamic nature of the healthcare market was forcing the university to assume greater risk to their credit and taking attention away from their other core missions. The health system, widely acknowledged as the engine that subsidized education and research, faced margin pressures, forcing it to move faster than a traditional university system was comfortable with. Thomas Jefferson University and Philadelphia University envisioned transdisciplinary programming that integrated a traditional health sciences university with a liberal arts college known for its strengths in architecture and design.

Institutions are working to understand their risk tolerance including concerns about their future financial stability. These circumstances force higher education institutions to evaluate the core of their business model and chart a course of action that encompasses potential partnerships, mergers, acquisitions and divestitures over organic growth and internal problem solving. For example, institutions with an academic medical center could decide that education is their top mission priority and pursue divesting their clinical affiliation to sustain long-term investment in their non-health missions.

In this unsteady environment, leadership and key stakeholders appear to have an increased appetite for alternative ways of creating value, often leading to consideration of M&A type activities. As a first step, institutions should confirm they have a robust understanding of their current environment across financial and operational considerations including cost drivers and allocation methodologies to serve as the foundation for change. In higher education’s consensus driven environment, deal pace is often slower than in other industries, but nevertheless requires a deliberate set of actions to safeguard enough lead time to execute activities, gain stakeholder buy-in, consider change management efforts and secure resources and third-party support.
Our perspective

As colleges and universities, regardless of their size, reputation, or financial circumstances, consider deals activity to respond to external and internal pressures, we recommend the following:

- **Evaluate vision, mission and strategy** - Institutions that identify what is core to their mission and vision and must be maintained, what is core and can be managed differently, and what can be divested in order to support the core, will make strategy-driven decisions when it comes to deals. The type of deal depends on the need and strategy the institution is pursuing. A mission-based set of guiding principles serves as a foundation to support this vision as an institution wrangles with consensus, stakeholders, execution, and the path forward.

- **Define future state** - It is imperative when considering deals activity to have a clear understanding of the university’s “to be” state. As a first step, universities should define their target operating model, in line with the guiding principles defined above, and consider how a deal will bring value to the institution (financial, operational, geography, increased capabilities, etc.). The “to be” state and principles should serve as the foundation for decision-making.

- **Leadership** – When it comes to deals activity, leaders often need to straddle the responsibilities of academia while taking on the role of a corporate executive to achieve the desired vision. This quasi-business leader is uniquely positioned to read and respond to forces in the market while anchoring the university’s unique role in that very market. The leader must also articulate the value of the institution, making an attractive narrative to partners.

- **Develop a book of facts, clarifying operational implications** - Taking the opportunity to re-evaluate the institution’s approach to operations and making transformational change instead of just incremental adjustments is key to the process. This foundational understanding is important to be able to continue operations in a sustainable way and identify opportunities to improve the institution (i.e., robotic process automation, outsourcing, capital investments, etc.).

- **Know regulatory requirements** - As an institution contemplates any kind of major transaction that may have a substantive impact on its programs, students or faculty, it must consider the timelines and processes set forth by regional and professional accrediting bodies. These requirements and an institution’s ability to produce the accompanying evidentiary material, can often determine how quickly the transaction can be executed.

- **Board involvement** - An institution’s board needs to be clear on the fiscal and mission impacts of the impending deal. Establishing frequent lines of communication with the board, including when to expect key pieces of information, will enable them to stay informed and confirm that they are able to serve in their role of stewarding the institution through a transformation. While a holistic view of the current state provides the board with the “why” of the deal, a clear future state plan can allow them a view of the “what” and “how” of the deal in order to effectuate decision-making.

Deals activity in higher education, often a reactionary mechanism to survive current pressures on the business model, also allows an institution to reflect deeply on its core missions and strategy. These transactions, when done right, can bring together every aspect of an institution as it aligns its future to achieve strategic priorities.
Background

Large information technology (IT) implementations continue to be challenging undertakings. Some educational institutions have been delaying investment in information technology, and are now facing aging systems, concerns around their reliability and security, and suboptimal support arrangements. Others are being enticed by the opportunity for agility and modernization in new cloud platforms. All institutions have a desire for lower operating costs that may be promised by newer platforms.

