

HIGHER EDUCATION AND ACADEMIC  
MEDICAL CENTERS

# Planning for Change

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## INTRODUCTION

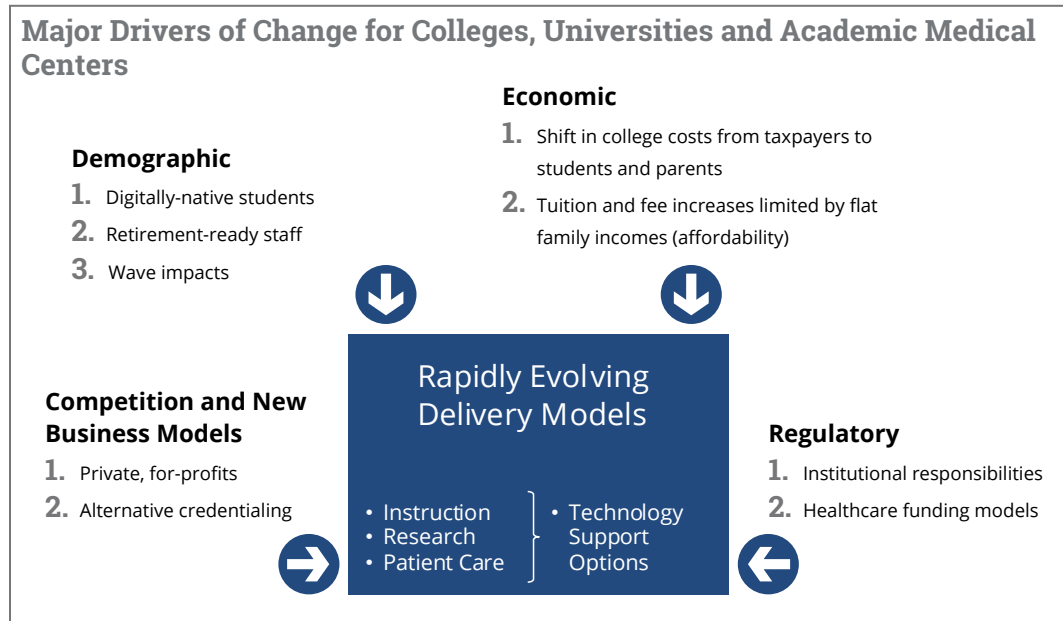


**Many Institutions face radical changes in service delivery expectations, funding and competition.**

American institutions of higher education and healthcare have long been at the forefront of the nation's interest and political discourse. Because they address the specific needs of two important sectors of the country's population—the millennials and their baby boomer parents—colleges, universities and academic medical centers are important pillars of American life. Today, these institutions face radical changes in service delivery expectations, funding, competition from new entrants, credentialing and regulatory requirements. It is a difficult landscape to navigate, even for the most nimble of organizations.

This white paper explores the competitive, demographic, economic and regulatory challenges these institutions face and suggests an approach to preparing for the future. By comprehensively reviewing their current operations and by monitoring the trends mostly likely to impact those operations, institutions can adapt to the changing landscape with greater agility, better align their resources to their missions, goals and objectives, and prepare themselves for success even in the face of an uncertain future.

Trends impacting higher education in the United States today confirm that these organizations face the daunting challenge of meeting the needs of remarkably diverse—and sometimes-seemingly fickle—constituencies. Times are a ‘changing, and institutions of higher education must change with them. Surviving—and indeed prospering—in this environment requires a near-constant appraisal of an institution’s value propositions and its ability to flex in anticipation of and in response to numerous and sometimes-conflicting environmental forces. The graphic below depicts the competitive, demographic, economic and regulatory forces acting on colleges, universities and academic medical centers.



### THE COMPETITIVE DRIVER: THE CHALLENGES OF COMPETITION AND ALTERNATIVE CREDENTIALING

Traditional higher education is facing a market disrupted by new business models. Two of the most significant are for-profit universities and alternative credentialing. Though for-profit universities have existed for some time, their numbers have increased substantially since the turn of the century, only to be pared back more recently. Meanwhile, the trend of alternative credentialing is gaining momentum as demands for cost-effective educational options that are focused on job preparation gain greater interest and credibility.

#### Private, For-Profit Universities

From 1999 to 2009, undergraduate enrollment in four-year, for-profit universities increased 539 percent. In the same period, enrollment in four-year, public universities increased 32 percent and enrollment in four-year, private, not-for-profit universities increased 21 percent, according to *The Chronicle of Higher Education*.



