

Strategic Finance and the Role of the Board

*West Virginia Higher Education Policy Commission
Board of Governors Summit*

August 10, 2013

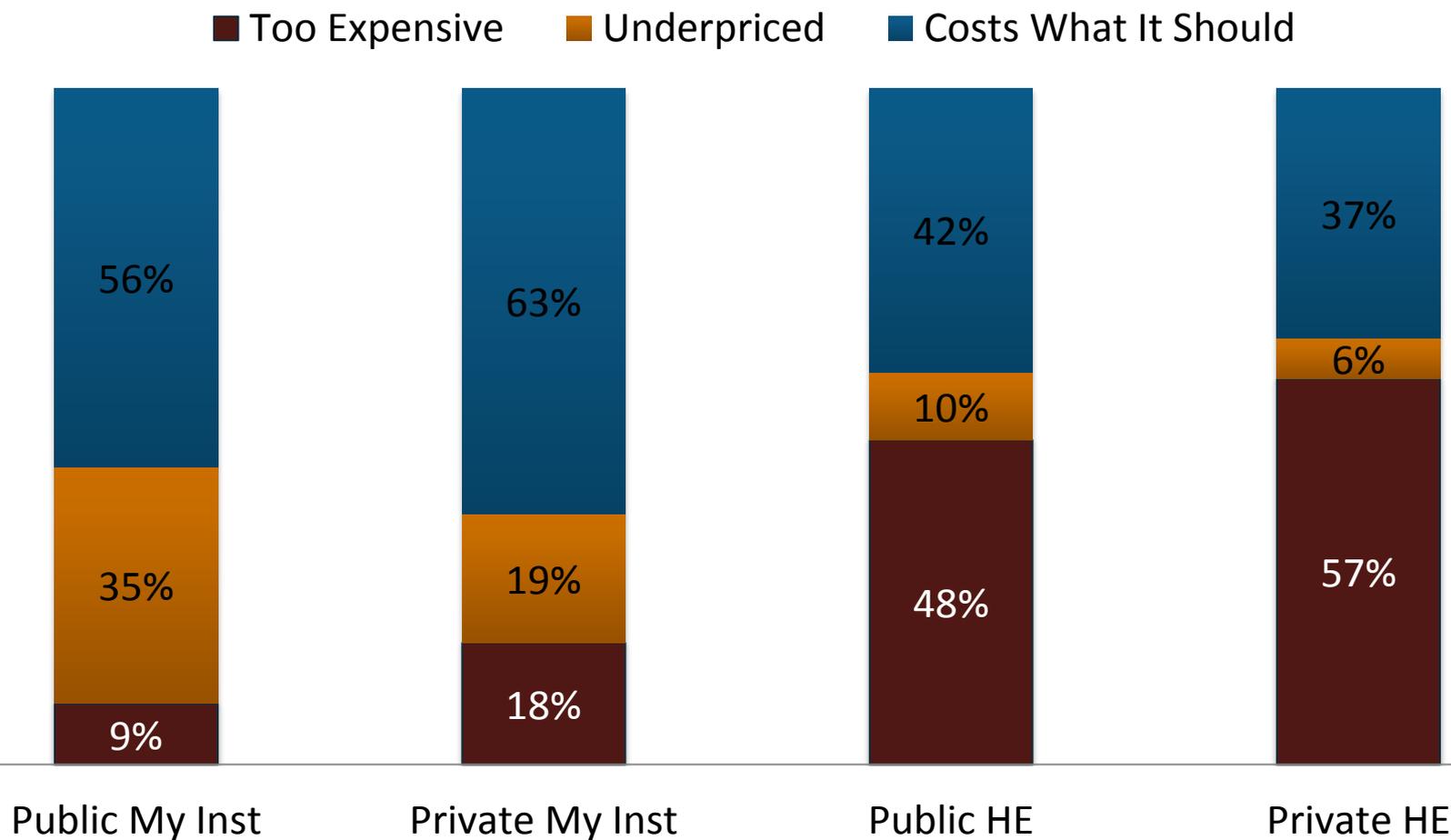