The focus of IT implementation projects in many educational institutions is in the areas of finance and enterprise resource planning (financial reporting and back-office processes), human capital management (payroll, performance, and time tracking), student information systems, alumni donor management, grants management systems, and education delivery support. Decisions around which systems require replacement, and when they need to be replaced are complex. These decisions involve age of systems and related infrastructure, availability of ongoing support, research, student needs, and the funds needed to implement. While “waiting until next year” is a common approach, frequent deferrals can also add costs and prevent operational improvements across an institution.

In contrast to large IT implementations of previous decades, there are significant new trends that can impact successful project execution and ongoing governance. These trends include the following:

• **Long-term “as a service” relationships** - Historically, IT packages were developed internally, or purchased, customized, and installed on-premise. These highly-tailored systems were maintained by each institution and updated through custom programming for additional functionality. Today, many institutions are opting for software or platforms as a service; solutions hosted by a third-party provider who make them available over the internet. Institutions are not just selecting present-day functionality, but rather join a community of users who can benefit from ongoing improvements to the solution. This change in approach to technology is revolutionary and emphasizes the need for changing internal ways of working to fit the solution with minimal or no customization, instead of tailoring the system to the institution’s needs. The selection decision is as much about aligning to the provider’s capability and future vision, as filling a current need.
• **Integrity of third-party environments** - The introduction of off-premise solutions shifts responsibility for maintaining a secure infrastructure to third parties (compared to the educational institution). Careful consideration is needed to address security of these environments and integration with other infrastructure, including the institution’s ongoing role and legal responsibilities.

• **Cross platform integration** - Increasingly, improved technologies allow the footprint of solutions to touch all areas of the institution. Managing integrity across these platforms and modules introduces complexities of the delivered solution, and at each stage of the project lifecycle.

• **Agile delivery techniques** - Organizations are increasingly adopting Agile methodologies for IT development and ongoing maintenance. Agile is characterized by less detailed planning and documentation in advance, with smaller teams working in short, collaborative iterations.

As a consequence of many of these trends, the nature of large IT implementations has shifted. Instead of large teams writing detailed requirements, developing new code, and testing unique functionality over long durations, today’s implementations feature short iterations of configuration, integration, and adoption. As a result, there have been fewer cases of projects suffering significant budget overruns or extending years past their deadlines. Current risks are typically operational disruption at the time of go-live, especially considering the need to transform internal processes to adapt to system capabilities. Some estimates have placed the cost of these disruptions at anywhere from 50% to 300% of the original project budget.

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**Impact on educational institutions**

The traditional view of project success, or the impact of project risks, such as being “on time, on budget, and on scope” is outdated. While meeting financial and milestone commitments are critical, large IT projects are funded and run by institutions with the expectation that they deliver a more extensive set of business outcomes over a long period of time. Examples of these expectations include:

• The project delivers capabilities that enable the institution to better pursue its strategic goals (for example, increasing the productivity of researchers or the alumni relations department).

• The benefits of the program remain valid despite changes to the economy, education sector, and stakeholder needs between project launch, completion and thereafter.

• The project did not disrupt or conflict with other critical initiatives across the institution during delivery.

• Faculty, staff and students are comfortable adopting new ways of working (new screens, new processes, etc.) without significant disruption.

• Suppliers and external users are comfortable with any changes to the way they interact and engage with the institution.

• Short- and long-term support for the system is available and economically viable.

• The solution functionality works — it allows the institution to operate its core processes — and creates value for its users (for example, enabling staff and students to self-service some needs timelier while reducing operating costs).

• Data is complete, accurate, valid and readily available for analytics and business intelligence purposes (including data migration, master data that underpins its decision making, and transactional data).

• All sensitive data is secure, particularly given the rise of state sponsored espionage.

• From the first day of operation, the new operating environment is contained within an effective control environment to manage financial, operational, security, and compliance risks.
Our perspective

Delivering this range of outcomes can seem like an overwhelming set of expectations. Projects frequently face resource constraints, thin margins and small contingencies. Project leaders should make daily compromises, pragmatic decisions, and ‘fight fires.’ It is no surprise that projects can lose sight of some of the expected outcomes. To confirm the full set of desired outcomes are preserved, we recommend adopting “3 lines of defense” to better define roles and help increase transparency to key stakeholders:

• A delivery team (Governance, project management office, systems integrator, and business leads) that understands the desired outcomes, and has a clear set of accountabilities and responsibilities covering each area.