**Student tuition and fees paid through federal grants and loans have contributed up to 90 percent of for-profit university revenues.**

In 2009, for-profits enrolled approximately 1.6 million undergraduates and peaked the following year. Since then, enrollment in for-profits has fallen by 26 percent while overall enrollment has declined only 9 percent, the National Student Clearinghouse Research Center reports. As a case in point, The University of Phoenix, one of the country's largest for-profits, enrolled 460,000 students in 2010; by 2015, enrollment had declined by more than half to 213,000. Corinthian Colleges, a for-profit, post-secondary education company founded in 1995, ceased operations and closed its doors to 10,000 students in April 2015 following a series of federal and state government actions related to the college's marketing and loan practices. Department of Education examination of other for-profits continues.

For-profit universities have focused primarily on the adult working learner who is typically older than the traditional university student and seeks academic credentials to improve job advancement opportunities. The for-profit universities' non-traditional business model and the federal government's recognition of online courses as eligible for student financial aid have fostered growth in this area. Student tuition and fees paid through federal grants and loans have contributed up to 90 percent of for-profit university revenues.

In recent years, for-profits have come under greater scrutiny as analyses have shown that graduation rates and loan repayments have failed to keep pace with those of public and private, not-for-profit institutions. Bloomberg reports that near the height of the for-profit era, proprietary colleges and universities graduated 22 percent of first-time, full-time students seeking bachelor's degrees compared with 55 percent at public institutions and 65 percent at private not-for-profits. Meanwhile, only 36 percent of for-profit university students repay their loans compared with at least 54 percent at traditional colleges. In the spring of 2015, 6.5 percent of all students in the U.S. were enrolled in for-profits.

For-profit universities have exerted a strong influence on the higher education landscape. The "Uber" of higher education, for-profits have recognized changes in the public's demand for alternative models of education and have taken advantage of them by adopting online learning and other technologies, fostering consumerism and encouraging operational efficiencies to open new markets. In so doing, they have forced traditional educational providers to question their practices (just as the practices of for-profits have been questioned) and, in many cases, react constructively to a more competitive environment.

### **Alternative Credentialing**

In response to these conditions and in the interest of establishing new revenue streams, colleges and universities have and are developing alternatives to the undergraduate, graduate and professional degree programs they have traditionally offered. Alternative credentialing is an approach that seeks to address demand for an economical and timely way to certify mastery of a skill or a technical competency regardless of whether the learner has taken a course and, in most cases, regardless of the amount of time a learner has spent achieving it. In many cases, mastery may be achieved through direct life experience or through self-paced learning; for some institutions, mastery can lead to credit toward a degree.



Digital badges and certifications offer employers verification that a learner has achieved a level of proficiency, similar to the licensure processes for certain professions, except on a more targeted basis. The increased costs of a college degree, concern about student debt, and the federal government's interest in improving outcomes as evidenced by the "gainful employment" regulations issued by the Obama administration in October 2014 are encouraging further expansion of these alternatives.



**Massively online open courses (MOOCs), now offered at many large universities, link the best and most knowledgeable instructors with students around the globe.**

### **THE DEMOGRAPHIC DRIVER: THE CHALLENGE OF MEETING SERVICE DELIVERY EXPECTATIONS**

Millennial and Generation Z students now accustomed to the online social networking of Instagram and Snapchat and the electronic commerce of Amazon have come to expect the same convenient, customized and anytime, anywhere engagement with their educational institution. Massively online open courses (MOOCs), now offered at many large universities, link the best and most knowledgeable instructors with students around the globe and allow a sponsoring institution to identify bright students as potential recruits regardless of their location or background.

Progressive institutions of higher education encourage instructors and students to collaborate with counterparts in virtual communities and classrooms so they can share knowledge and practices that enhance their curricular and co-curricular experience. Some brick-and-mortar institutions are adopting "blended" learning that complements traditional classroom instruction with online and digital features that allows students to control the timing, pace and location of at least some elements of their learning. Researchers are seeking ways to collaborate with peers at other institutions and access big data, including biological data, market data, and climate and natural disaster data, to simulate complex conditions.

On forward-looking academic medical center campuses, surgeons hone their skills in virtual reality and health professionals interact with automated patient simulators. Scheduling and procurement systems optimize the use of surgical facilities and coordinate logistics to ensure critical life-saving equipment and supplies are available when needed. Electronic medical record (EMR) systems track patient interactions, diagnoses and treatments, allow healthcare professionals a more comprehensive view of patient medical history, and facilitate both a better patient experience and outcome. Automated billing systems provide the capability to calculate and consolidate charges from multiple sources, and manage the complex reimbursement and collection process.