rpk GROUP
from mission to market

Conversations To Date

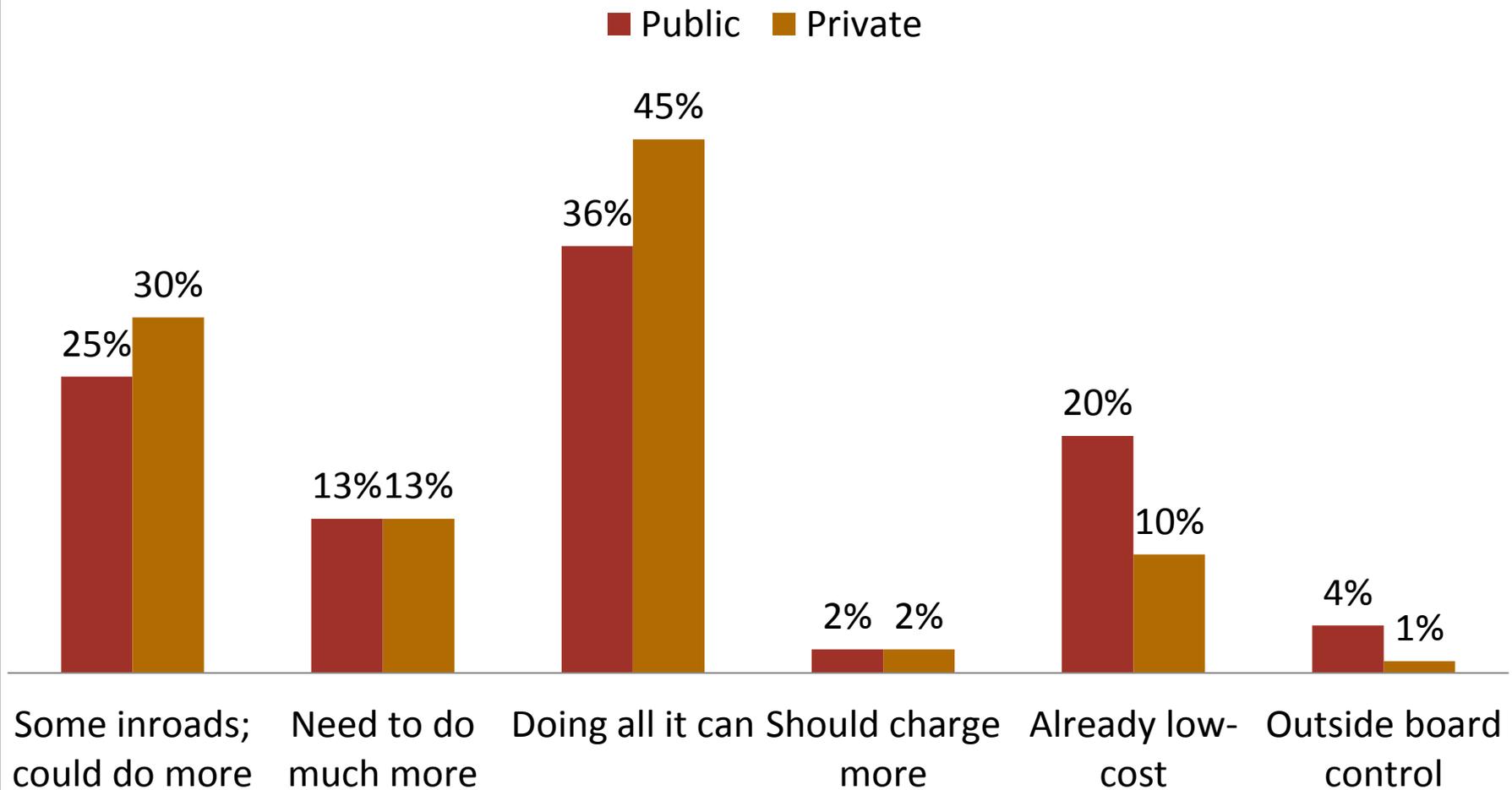
- Price (Net Tuition Revenue)
- Cost Containment