• A risk and quality function which monitors each planned outcome and tracks early warning indicators of whether they are under threat. Consideration should be given to who mitigates the remaining risks and how a complete view of program risk can be shared with oversight bodies. Many times, the focus is drawn to recent problems or incidents, losing sight of the bigger picture. A dedicated risk and quality function can help maintain the right visibility and attention to risk areas.

• Independent verification and validation teams who confirm that the teams listed previously are operating effectively, and provide incremental, independent assurance over key risk areas. This is often a role for an internal audit function but can be reduced to a narrow review of internal controls shortly before or after go-live. A more valuable approach is applying attention “early and often” to key risk areas, which often requires specialized skills.

Finally, the board of trustees can play a critical oversight role during large implementations. This role includes monitoring the ongoing alignment of the institution’s strategic objectives and the implementation, setting accountabilities at the right levels, evaluating key resource competency and capacity to help drive the implementation, and critically assessing the periodic updates they should receive from the three lines of defense (as outlined earlier).

Sooner or later, institutions will have to implement or upgrade their key systems. By establishing clear oversight responsibilities, stakeholders, project managers and trustees can adequately measure and monitor the financial and operational success of these transformational activities.
Background

Imagine having advanced analytics that provide the ability to see into all interactions with students, faculty, researchers, vendors and other constituents in real time. Imagine being able to process that information instantly to improve experiences, create new insights, identify inefficiencies and enable sound decision making. Now imagine being able to use that information to predict outcomes and make rapid adjustments to improve results. This is the tantalizing promise of big data and the reason it generates so much attention. The good news is that institutions already own enabling data. The key is to effectively harness it and translate insights into action.

The higher education industry has been accumulating and reporting significant volumes of data for years. This includes federal student aid information, accreditation related information, Uniform Guidance federal grant expenditure figures, and data related to the College Scorecard. This data is intended to provide constituents with the information they need to make informed decisions as educated stakeholders. However, the business of higher education remains inconsistently understood by stakeholders and the general public. A common understanding of the cost of education, how to compare institutions, management and governance, outcomes and other measures that stakeholders seek remains elusive. Yet scrutiny by lawmakers and the general public remains high. There is a clear opportunity to leverage data to provide better information, convey a story, and educate users for more informed decision-making.

One of the National Association of College and University Business Officers’ (NACUBO) strategic goals is to enhance industry integration of data analytics to facilitate achievement of institutional goals. While there are examples of advancements in the use of analytics, such as admissions trends, and predictive analytics with the goal of improving student performance and experience, these advancements generally remain limited or siloed in scope and are inconsistently implemented. In the 2019 NACUBO Study of Analytics, approximately 90% of leaders agree that data analytics should be a higher priority for achieving operational efficiencies, enhancing student outcomes, balancing workloads, and achieving strategic goals. However, barriers to effectively using data analytics include cost, employee skills, time, data quality and the cultural change required for good data governance. Additionally, regulation and risk surrounding data security and privacy, further reinforces the need for a focused strategy around data and data governance.
Impact on educational institutions

Effective analytics starts with trusted data, and data quality requires solid data governance. There are few items that can disrupt progress faster than distrust in the information being provided.

With investments in sophisticated enterprise resource planning systems, structured data is generally available for analysis in areas such as finance and human resources. Challenges with data supporting departments other than finance and human resources include inconsistencies in reporting, access to information, and a general lack of understanding of key information. Departments such as institutional research are heavy users of large volumes of data, but the data is often housed in disparate systems across the institution and in different formats with varying levels of access for users that need the information. Advancements in analyzing student performance, students at risk academically or in other areas requiring intervention are being attempted, but this also generally utilizes unstructured data that is difficult to manage without definition, retention, and other key elements of data management and governance. Additionally, certain individuals and departments remain siloed in their views and are hesitant to share information for a variety of reasons, including distrust over intended use or concern with giving up control.

As a result of these challenges, many institutions are not progressing as quickly as they could in advancing their use of data and technology. Further, there is often not a clear plan or roadmap of where the organization wants to go and how to get there. Much of the focus has been on confirming compliance with privacy and security regulations. However, viewing data governance as a compliance exercise is a missed opportunity to strengthen strategic decision making, enhance student and stakeholder experience, and increase operational efficiency.

