Introduction

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CHANGING ISSUES, ENVIRONMENT AND EXPECTATIONS

Higher education institutional leaders and higher education policy-makers in the United States face daunting challenges in the years ahead. Inequities in college-going rates across students from different socioeconomic and racial/ethnic groups have narrowed only slightly during the past 30 years and inequities in college completion rates have narrowed even less. The fastest growing groups in the United States are those that have been historically underrepresented in higher education and, as our economy becomes increasingly knowledge based, higher education becomes more essential both for these individuals' economic well-being and for our nation's productivity growth.

Tuition at our nation's private colleges and universities increased during the period at rates that exceeded the rate of inflation by about 3 percent a year and tuition as a share of family income has grown substantially. Posted tuition levels overstate the cost of college to students because the typical private college or university recycles almost 40 percent of its tuition revenues back to students in the form of grant aid. However, increasingly private colleges and universities award institutional grant aid based on 'merit' rather than need, as they seek to use their financial aid policies to help 'craft' their entering class, rather than to guarantee access. The major growth of federal financial support has been in the form of subsidized loans and tax credits, which benefit primarily students from middle-income families, rather than in the form of grant aid for students from lower-income families. Following the development of the Georgia Hope Scholarship programs, state financial aid programs for students have also been increasingly merit rather than need based.

Approximately two-thirds of American four-year college students and four-fifths of all American college students are educated at public higher education institutions. Over the last 30 years enrollment at these institutions has more than doubled. In real terms, state appropriations per full-time equivalent student at these institutions have remained roughly flat over the period, as states have faced both taxpayers' desires to cut, or limit, the growth of state taxes and increasing demands on resources from elementary and secondary education, Medicaid, and the criminal justice system. Put simply, public higher education is one of the few discretionary items in state budgets and financial pressures make it likely that states will not be able to substantially increase their real level of appropriations to public higher education in the future.

As a result, in an effort to maintain their quality and keep up with their private competitors, public universities have increased their tuition at rates equal to or exceeding private higher education. However, because their tuitions started out so much lower, the absolute dollar increases that they received from these increases were much smaller than those their private counterparts received from their tuition increases, and expenditures per student at the publics have fallen relative to expenditures per student at their private counterparts. Not surprisingly, faculty salaries in public education have fallen relative to faculty salaries in private higher education, which makes it increasingly difficult for the publics to attract and retain top faculty, and the publics (and to a lesser extent the privates) have increasingly substituted part-time and full-time non-tenure-track faculty for full-time tenure-track faculty in an effort to hold down their costs. However, there is no such thing as a 'free lunch' and careful research shows that lower expenditures per student and an increased use of 'contingent faculty' are both associated with lower graduation rates.

A substantial fraction of America's full-time college faculty members are approaching retirement ages; estimates are that as many as one-third of faculty members will be retiring in the next 10–15 years. These retirements, plus the increasing number of faculty that will be required to help meet projected increases in enrollments, provide an almost unprecedented opportunity for America's colleges and universities to diversify their faculty along racial, ethnic and gender lines. However, the fraction of American college students going on for PhDs is much lower now than it was years ago and institutions legitimately worry about whether they will be able to find the next generation of faculty members. The competition for new faculty is likely to bid up faculty salaries, increasing the financial problems that universities face, and increasing the tendency to search for cheaper ways to deliver higher education.

The public and private non-profit higher education sectors are also being buffeted by a growing for-profit higher education sector. Represented by well-known institutions such as the University of Phoenix and Devry, this sector puts additional pressures on public and private academic institutions to hold down their costs and to more efficiently deliver education. Institutions increasingly are exploring how technology can increase the efficiency of their education operations; a number of institutions now require students to take a specified number of classes online to relieve capacity constraints facing on-campus learning. More generally, institutions are examining whether technological innovation can enhance the amount of learning that goes on at college campuses, even if it does not reduce costs.