The pace of technology-driven change and the associated expectations of students, parents, faculty, researchers and other constituents are driving ever-more rapid change in the academy. These new expectations are increasing demands for significant investments in new technologies, new practices and new behaviors.

### Shift in College Costs

In the face of these demands, the traditional mix of funding sources for higher education and academic medical centers is also undergoing radical change. Public institutions have been particularly hard hit as state legislatures continue to shift the burden of the cost of a college education away from taxpayers and toward students and their parents. The American Academy of Arts and Sciences recently released its Lincoln Project report, which notes that state support for public higher education per full-time equivalent student in fiscal year 2014 (the most recent year for which complete data is available) dropped nearly 30 percent since 2000 after adjusting for inflation. The report also finds that state aid to U.S. research institutions has decreased from 32 percent to 18 percent during the same period.

Similarly, the collective impact of healthcare reform on safety-net hospitals (those treating the most vulnerable and the least able to pay), the formation of Accountable Care Organizations, which support population health, and provisions that restrict Medicare payments from fee-for-service to bundled payment for a clinically-defined care event have significant implications for the funding of academic medical centers. Meanwhile, these institutions support many of the specialists who care for the five percent of Americans with complex diseases that account for approximately 50 percent of healthcare costs.

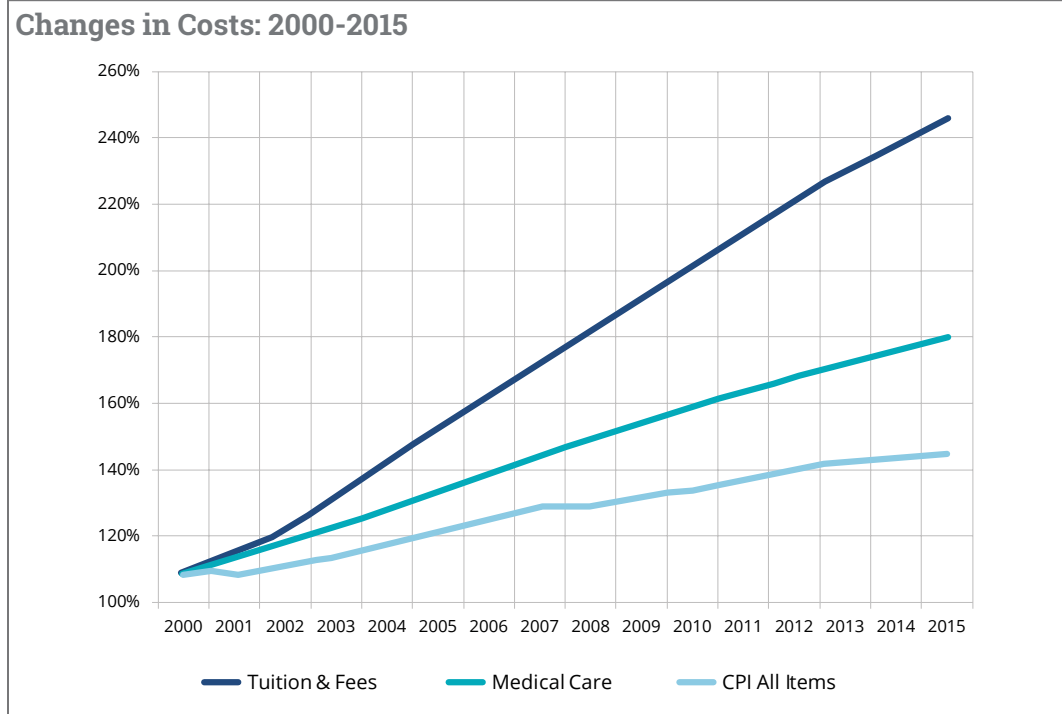
Among both public and private institutions, ever-rising tuition and fees have served as a relief valve, allowing institutions to use the increased revenue to offset rising costs and, in the case of institutions that receive public funding, decreased appropriations and reimbursements.

### Tuition and Fee Increases

The U.S. Bureau of Labor Statistics reports that, at the conclusion of 2015, the cost of college tuition and fees is approximately 2.5 times the cost reported in the year 2000 (specifically, a 246 percent increase). This means tuition and fees are rising at more than 1.75 times the rate of inflation, as measured by the Consumer Price Index (CPI), and more than 1.38 times the rate of medical costs. These increases contributed to a record-breaking amount of student debt, which the Federal Reserve Bank of New York reported in 2010 surpassed credit-card debt to become the second-highest source of indebtedness in the U.S. – second only to mortgages. In April 2016, outstanding student loan debt stands at \$1.3 trillion.



State aid to U.S. research institutions has decreased from 32 percent to 18 percent.