Our perspective

Effective data governance is foundational to becoming data driven and optimizing performance across an institution. Users must see consistent, accurate information and must trust it. Institutions should start by assessing their current state, and depending on those results, developing a data governance framework and building a data strategy. The framework can then be used to improve the data structure, systems and processes to create the culture and tools for success.

As institutions develop an effective data governance framework, the following key elements should be considered:

- Leadership mandate and support are critical to effect meaningful change.
- Creating a formal structure so that ownership and accountability are clear.

Consider an office of data governance, a chief data architect with support by data stewards and data trustees.

- Partnership and engagement across an institution are needed. The requirements of the community need to be understood upfront so that tools and structure support the need, and the business units have the capability and accountability for stewarding the data to confirm its accuracy.
- There should be documented policies and procedures that address guiding principles, responsibility, regulatory considerations and other key aspects of effective data management.
Successful institutions have built positive momentum by demonstrating quick wins that support the business, such as targeted dashboards that address a key focus area for the organization. One leading institution leveraged the data governance process to develop an executive dashboard for the president’s council. The dashboard included key operational and financial performance metrics consistently displayed across the organization allowing for more productive discussion when comparing results and action plans, instead of questioning the source and reliability of information. Leading organizations also structure and enhance the quality of data to allow for the use of artificial intelligence and other tools. In some institutions, Institutional Research has moved beyond the traditional reporting of data to more of a consultant to business units. This has led to better understanding of key data, such as student performance and other information, to identify potential issues and more proactively work on solutions. This is also being done within investment offices that are advancing the use of technology seen in the financial services industry. Advances in use of data for research and health data are growing exponentially and requiring institutions to rethink how it needs to be supported given volume, cost, privacy and other constraints.

Institutions also need to engage and develop the right people to champion the progress. The most significant concern noted in the 2019 NACUBO analytics study was the ability and capacity of employees to translate the analytics into action. Building a network of individuals, sometimes called stewards, superusers, pacesetters or accelerators, helps create increasingly positive momentum. Having a sound foundation can enable analytics, automation, data visualization and other technology tools that can propel institutions forward. Data trust pacesetters can help bring the value creators (from the business side) and value protectors (from the risk, IT and cybersecurity sides) together to develop data policies and practices that meet the needs of customers, employees and regulators.

Evolving data governance activities can support organizations in moving from primarily compliance focused towards a well-controlled institution that leverages data for informed strategic decision making.
Background

The higher education sector, like many others, finds itself at the center of a workforce that is transforming by the minute. The size, distribution, age, and expectations of the workforce are shifting. As Baby Boomers retire, the workforce will soon be comprised primarily of employees belonging to Generation X, Millennials, and now Generation Z. Workforce participants are more mobile than ever before as evidenced by a recent survey conducted by the Bureau of Labor Statistics that revealed most Americans change jobs on average 12 times during their career.10 Big data, artificial intelligence, robotics, machine learning and other forms of emerging technology are disrupting the required skill sets and career paths for employees. Moreover, the health and safety of faculty and staff are now taking center-stage.

The rapid pace of change has created fierce competition for the right talent. While leaders realize the definitions of talent today are very different from ten years ago and will change even more dramatically in the next ten years, PwC’s 23rd US CEO Survey revealed that only 21% of CEOs report “significant progress” in defining the talent and skills needed to drive their growth strategy for the future.11 Institutions should not take a wait and see approach to addressing their talent pool needs. Colleges and universities should develop strategies that will position them to attract and retain top talent today to successfully navigate the uncertainties of changes tomorrow.