While it often appears that the parents are preoccupied with college costs, they are also passionately concerned with the perceived quality of the college experience. The competition for students is fierce and the expectations of students and parents for what college should provide keep increasing. Traditional double rooms in dormitories, gyms, and dining halls are replaced by residential living centers with students living in suites, fitness centers (and climbing walls) and dining facilities in which omelets can be cooked to order. Tiered classrooms become a must, as do coffee shops in the library, and completely wired campuses for easy internet access. Balancing the demand for such facilities with efforts to moderate tuition increases cost is no easy task for administrators.

Higher education is also being buffeted by increasing expectations that the research its faculty members do will lead to improvements in the population's well-being and will serve as a vehicle for economic development. To justify their state support, public higher education institutions increasingly seek to document their contributions to the state above and beyond the students that they educate. And, more generally, higher education is facing the pressures to be more accountable for both the public support that it receives and the payments from parents and students.

These forces are all leading to the need for higher education institutions to transform themselves and adapt to the changing environment in which they operate and the changing demands that are being placed on them. It was natural then for the TIAA-CREF Institute's November 2006 National Higher Education Leadership Conference, Transformational Change in Higher Education: Positioning Your Institution for Future Success, to be directed at these issues.

The Institute's previous National Higher Education Leadership Conferences each consisted primarily of presentations and discussions of commissioned papers and each led to a published volume.[1] To expand the range of participants, this conference and thus this volume were structured differently. A series of roundtable discussions were held, with each followed by audience participation and questions. Transcripts of these sessions were then provided to a set of distinguished higher education researchers and policymakers and each was asked to provide us with a paper that summarized the discussion at a session and his own 'take' on the issues that the session raised. Participants were given an opportunity to comment on the authors' drafts to ensure they were not misquoted and the authors revised their papers taking this feedback into account.

Transformational Change in Higher Education is the result of this process and we briefly summarize below the subject matter discussed in each of the five chapters that follow. At the conclusion of the first day of the conference, Herbert M. Allison Jr, Chairman, President and Chief Executive Officer of TIAA-CREF, gave a presentation on the transformational change that TIAA-CREF itself had made following the 1997 federal government decision to begin taxing the income it produced. Many conference participants felt that his presentation, which detailed the efforts by TIAA-CREF to become responsive to its customers needs and to rethink its whole business plan and methods of operation, contained lessons that were important for college and university leaders to hear. Consequently, we prevailed upon him to transform his remarks into the paper which became the concluding chapter of this volume.

SETTING THE STAGE

The first session was moderated by Alan Finder, an education reporter for the *New York Times*. This session sought to provide a context for the remainder of the conference by addressing features of the current higher education landscape that are prompting transformational change which relate to interactions with key constituencies, how higher education is financed, and issues of student access. The session participants included two leaders of major private research universities, each of whom has also been a leader of a public research university, Gordon Gee (Chancellor of Vanderbilt University)[2] and David Skorton (President of Cornell University); a leader of a public comprehensive university, F. King Alexander (President of California State University, Long Beach); and a community college leader, Dolores M. Fernández (President of Hostos Community College of the City University of New York). King Alexander, who is also a noted researcher in the area of educational finance, wrote the chapter summarizing the session.

This chapter discusses how rising societal expectations coincide with important fiscal realities from the perspective of college and university presidents from each of the primary postsecondary sectors. The presidents discussed an array of challenges, strategies and issues that will continue to place internal and external pressures on institutional leaders throughout the nation. Unfortunately, positioning their colleges and universities for future success in an increasingly competitive academic marketplace that is destined to continue to place significant premiums on top students, high quality faculty, and expensive educational opportunities is not their only challenge.

Societal pressure to provide greater access, improve student completion rates, limit expenditures, control tuition more judiciously, and fuel the economy with new ideas and innovative human capital are all issues that have become critical factors in assessing college and university productivity. At the heart of these multiple challenges for postsecondary education leaders resides the ongoing struggle to balance building institutional stability through enhancing educational quality, maximizing national prestige, and securing financial wealth with the more egalitarian needs of a society that does not fully comprehend the fiscal ramifications of their expectations.

Many of the issues addressed by these presidents in this chapter are among the most controversial and perplexing to the public at large and include increasing institutional expenditures, rising student tuition and fees, enhancing accountability, and measuring quality. The presidents also delved into the pressures associated with private fund raising, athletics, and other individual issues that impact important decisions and strategies that add to the complexity of modern collegiate leadership.