Although recent studies have confirmed the benefits of a college degree are well worth the cost, the trend of rising costs places increasing pressure on students and parents and raises questions regarding the affordability of higher education for many households with children at or near college age. While the demand for entry to selective universities is highly elastic, many other universities have an increasingly limited or non-existent ability to increase tuition and fees. This problem is particularly acute for those colleges and universities that recruit in the Northeast and Midwest where the number of high school seniors is shrinking. Accordingly, colleges and universities are becoming increasingly entrepreneurial, partnering with third parties, applying specialized knowledge and making use of excess capacity to generate additional service revenue, such as tuition from on-line courses, facilities rentals and summer camp fees, as well as expanding fundraising efforts to attract gifts and build endowments.



**Colleges and universities are becoming increasingly entrepreneurial.**

Just as the revenue mix for institutions of higher education and academic medical centers has drawn considerable attention, so too has the expenditure mix. In *Trends in College Spending, 2001-2011: A Delta Data Update*, the Delta Project reports the average expenditure per full-time equivalent student for public research universities by expenditure classification in 2011 dollars. Over this ten-year period, core mission expenditures (i.e., expenditures for instruction, research and public service) increased, in aggregate, by 7.8 percent. Student services and institutional support expenditures, meanwhile, increased, in aggregate, at a substantially faster rate, 12.8 percent.<sup>1</sup>

<sup>1</sup>The National Association of College and University Business Offices (NACUBO) defines student services expenditures as those incurred by the admissions and registrar's offices... and activities with the primary purpose of contributing to students'... development outside the context of the formal instruction program. Institutional support represents expenses for central, executive-level activities concerned with management and long-range planning for the entire institution... such as expenses for legal services, fiscal operations, administrative data processing, space management, and employee personnel and records.

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A more recent study conducted by The Texas A&M University System, one of the nation's largest public higher education university systems, found that differences in these rates of increase varied considerably among the 20 members included in the study and, overall, were even more substantial. The study noted the "cost trends indicate the administrative costs have increased at a pace faster than costs associated with core mission. This growth of administrative costs, if allowed to continue, has the potential to impair the System members' ability to meet strategic goals and sustain pre-eminence." The study went on to identify obsolete processes, operational redundancies, low spans of managerial control and opportunities for alternative sourcing, and recommended a series of actions to reallocate \$80 million in funding to core mission.



Colleges and state regulation represents one of the most significant sources of change in higher education.

### THE REGULATORY DRIVER: THE CHALLENGES OF REGULATION

Federal and state regulation represents one of the most significant sources of change in higher education. Regulation impacts all aspects of academic life, including, to name only a few, accreditation, admissions, campus crime, fundraising, human resources, information technology, intellectual property, student records (e.g., FERPA), privacy (e.g., HIPPA), research (e.g., clinical trial financial disclosures by investigators) and sexual misconduct.

Recognizing this impact, a group of bipartisan U.S. Senators created the Task Force on Federal Regulation of Higher Education, comprised of college and university presidents and chancellors, to study the topic and offer recommendations. The Task Force, which issued its report in February 2015, found that "many rules are unnecessarily voluminous and too often ambiguous, and that the cost of compliance has become unreasonable." Among its many recommendations, the Task Force suggested a review of "the methodology for estimating institutional cost of compliance; the creation of clear 'safe harbors' for institutional compliance; and recognition of 'good faith' efforts to comply." Likewise, the National Association of College and University Attorneys has formed the Higher Education Compliance Alliance to track compliance issues and offer resources "to provide the higher education community with a central repository of information and resources for compliance with federal laws and regulations." Yet, even with these actions, colleges, universities and academic medical centers continue to struggle to reconcile and keep pace with regulatory change.

### KEEPING PACE WITH CHANGE: KEY CONSIDERATIONS

It is amid these complex changes that higher education board members and senior leaders must steer their institutions to fulfill missions and achieve goals and objectives. Lessons learned from colleges, universities and academic medical centers that are successfully navigating these choppy seas provide a roadmap for higher education leadership to minimize the risks associated with the changes. They include:

- 1. Establish a "culture of change."** Colleges, universities and academic medical centers are considered among the most difficult of organizations to change, yet adapting to the changing environment is critical to survival and achieving preeminence. A lack of

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nimbleness has traditionally been a source of risk for institutions, exposing them to start-up competitors. In developing a “culture of change,” leadership can communicate the need to quickly, and effectively detect and respond to new demands throughout the institution, recognize and reward adaptability and innovation and establish an expectation that the institution of the future may be very different from the institution of today. Accomplishing this change requires methodical planning and ongoing reviews of existing practices to identify means of reallocating resources to purposes more aligned with institutional mission, goals and objectives.