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10 Bureau of Labor Statistics Number of Jobs Held, Labor Market Activity, and Earnings Growth among the Youngest Baby Boomers: Results from a Longitudinal Survey

Impact on educational institutions

Colleges and universities face multifaceted challenges as it relates to workforce development. Not only must they recruit talent with the essential knowledge and skills to excel, but they must also retain talent within the institution to maximize the value delivered to stakeholders. Certain institutions have tackled this challenge head on and are well on their way to implementing changes to their talent strategies. Other institutions are just beginning to identify areas requiring enhancements and have yet to develop sustainable plans to address deficiencies. No matter what stage the institution is in, there is common acknowledgement that the cost of outdated talent strategies is one that is too great to bear. Ineffective strategies affect employee motivation and productivity, increase turnover costs, negatively impact the successful management of the talent pipeline, and limit the institution’s ability to develop high potential talent. Colleges and universities are looking to transform several critical areas that impact their ability to attract and retain talent. These areas include:

- **Compensation and Benefits** - Workforce participants are requiring a more balanced compensation and benefits package — one that not only focuses on a salary that is competitive, but that also contains benefits that have a less obvious dollar value. These benefits include appropriate healthcare coverage, parental leave, wellness in the workplace initiatives, milestone rewards, and adaptable paid time off including flexible hour arrangements. Workforce participants are seeking more autonomy around when and where they work, thus giving rise to a new generation of gig workers as opposed to those seeking full-time employment. Institutions are working to refine their compensation and benefits model to address the demands of the workforce without compromising the ability to satisfy the requirements of their constituents.

- **Diversity and Inclusion** - The evolving workforce is requiring that diversity and inclusion be embedded into an institution’s culture. Workforce participants are seeking institutions with programs and practices where diversity and inclusion is viewed as a core competency and where messaging from leadership down through the various levels of the institution is consistent. There are greater expectations around diversity on the board, the leadership team, and throughout the institution. Many colleges and universities have made strides in addressing diversity and inclusion in their admissions practices and student retention strategies and are working toward greater diversity and inclusion throughout their workforce.

- **Upskilling** - Technology will continue to be a game changer in years to come and workforce participants are keenly aware that their ability to expand their existing skill set will be critical to career advancement. A recent workforce study revealed that 37% of workers believe automation will significantly change or make their job obsolete within the next ten years and 74% of workforce participants are willing to learn new skills now or completely retrain to improve their future employability. Although colleges and universities are working to provide employees with the opportunity to upskill, an institution’s continuous learning offerings will need to expand to encompass opportunities to increase digital acumen. Both faculty and staff will require a more diverse skill set that enables them to provide students with digital skills throughout the entire academic experience as opposed to limited offerings in single courses. A combination of in person, virtual, and hands on learning opportunities to master certain digital skills is a must. Colleges and universities should also look to provide employees with a digital playground that can be used to create automated solutions that help improve curriculum delivery and business performance across the institution. Equipping employees with a unique set of competencies and skills, rather than job or task specific experiences, can provide for greater adaptability to changes in technology and the skillset demands in the workforce.

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12 PwC Workforce of the Future, The Competing Forces Shaping 2030
https://www.pwc.com/gx/en/services/people-organisation/publications/workforce-of-the-future.html
Mentoring and Feedback Programs-
Colleges and universities are continuing to look to mentoring programs as a tool to cultivate institutional talent. Mutually beneficial mentoring relationships promote a continuous learning culture where seasoned employees transfer relevant institutional knowledge and experiences in exchange for fresh perspectives from junior team members. These types of programs create an environment where clear communication and honest feedback are welcome, and when maximized can assist employees at all levels of their career. In addition to mentoring, employees should be provided with more frequent, direct and honest feedback sessions. Consistent recurring feedback allows top performing individuals to maximize their strengths and develop plans to address performance gaps. In an institution where the importance of real time feedback is emphasized, annual performance reviews become more forward looking as opposed to a hindsight review of past experiences.

Advancement Opportunities-
Top performing employees tend to be future oriented and often perceive the number of long tenured employees that remain at an institution as a hindrance to the advancement of others. In order to combat this perception, colleges and universities are providing greater transparency into various paths of advancement. Knowing the internal talent pool, understanding their goals for success, and mapping a path forward is critical. This may require institutions to transition from a traditional linear advancement model to a non-linear model. Non-linear career models provide highly talented employees with more opportunities for rotations and exposure to other positions within the institution where their skillset and path to advancement may be better aligned.
Our perspective