STRENGTHENING THE ACADEMIC PRESIDENCY

American higher education is governed through a system of shared governance between faculty, administrators and trustees. The saying 'trying to lead the faculty is like trying to herd cats' has often been used to describe one of the challenges that university presidents face. Another is building relationships with an institution's board of trustees, and more specifically with the chair of the board, which facilitate the president's leadership and allow the shared vision of the board and the president for the development of the institution to be developed.[3]

Given the key roles of presidents and trustees, the second session dealt with efforts to strengthen the leadership capacity of presidents and recommendations for improving the relationship between trustees and presidents that came from a recent Association of Governing Boards (AGB) Task Force on the State of the Presidency in American Higher Education. The panel was moderated by Richard D. Legon, President of the Association of Governing Boards, and included Gerald L. Baliles, former governor of Virginia (who in this role appointed numerous trustees to the boards of public colleges and universities in Virginia and who also chaired the AGB task force); Harold W. Pote, a trustee of Drexel University; Alvin Schexnider, Executive Vice President of Norfolk State University; and Laura Skandera Trombley, President of Pitzer College. Robert O'Neil, a former President of the University of Virginia and the University of Wisconsin statewide system and currently Professor of Law and Director of the Thomas Jefferson Center for the Protection of Free Expression at the University of Virginia, authored the paper summarizing the session.

The themes in this session were numerous but a few stood out. One was the importance of making the relationship between the governing board and the president a collaborative one. A second was for board members to have an understanding of the truly stressful nature of the presidency and of the importance of their providing continual support for the president. This will be easier for the board to do if their search process ensures that the president not only displays leadership and management skills but also has a true passion for higher education and their institution. A third is the importance of the board facilitating the transition of a new leader into the presidency. A fourth is the role of the chair of the board in supporting the president's personal health and welfare.

The session also stressed the equal importance of the choice of a board chair and the choice of a president, the importance of evaluation and assessment of the performance of both the president and the board, the importance of strategic planning, and the importance of carefully managing the transition at the end of a president's term as well as the transition into the presidency. Finally, a major theme was the complex roles and responsibilities of the trustees themselves, how these roles were rapidly changing because of the public demand for greater transparency, and how both the selection and retention (or lack of retention) processes for trustees can have a major impact on the well-being of an institution.

ALIGNING INSTITUTIONAL VISIONS WITH POLICYMAKERS' AND THE PUBLIC'S INTERESTS

The success of a higher education institution, including its prospects for financial support from external constituents, depends heavily on its ability to create an alignment between its strategic vision for its role in society and the views of the public and government officials regarding the mission of higher education. The third session of the conference explored how leaders build understanding and how growing public pressure for accountability impacts the development and communication of a strategic vision. This session was moderated by David Ward, President of the American Council on Education (and former Chancellor of the University of Wisconsin-Madison) and its participants included three presidents of private institutions – Lawrence S. Bacow (Tufts University), Scott S. Cowen (Tulane University) and Mildred García (Berkeley College) – and William E. Kirwan, the Chancellor of the University System of Maryland. Patrick Callan, President of the National Center for Public Policy and Higher Education, wrote the paper summarizing this session.

While the discussion at this session reflected the institutional perspectives of the different presenters, a number of important themes emerged. First, transformational change is difficult because of the difficulty of aligning the interests of all of the participants. The public are much more concerned about costs than they are about accountability; however, they are also concerned about the quality of what is being provided and, unlike in the business world, competition in higher education often leads to increased amenities and higher costs, not reduced costs.

Second, what institutions see as being in their best interest may not always be in the social interest. For example, the substantial growth in the use of merit aid to help craft 'desirable classes' and improve institutions' *U.S. News & World Report* rankings (discussed above), which has redirected financial aid resources away from students from lower-income families to those from middle- and upper-income families, has hindered efforts to improve access in the United States. Or, to take another example, the preoccupation of higher education leaders and policymakers with higher education's role in improving global competitiveness may cause institutions to lose sight of the traditional mission of liberal education.