Leadership’s role is to prioritize change initiatives. As an institution commences each initiative, it is wise to build a “case for change,” including a business case, to foster an understanding of the rationale for supporting change among fellow leaders and the campus community.



A periodic and comprehensive assessment of environmental change can help even the largest and oldest of institutions monitor change.

- 2. Scan the environment and monitor change.** To date, colleges, universities and academic medical centers have simply scanned the environment to identify changes and risks on a piecemeal basis. A periodic and comprehensive assessment of environmental change can help even the largest and oldest of institutions monitor change and perhaps even preempt it. These assessments work best when they are structured and coordinated centrally, conducted by those in the institution with expertise in the functions impacted (including, academics, research, human resources, legal, environmental safety, transportation, physical plant) and assessed by institutional leadership with an eye toward the significance and likelihood of impact. Research provided by academicians from within the institution and by commercial research analysts can provide institutional and functional leaders with broader, more future-oriented perspectives regarding trends impacting and likely to impact operations. This research can then support prioritization of change initiatives as they are considered across the enterprise.
- 3. Understand the current state, which is probably not well understood.** Many if not most research universities and academic medical centers lack a full understanding of their own operations. In fact, it is extraordinarily rare for an institution to have comprehensively assessed its administrative operations, which typically includes a decentralized management structure and diverse operational scope. Information technology is one of the best examples, but it is certainly not the only function often assessed without a comprehensive perspective. For example, IT leadership sometimes benchmarks central administrative IT operations against leading practices but fails to factor in the 50-60 percent of administrative IT operations that exist outside the central IT organization. Procurement benchmarking is subject to similar complexity, as surveys have found that as much as 90 percent of procurement effort in major research institutions occurs away from the central procurement office. Institutional and functional leaders (including financial, human resource, student service and IT) rarely understand the full magnitude of the functional effort and costs, and the associated redundancies across the institution.



Particularly in times of stress, when an institution faces a need for immediate cost reduction, this lack of understanding and foresight can lead to decision-making that is based on anecdotal information rather than empirical analysis. Leading practice suggests that understanding the current state of operations from a functional perspective, as opposed to the traditional organizational perspective, provides more effective institutional decision support. And, in fact, understanding the organization's current state may lead to changes in organizational structure, such as the adoption of shared services or cloud computing, to enhance organizational agility and reduce organizational risk.

- 4. Anticipate and prepare for future change.** Institutional strategic plans provide an opportunity to bring together and operationalize plans to address the changing environment facing colleges, universities and academic medical centers. These plans typically attempt to address a five-to-ten-year horizon. The pace of change in the higher education environment requires frequent updating of these plans and detailing the operational tasks that support them. For example, the emergence of cloud-based systems, platforms and services has created new opportunities to allocate resources that previously have been committed to IT to higher-value functions that more effectively further institutional mission.

Too often, board members and senior leaders cite the need to fight current fires as the reason updates to these plans are neglected. Yet, when an institution is not proactive, reserves are neither maintained nor expanded, and even the time and resources necessary to develop plans for the next initiative are insufficient. In these cases, institutional leaders are faced with the need to make significant changes in resource allocations, operations and staffing without sufficient planning, which can lead, over time, to a delay or a subversion of necessary advances in institutional mission, goals and objectives.

In summary, lessons learned from successful organizations indicate that they:

1. Prepare themselves for constant change.
2. Actively monitor the factors and trends most likely to impact their operations, including constituent expectations, funding, business models and regulation.
3. Periodically and *comprehensively* review their current operations to assess effectiveness.
4. Proactively identify opportunities to maintain and expand reserves to resource future initiatives.
5. Align operations with the organization they envision for the future, an organization that is agile and responsive to the changes in the higher education and healthcare environment.

Changes impacting colleges, universities and academic medical centers are occurring at an ever-increasing pace. The time to prepare for them is now.

## ABOUT THE AUTHOR

### **HIGHER EDUCATION AND ACADEMIC MEDICAL CENTERS Planning for Change**

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David leads ISG's Higher Education and Academic Medical Centers practice. He has provided professional services to 200+ university systems, colleges, research universities and academic medical centers. He specializes in complex, enterprise-wide transformation projects that encompass strategic planning and implementation of leading practices often in conjunction with selection and implementation of enterprise systems. He has led teams in evaluating university and AMC organizational structures, processes, and technologies, and identifying and implementing operational improvement, service enhancement, and cost reduction/containment initiatives, including shared services. Prior to joining ISG, he was with KPMG, BearingPoint and PwC.



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