Cost and Value of My Institution/HE

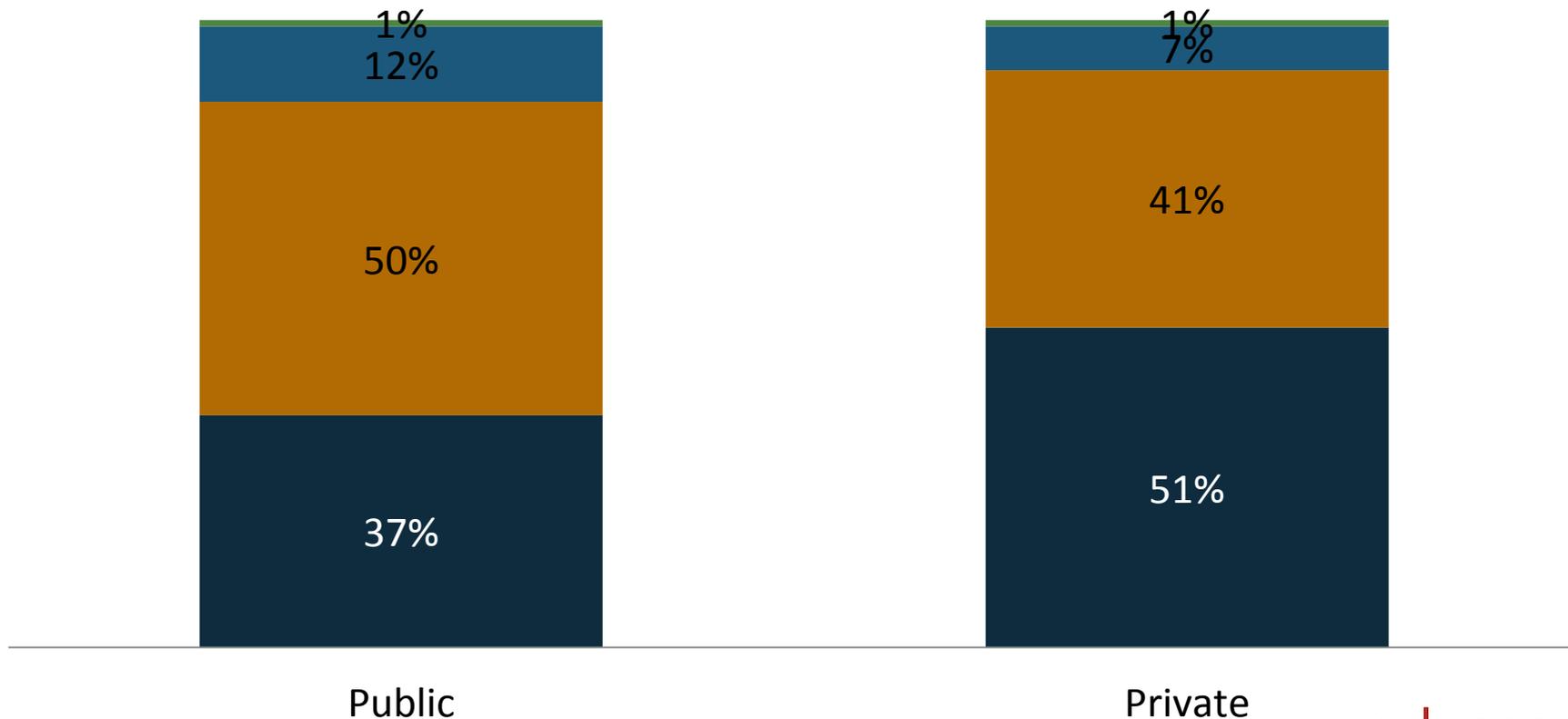


Trustees on Affordability



Trustees on Controlling Expenses

- Does everything it can
- Needs to do much more
- Does many things
- Is not trying to reduce expenses