Third, transformational change is difficult, but 'enlightened incrementalism' leading to improvements in higher education is much more feasible and occurs on an ongoing basis in higher education. While enlightened incrementalism occurs as a result of institutions' desires to be more effective than they have been in the past, transformational change can occur only as a result of major crises that threaten the survival of an institution and the area in which it is located. Scott Cowen's discussion of how Tulane responded to the crisis caused by Hurricane Katrina emphasized this point; the restructuring of Tulane that occurred, which he believes has substantially improved the institution, could not have taken place without the pressures caused by the crisis.

Fourth, higher education institutions, including the proprietary ones (represented on the panel by Berkeley College), should recognize that state and federal governments have a legitimate interest in their quality, costs and administration. Rather than seeking to avoid accountability, institutions should embrace the concept and work with policymakers to develop meaningful regulatory procedures. Similarly, to justify increases in state funding, public universities should take steps to demonstrate (as the University System of Maryland did) that they are responsive to public needs and taking actions to improve their efficiency.

In his concluding comments, Pat Callan notes three major examples of transformational change that have taken place in higher education: the Land Grant Acts, which led to the establishment of state colleges and universities; the GI Bill and federal funding of research after World War II, which led to rapid expansion of higher education and the development of research universities; and the growth in community colleges in response to the baby boomer generation. He suggests that each of these involved institutional responses to a major social change and that these responses required new missions, policies or structures.

Callan believes that potential transformational change in American higher education in the decade ahead will be driven by a set of forces that include the emergence of a knowledge based global economy, the need to replace baby boomers in the work force by students who are coming from lower income families and ethnic communities that have been traditionally underrepresented in American higher education, by financial constraints faced by federal and state governments, by rapidly increasing education levels in many of our economic competitors, by the possibilities of the growing use of technology in higher education, by public pressure to increase college completion rates and to measure learning outcomes and by the growing sense that there is a national interest in higher education. How higher education responds to these forces will go a long way towards determining our nation's future.

FINANCING INSTITUTIONAL OPERATIONS: THE ENTREPRENEURIAL LEADER

Given tuition increases that have long exceeded the rates of inflation and the declining ability of states to finance their public higher education institutions with state appropriations, higher education leaders have long understood that they need to diversify their revenue streams, seek alternative sources of revenue, and try to reduce their cost structure. The fourth session addressed the strategies that institutions are pursuing to diversify revenue sources, to finance their capital expenditures, and to reduce their costs.

The session was moderated by Scott Kaspick, President of Kaspick and Company (the nation's leading provider of planned-giving services for colleges, universities and other non-profits. Kaspick was acquired by TIAA-CREF in 2006). Its participants included Roy Flores, the Chancellor of Pima Community College; Walé Adeosun, the Treasurer and Chief Investment Officer at Rensselaer Polytechnic Institute; James McGill, the Senior Vice President for Finance and Administration at Johns Hopkins University; and Carol Cartwright, President Emeritus of Kent State University. James Hearn, a higher education finance researcher from the University of Georgia, authored the essay that summarized the session.

Each participant highlighted some of the steps that his or her institution had recently undertaken. Under the leadership of its president, Shirley Ann Jackson, Rensselaer worked hard to improve its enrollment management (increasing its applicant pool, improving retention and reducing tuition discounting), to diversify and expand its flow of research funding, to improve its annual fund raising and its endowment investment strategies, and to develop strategic partnerships with corporations to meet capital needs.

Echoing Scott Cowen's discussion in the previous session, Carol Cartwright discussed the importance of a leader's standing up and defining reality to faculty and staff to get them to buy into the need for change when faced with a financial crisis. She empowered key administrators to become part of the solution and fulfilled Kent State's need to develop substantial funding to upgrade and expand its residence halls by working with Lehman Brothers to develop a creative way to achieve large debt financing at a relatively low guaranteed cost. The university's administration allocated resources to new programs that could demonstrate their ability to increase overall enrollment (and thus tuition revenues), worked at ways to reduce the costs of existing programs (without reducing their quality) and instituted some 'premium' tuition and fee charges for expensive programs that promised great financial rewards to students. Finally, they sought legislative changes that would allow them to improve their financial position (such as more freedom as to how to invest working capital and endowments) and aggressively sought ways to commercialize their faculty members' research findings. They did not, however, engage in widespread outsourcing, because they wanted to maintain control over the quality of their operations.