There is no one size fits all approach to addressing the challenges of attracting and retaining top talent. Developing effective talent strategies continues to be a challenge not only for the higher education sector but for many other sectors as well. As many sectors prepare return to work strategies, colleges and universities may look to other industries and peers to benchmark and identify leading practices that can be replicated. The institutions that will emerge as best in class for talent strategies are those that view the changing workforce demographics, employee mobility, and technological disruption as opportunities to maximize their talent pool. Talent strategies will vary by institution depending on size, complexity, and nature of operations but at a minimum should be fluid enough to allow the institution to swiftly respond to people and technological developments. Institutions that adopt a data driven decision model to deepen their understanding of their potential and existing talent pool may better position themselves to adapt to change. A talent strategy that includes the use of data analytics could give an institution a critical edge in broadening their pool to include underrepresented groups, gauging future talent needs, predicting and monitoring skills gaps in the workforce, understanding how to create a compelling people experience, and eliminating potential biases in hiring and the performance appraisal process. Derived data insights can provide valuable feedback for institutions when developing concrete, actionable retention plans.

The demands placed on colleges and universities from various constituents including students, parents, regulators, donors and federal and state governments will likely continue to grow. Amidst several uncertainties, one thing is almost certain — as the competition in the job market for talent escalates, a strategic plan that is compatible with the dynamics of the transforming workforce is no longer an option but seen as a requirement to retain talent and to thrive. Developing talent is critical to the institutions ability to execute its mission and achieve its goals. Institutions should develop a clear vision for an evolving workforce — one that is transparent about the plans to equip employees with the knowledge and skills to take on new roles, embraces diversity, addresses the well-being of the entire person, and consistently rewards creativity and innovation. The investment in the workforce today can return dividends in the years to come as nurtured talent becomes the future leaders of the institution. In the end, people will always be the institution’s greatest asset.
Tenure was first established in the early 1900s. Tenure was meant to “protect academic freedom by insulating faculty from the whims and biases of administrators, legislators, and donors, and provides the security that enables faculty to speak truth to power and contribute to the common good through teaching, research, and service activities.” Through the mid- to late-1900s as enrollment growth continued and outpaced the growth in PhD candidates, faculty were in high demand and offering tenure to prospective faculty made the institution more attractive. During this time, many institutions prided themselves and included in student admissions marketing and faculty recruiting materials, the number or percentage of tenured and tenure track faculty on staff. In the current environment, as many college administrators are facing financial pressures and competing priorities, they are forced to explore other lower cost options to tenure by staffing an increasing amount of their teaching positions with non-tenured faculty sometimes referred to as adjunct or contingent faculty. These faculty can be full- or part-time positions and include non-tenure track faculty, part-time instructors, and graduate student employees.

In 1975, approximately 45% of the academic labor force was full-time tenured and full-time tenure track faculty compared with only 29% in 2015, which means that over 70% of all instructional staff appointments in higher education are non-tenure track positions and over 50% of these positions are being filled by part-time or graduate student employees. This is true across all types of institutions which follow the Carnegie Classification of Institutions of Higher Learning, from R1 Doctoral Universities which have the highest research activity to Associate’s institutions which includes community colleges. The prevalence of part-time employees filling teaching positions increases substantially for non-Doctoral Universities with as much as 65% of the positions being part-time. While tenured positions are permanent appointments that can only be terminated for cause or under extraordinary circumstances, non-tenure track positions can be terminated at will and offer faculty little job security.

13 American Association of University Professors, Data Snapshot: Contingent Faculty in US Higher Ed

14 American Association of University Professors, Labor Force Trends
Impact on educational institutions

While academic tenure offers job security and academic freedom, many critics of the tenure process argue the benefits are outweighed by several drawbacks. The discussion of tenure versus non-tenure often includes the following types of considerations:

- **Tenure may impact the quality of instruction** - Some argue that a tenured professor is more impactful to a student’s education due to the fact they can instruct openly without fear of retribution for potentially unpopular views. Additionally, there is less turnover of tenured faculty. However, others argue that once a professor achieves tenure, their nearly permanent employment can result in less incentive to improve the quality of their instruction. Increased pressure is also placed on new faculty to publish while in the tenure process which can have a detrimental effect on students’ learning, as faculty may be focused on publishing rather than instruction.

- **Student engagement** – Non-tenure track faculty often have large teaching loads and teach many of the introductory level courses. In some instances, students may be in upper level courses before being taught by a tenured professor. Given the level of turnover in the non-tenured faculty group, this can result in introductory courses being repeatedly taught by first-time faculty. This impedes a student’s ability to develop effective relationships with faculty before they become upperclassmen which can hinder learning and research opportunities.