Cost Effective: Cost Reductions + Productivity

Cost reductions =

**Permanent structural
reductions in spending**

From paying \$1 for X
To paying \$0.75 for X



Productivity
improvements =

**Increase in output
(learning, research, jobs),
without changing
admissions or spending**

From paying \$1 for X
To paying \$1 for X + 2



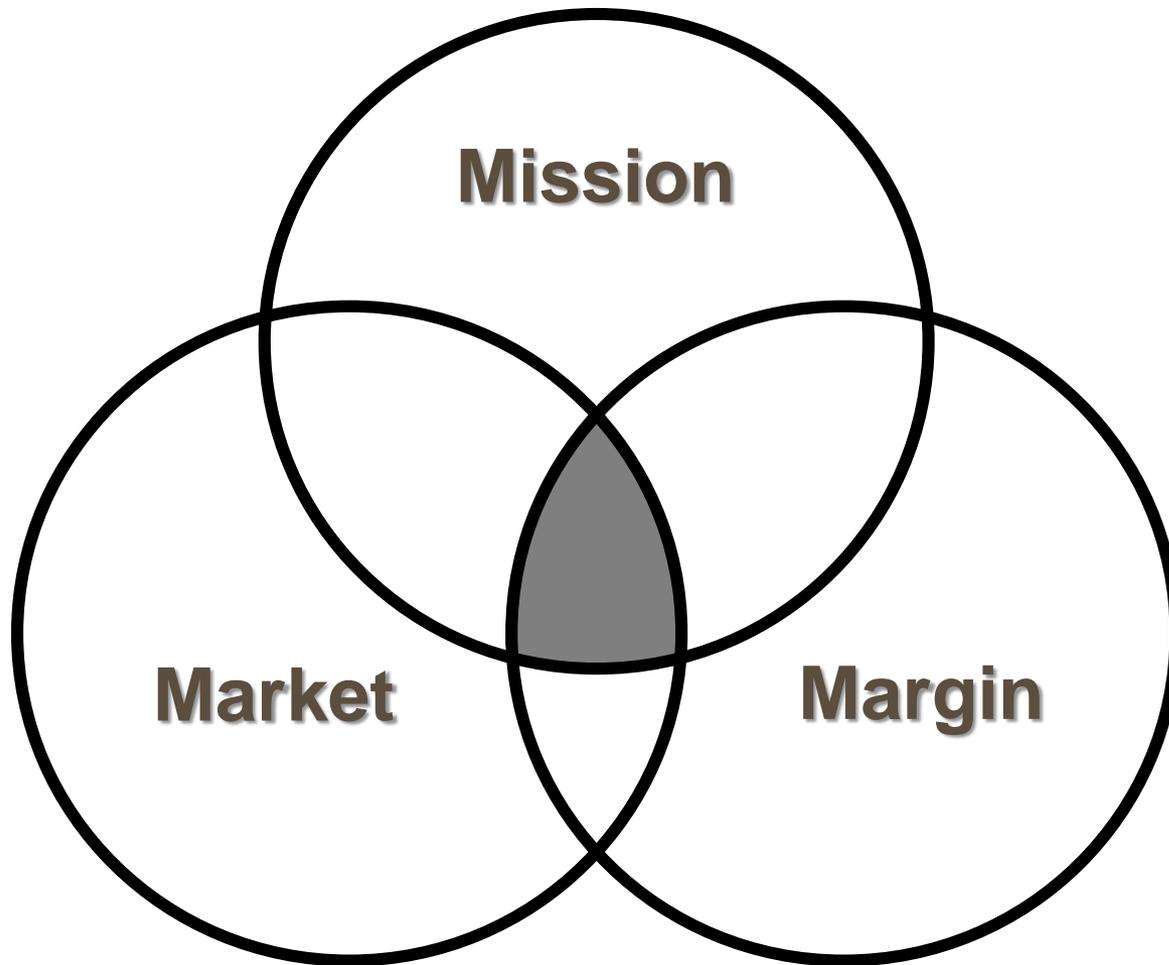
When Considering Business Models, Need To Go Further



How should we respond to the external and internal environment?