Roy Flores stressed the importance of providing financial training for all administrators at his college and then providing them with incentives to only create programs that promise to break even within three years or that meet an important social need. The college also has created partnerships with the University of Arizona both to provide revenue for the college (delivering remedial education to UA students who require it) and to ensure the smooth transition of Pima graduates to the UA. Finally, it has created partnerships with a variety of local employers to help meet their needs for trained individuals to staff specific occupations (for example, nurses and engineers); in doing so it has generated revenue for the institution and also helped to meet important social needs.

After presenting a general discussion of the financial issues facing research universities, James McGill proposed a number of strategies that they could pursue to improve their cost structures. These included investing more in administrative technologies, developing new models for research management and, counter to the view expressed by Cartwright, exploring outsourcing of administrative applications. Put simply, he argued that research universities should focus much more heavily on cost reduction; this would reduce the need to develop new revenue streams.

In his summary of the issues raised by, and not considered by, the session, James Hearn placed the discussion in the broader context of the issues higher education is facing. He cautioned that some social objectives, for example increasing retention and graduation rates, will require more resources, not less. Successful financial innovation on campuses must be tied to underlying academic values.

CHANGING STUDENT ACCESS THROUGH STRATEGIC PRICING INITIATIVES

The fifth session was moderated by Ronald Ehrenberg and the participants were James Garland, President Emeritus of Miami University (Ohio); James Scannell, President of Scannell & Kurz, Inc.; Catharine Bond Hill, President of Vassar College; and Robert G. Templin Jr, President of Northern Virginia Community College. Donald Heller from Pennsylvania State University wrote the paper summarizing the session. The session dealt with how strategic pricing has emerged as a tool in managing the recruitment and retention of students and the changes in other institutional policies that have emerged.

Building on the innovative tuition policy that he developed while he was President of Miami University, Garland proposed moving to a system of financing of public higher education in which state appropriations to public higher education institutions for undergraduate education would be eliminated and the dollar value of these appropriations transferred to students in the form of vouchers that could be used at any public or private higher education institution in the state. Public higher education institutions would have to charge market tuition levels and to compete with private higher education institutions in the state for students. The vouchers would go only to the subset of students with financial need; the system would thus both promote access and lead to increased efficiencies.

Catharine Bond Hill discussed the implications of research that she and her former colleague, Gordon Winston of Williams, conducted on enrollment outcomes for students from different socioeconomic backgrounds at a set of selective private colleges and universities. Although these institutions admit students without consideration of their financial need and provide need-based financial aid that is sufficient to make them viable alternatives for talented students from lower-income families, in fact very few students from lower-income families were admitted to and enrolled at these institutions. Their subsequent research suggested that there were a much larger number of talented students from lower-income families who could meet the admission standards at these institutions and Hill speculated about the forces that continue to cause these students to be underrepresented at selective private colleges and universities. Hill and Winston's research is very important and the publicity that it received was at least partially responsible for the development of a number of programs that the richest selective private colleges and universities have instituted to try to enhance their enrollment of talented students from lower-income families.

James Scannell, who previously served in high-level enrollment management leadership positions at Cornell University and the University or Rochester, talked about how the strategic use of institutional financial aid at less selective public and private institutions can both improve the academic profile of an entering class and increase the number of students that institutions can afford to enroll from lower-income families. He stressed the use of empirical models of students' enrollment decisions in developing institutional financial aid policies.