- **Faculty morale** – Tenure may inadvertently create a culture of “haves and have-nots”. Tenured positions typically include opportunities for advancement and promotion, retirement plans, dedicated office space, sabbaticals and other leave opportunities. Conversely non-tenured faculty are typically paid by the course taught and are not offered benefits. For these faculty “pay varies widely by region, institution and discipline. Some private universities offer as much as $8,000 to teach a semester-long course, while some community colleges provide as little as $1,500 a class.” Additionally, non-tenured faculty may not participate in planning and strategy discussions despite instructing a significant portion of the course load. These types of differences between faculty can have a significant impact on morale.

- **Budget implications** – Tenure can have a significant impact on the budget of an institution. Often when a professor is granted tenure they are at the pinnacle of their career, therefore, gaining near permanent employment with lucrative benefit packages. “A bad tenure award is often literally a million-dollar mistake.” As many institutions have been investing in campus facilities and other strategic initiatives, they are now considering shorter term contingent employment agreements to close budget gaps.

The above factors need to be considered and weighed by management and trustees to help determine the future strategy for academic instruction for their institution.

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Our perspective

With the changing landscape in higher education, institutions are revisiting their policies and practices surrounding faculty tenure and how it fits in with their overall strategy. Given that non-tenured faculty now account for over 70% of the teaching staff, a part of this assessment needs to consider this group.

Many institutions have seen a trend in non-tenured faculty seeking to unionize in order to collectively bargain for better compensation and benefits, and for an increased voice on campus. Institutions should be proactive in establishing a dialogue with this group to ensure they feel a valuable part of both the institution and the individual department they work with. This dialogue should consider such items as compensation, benefits, developmental opportunities and having a say in decision-making as it relates to curriculum and departmental goals.

Employment contracts have proven to be a way to bridge the gap between full tenure and non-tenured faculty. At four-year institutions (including research universities), an average of 38% of full-time non-tenure track faculty are on annual contracts, with 58% on either multi-year (20%) or indefinite/at-will contracts (38%); only 4% work on contracts that are less than a year in duration. From a recruiting perspective, it can be easier to recruit faculty for positions if there is a certain level of job security. Faculty who are on campus for longer periods of time can become more influential in the campus community. The student experience is also likely to improve with more consistency in the faculty who are instructing courses.

Board members should familiarize themselves with their institution's strategy for fulfilling the academic mission including the complement of tenure and non-tenured positions. It is unlikely tenure will ever completely go away. It is a vital part of higher education in supporting the mission of teaching and research and ensuring students receive an education free from bias. However, as the percentage of tenured faculty continues to decline, it is imperative institutions make efforts to confirm the mission is protected. This will likely involve an evolution of the role of non-tenured faculty on campuses.

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17 American Association of Tenure Professors, Data Snapshot: Contingent Faculty in US Higher Ed
Background

Academic medical centers (AMCs) have faced significant disruption over the past decade including heightened competition, advancements in technology, and empowered consumers. Continued pressure on thin clinical operating margins has threatened the ability to fund the tripartite mission of delivering clinical care, advancing research, and educating the next generation of providers and researchers. As AMCs rely on clinical revenue to fund portions of the education and research missions, disruptive forces in the provider market have squeezed financial support and created great internal competition for dollars. AMC finances have been further stressed by the COVID-19 pandemic, as many medical centers reduced revenue-driving elective procedures to make room for patients with the virus. Compounding this is consumer behavior; a survey of consumers in PwC’s publication “Future Academic Medical Centers: Forging new Identities in the New Health Economy” showed that 50% would not pay more for care at an AMC.

In response to disruptive forces, health systems have been more deliberate about reshaping their strategic identity. This has meant different things for different health systems — some are consolidating costs, others are focusing on customer-focused strategies, some are delivering advanced care by investing in innovation in specific service lines, and some are focusing on population management to improve overall health outcomes.

For a university that is also an AMC, how the clinical enterprise positions itself strategically in reaction to the disruptive forces in the healthcare market matters. AMCs can represent 60% to 80% of a university’s budget, and the healthcare arm of most AMCs is growing faster than education or research. The implications of clinical strategy must be considered on the academic and research missions of an AMC, and by the entire university.
Impact on educational institutions

Although the clinical enterprise may evolve in several ways, some key changes will be required. These changes include more investment in technology, evolving the research portfolio beyond traditional "basic science," and growing the network of partnerships for the institution.