1. Focus on mission/market/margin opportunities
2. Know where your economic engines are
3. Have the courage to reallocate

Managing the New Normal



Living at the Intersection of Mission, Market and Margin:

Three Questions

What are we good at? (Mission)

What do people want? (Market)

How do we bring these together in a way that is true to our mission and generates resources? (Margin)

Case Study – Public Research Institution

- Key Issue: Declining and Indeterminate State Appropriations
- Revised Business Model
 - State appropriations < 5% of revenues
 - Focus on market demand for engineering and tech
 - Increase international populations
 - Double graduate enrollment
 - Teach year round
- Testing the model: pricing, currency fluctuations, quality of overseas institutions

Case Study – Comprehensive Public Regional University

- Revised Business Model
 - Simultaneously conducted academic portfolio review and administrative cost containment review
 - Aligned new benchmark grouping and Key Performance Indicators with State funding initiatives
 - Created a new innovation campus
 - Public/Private partnership
 - Industry sponsors
 - High demand programs, low/no student debt, three year degree completion
- Testing the model: political stakeholders, demonstrate ROI, calculate fully allocated net revenue

Case Study – Public Community College

- Key Issue: Declining demographics – North East
- Revised Business Model
 - Non Credit – Offer only programs that generated net revenue
 - Credit – Academic Program review – Eliminated all programs not in gen ed that did not demonstrate market demand
 - Consolidated physical facilities
- Testing the model: political stakeholders, calculate fully allocated net revenue

What is the Board Level Response?

- Is your board talking about business models?
- If not, why not?
- If so:
 - Who and what is driving this conversation?
 - With who?
 - How?
 - What's working?

Key Components of Business Model Review

- Before
 - Create a Baseline of Data
 - Determine Benchmarks
 - Identify Stakeholders
 - Identify Leadership Team
 - Build Out Communication Plan

Key Components of Business Model Review

- During
 - Mission Based Strengths
 - Market Demand
 - Net Revenue Opportunities
 - Good Pro Forma Analysis
 - Consideration of What You Will Stop Doing
- After
 - Metrics for Tracking and Accountability

What's the Role of the Board?

Four Key Questions

- Where are we now?
 - Reality Check
- Where are we going?
 - Strategic Plan
- What will it take to get there?
 - Resource alignment
- How will we know when we've arrived?
 - Continuous monitoring of new metrics

A Strategic Finance Agenda



Governance and Risk Management

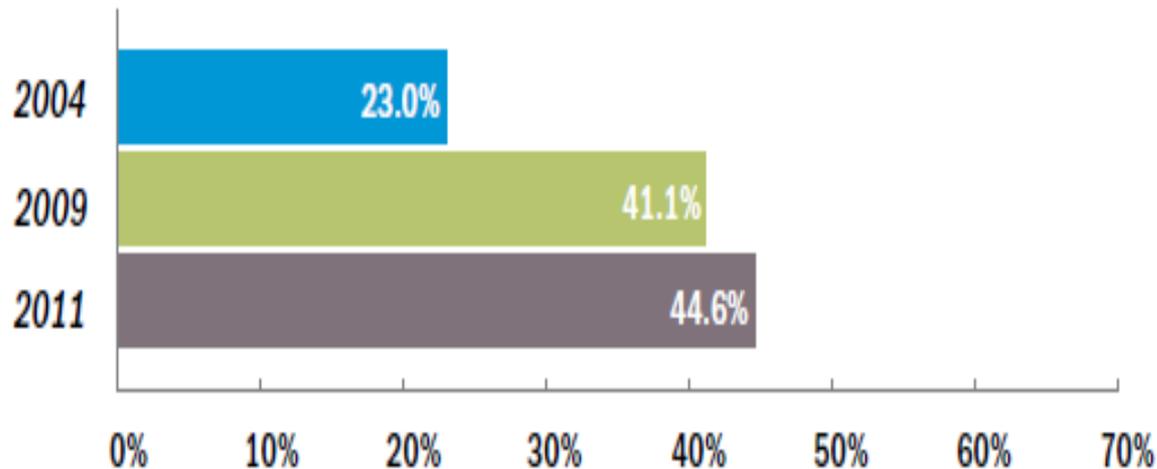
What Is The Audit Committee?