The final participant, Robert Templin, discussed an innovative policy that the state of Virginia was contemplating pursuing to encourage the education of its growing immigrant population, many of whom are coming from relatively low-income families in which tuition is likely to be a barrier to higher education enrollment and persistence. The state is creating a Community College Transfer Scholarship, in which students who graduate from Virginia community colleges with at least a B average, come from families with incomes of less than 150 percent of the state median, and are admitted and transfer to a public college or university in the state would be able to attend that institution for up to 70 credit hours during a three-year period and continue to pay the lower community college tuition rates. The state hopes that this will encourage more students with college aspirations to start at community colleges (thereby saving the state money) and to enhance their college completion rates. The flagship publics in the state would benefit because this would enhance their ability to expand their enrollment of students from lower-income families (state subsidies would make up for some or all of their lost tuition revenue from the lower tuition that these transfer students would be paying).

Don Heller's essay places these strategies in the context of more general federal, state and institutional policies that relate to student access. He stresses that improving access and persistence is one of the key challenges that higher education faces and that the specific policies that these essays address are but a few of the different policy responses that will need to be developed in the years ahead.

LESSONS FOR ACADEMIA FROM TIAA-CREF'S RESTRUCTURING

The final chapter of this volume is a revision of the address that Herbert Allison gave at the conference on how TIAA-CREF transformed itself when confronted by a major change in 1997, the loss of its tax exempt status. The transformation process, which he led after being appointed CEO, clarified in his own mind the principles that can help leaders of organizations of any kind to effectively respond to changes in the environment that they face and ensure the continuing success of their institutions. As we noted earlier, conference participants judged his remarks to be so useful that we have included the revised address here so that it will be widely disseminated to the higher education community.

Allison's essay deals with how a leader of an institution that has a long-term record of success and has become complacent (a description appropriate perhaps for many higher education institutions) can cause the institution to embrace necessary change when facing a rapidly changing environment and a growing number of competitors. If the institution is to be successful, it will need to make fundamental decisions about its priorities and will require previously unthinkable transformation of its programs and infrastructure.

Allison stresses that no leader can compel an organization to make fundamental change by logical arguments or force of authority. Rather, echoing remarks made in several earlier chapters, he says it is essential that all participants in the organization are enabled to see for themselves that change is imperative. He did this when he arrived at TIAA-CREF in late 2002 by asking 60 respected TIAA-CREF middle managers to form teams to study the organization's market position, its customers' needs, its technological capabilities, its human resource policies and programs, its financial situation and its investment performance, and then to recommend strategies going forward. Within six months they reported back with radical recommended changes and a plan to bring colleagues on board and to successfully lead the change.

By making changes in an open and transparent way and directing savings towards the core missions of the institution, Allison built strong support from the very people whose organizational units would have to change. So a key message for higher education is to encourage stakeholders at many levels – students, faculty, staff, administrators, unions, policymakers and trustees – all to gather the facts and come to grips with them. Only by encouraging people to deal with the issues themselves can a leader generate real buy-in and ownership of systematic changes.

Once an institution begins on the process of transformational change, how can a leader institutionalize the process of change so that the institution will continue to prosper in the future? Here Allison argues that the institution must define its long-term mission broadly and design the organization to be always alert to new methods to meet its fundamental mission. Put simply, instilling a sense of the importance of the mission, not of the current institutional form, is essential if an organization is to keep moving forward.

TIAA-CREF is dedicated to serving the needs of the academic community. In discussing how the organization transformed itself and the principles by which this transformation took, and is continuing to take, place, Allison's essay should help serve the need of academia to engage in thinking about transformational change.

NOTES

1. The two previous volumes in the TIAA-CREF Institute Series on Higher Education that resulted from these conferences are Robert Clark and Madeleine d'Ambrosio (eds), *The New Balancing Act in the Business of Higher Education* (Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2006), and Robert Clark and Jennifer Ma (eds), *Recruitment, Retention and Retirement in Higher Education: Building and Managing the Faculty of the Future* (Cheltenham, UK and Northampton, MA, USA: Edward Elgar, 2005).
2. Subsequent to the conference, Gee became the President of Ohio State University for the second time.
3. James O. Freedman, former President of both the University of Iowa and Dartmouth College, describes the differences in the roles that the boards of private and public institutions play and the interaction of an academic institution's president with each in 'Presidents and trustees' in Ronald G. Ehrenberg (ed.), *Governing Academia* (Ithaca, NY: Cornell University Press, 2005).