- **Information technology** - Artificial intelligence (AI) and predictive analytics are at the heart of the changing clinical industry. With a focus on value, quality, and precision medicine, the need to get the right treatment to the right patient at the right time will require significant investment in analytics and technology. For AMCs, this may mean leveraging expertise in AI and analytics from other departments, namely math and engineering, to enhance their technology and analytics capabilities. At the same time, scientific and technological advances such as genomic medicine, are driving a deluge of data in healthcare and research systems. This data is inherently valuable as a tool to further drug development, improve clinical trials, and better predict the effectiveness of drugs and treatments. While the infrastructure to house the data can be expensive, it represents a potential asset for AMCs and parent universities.

- **Evolving the research portfolio** - The funding environment for research has changed over the past decade and the cost of conducting research has grown significantly. According to a 2015 study by the Association of American Medical Colleges, academic medicine invests 53 cents for every $1.00 received of sponsored research funding. Many AMCs have begun to address this issue through cost containment approaches such as shared service models. Federal funding agencies, as well as foundations and philanthropic organizations, are looking to fund “team science” that extends beyond a single investigator and spans disciplines. Further, the focus on translational research and speedy application of discoveries in the clinic requires collaboration among researchers and clinicians. This changing landscape offers universities the opportunity to help drive collaboration between its researchers in the medical school and across other departments. Investment in modern technology transfer and business development approaches can help universities move their discoveries into the market faster and offer opportunities for new revenue streams.

- **Growing the network of partnerships** - Support for new analytical capabilities, infrastructure development, and alternative sources of funding for research are requiring universities to develop a network of partnerships. Universities will be seeking partnerships for many different reasons including capital investment and rounding out capabilities not present within the institution. These relationships should be driven in support of the mission and can provide economic upside back to the university. Many industry partners will include ‘new entrants,’ or companies that have not traditionally participated in healthcare.
Our perspective

As AMCs evolve in the face of changing dynamics in the healthcare market, opportunities exist to leverage those changes for the benefit of the entire university. The COVID-19 pandemic highlights the challenges faced by AMCs. With reductions in clinical revenue due to the pandemic, and volatile times ahead, AMCs should strategically review ways to continue to fund their critical research and education missions. Re-thinking how universities pay for biomedical research has been thrust into the spotlight at a time when the benefits of research are desperately in need. Questions such as where alternative revenue sources might come from, what skills physicians and other care providers will need in the future and whether medical education can be taught virtually are all items that should be considered.

Tackling these changes does not come without risk. In order to help better manage that risk, universities should consider:

• **Aligning the AMC strategy to the university mission and vision** - It is important for university leadership to confirm that investments, new ventures, and partnerships align to and strengthen the university mission.

• **Establish leadership oversight** - New initiatives into value creation from data or development of a partnership ecosystem should be overseen by the highest leadership levels. Universities should confirm they have appropriate business development and other expertise in house to help manage these considerations.

• **Focusing on efficiency and cost structure**
  - New ventures and infrastructure require investment. This can be difficult for an AMC facing lower clinical margins and less capital available to support its current academic portfolio. Universities should continue to consider cost transformation approaches and cost containment across both the university and clinical enterprise to enable the most efficient use of current resources.

• **Seeking alternative revenue streams**
  - Development of new assets and infrastructure provides the opportunity to drive new revenue to the AMC and university. Data gathered from the health system has value in the market and could be utilized for value creation. Industry partnerships and philanthropic organizations represent opportunities for new funding streams for collaborative research projects.

• **Identifying the need for enhanced curricula**
  - As the university develops new initiatives, it should consider how they can contribute to developing the next generation of workforce. For example, more integrated education programs between medical students, nursing students, and other allied health specialties might be appropriate. The infusion of bioethics and humanism into medical school curricula will be important as physicians need to manage genomic medicine in the future. These evolving strategies offer universities the opportunity for new educational approaches.

AMCs are going through a period of challenges and disruptive change. These challenges offer opportunities to evolve and benefit from updates in information technology, research portfolios, and partnerships. Management of the risks associated with these changes can be the key to success.
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