- First line of defense for:
 - Financial Reporting
 - Internal Control
 - Compliance
 - Risk Management

- Protector of your most valuable asset: Reputation

Growth in Audit Committees

Boards of Public Institutions with an Audit Committee



Core Audit Committee Responsibilities

1. Internal Control
2. Oversight of Internal Auditing
3. Oversight of the External Audit
4. Financial Statement Review
5. Risk Management
6. Compliance

Risk Management

- Committee should understand institution's overall risk profile
- Enterprise Risk Management (ERM) – move from an ad hoc to a holistic view of risk

Risk Management

- Five Key Areas of Risk
 - Strategic – Organizational strategic goals
 - Operational – Day-to-day activities in pursuit of these goals
 - Financial – Organization's physical assets and financial resources
 - Compliance – Internal and external reporting requirements
 - Reputational – Institution's public image

Best Practice for Implementing ERM

1. Define risk broadly
2. Recognize both the opportunities and downsides of risk
3. Develop a culture of evaluating and identifying risk at multiple levels
4. Look at the total cost of risk
5. Foster collaboration by Boards and presidents

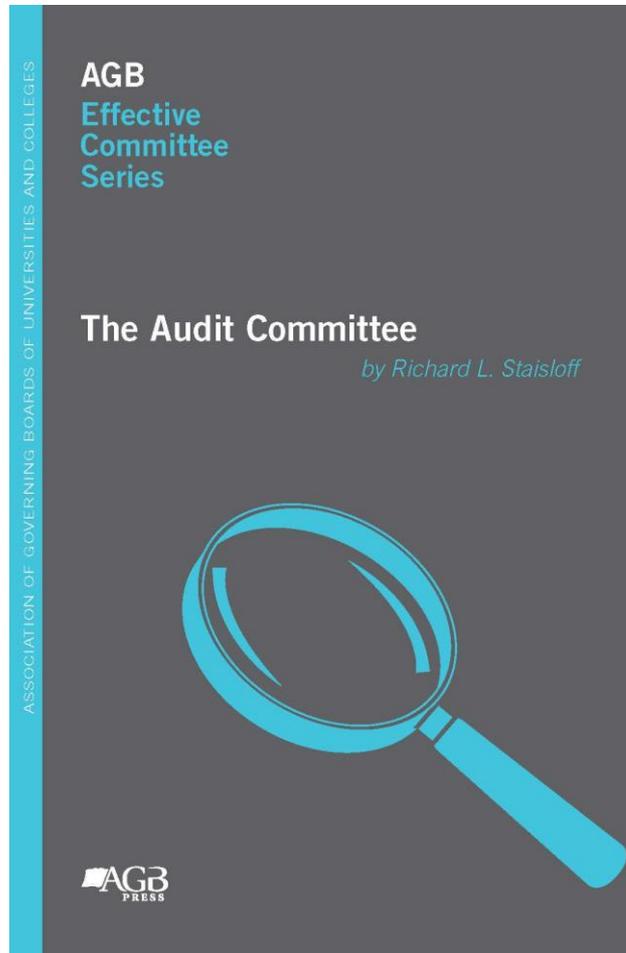
Compliance

- Recent addition to the audit committee role
- Compliance: Recognition of and reporting under various federal, state and local laws and regulations
- “Clusters” of Regulation
 - Privacy
 - Copyright
 - Discrimination
 - Campus Security
 - Financial Transactions
- Need to determine who owns compliance

Tips for Effective Audit Committees

- Engaging the Board and other Board Committees
- Annual meetings - President, CFO, Internal and External Auditor
- Line of reporting from internal auditor to the Committee, not the CFO
- Orientation and Continued Education

Effective Committees Series



- “The Audit Committee” is part of AGB’s series on effective committees

To continue the dialogue . . .

- Rick Staisloff, Principal

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