



Making the grade 2011

A study of the top 10 issues facing
higher education institutions

“Higher education institutions are in the midst of a perfect storm. Government funding is declining, market conditions have reduced the value of endowments, private backing is on the wane and costs are going up. Yet, these combined challenges create a unique opportunity for transformation. Educational institutions willing to think laterally can position themselves to outperform into the future.”

Louise Upton, Principal and Canadian Higher Education Lead, Deloitte Canada

“For higher education institutions, success involves a large range of activities – from improving student outcomes and maintaining educational excellence to attracting the best faculty and planning for the future. Deteriorating financial conditions put all of these activities at risk.”

Kathy Karich, Principal and U.S. Higher Education Lead, Deloitte United States



A transformation in education

In today's uncertain global economy, the continuing acknowledgment that education is critical to long-term economic prosperity seems to be the one constant. According to the Organization of Economic Co-operation and Development (OECD), "investments in education pay large and rising dividends for individuals, but also for economies," with "educational attainment linked to long-term social outcomes such as better health, political understanding and interpersonal trust."¹ This holds particularly true for higher or tertiary education. Indeed, "the net public return is almost three times the cost of investing in tertiary education."²



¹ "Investing in the Future," remarks from Angel Gurría, OECD Secretary-General, for the launch of the 2010 edition of *Education at a Glance*; *Education at a Glance 2009: OECD Indicators*, The Organization of Economic Co-operation and Development, 2009.

² Highlights from *Education at a Glance 2010*, Centre for Educational Research and Innovation, OECD, 7 September 2010.

Despite the obvious economic benefits, however, spending on higher education is coming under increasing pressure these days. As nations around the world work to recover from the global financial crisis, they are tightening their budgets, leaving fewer funds available to the educational sector. At the same time, market weakness has reduced the value of many of the endowments educational institutions rely on. Economic hardship is also affecting enrolment levels at many institutions, as students opt for less costly educational programs or opt out altogether.

To make matters worse, educational institutions are now finding that they must meet a host of costly demands just to stay competitive. Students are expecting user-friendly, self-service administrative options as well as access to the latest technologies. Deferred maintenance is catching up with campuses with aging infrastructure badly in need of upgrades. The costs of attracting and retaining high-calibre faculty are increasing as staff retires in increasing numbers. And colleges and universities are under ever-more scrutiny and compelled to invest in systems that provide the highest levels of transparency and accountability.

Though institutions of higher education vary in terms of structure and funding from country to country, nearly all are facing these competitive pressures as they confront shrinking resources and increased demands. Clearly, higher education can no longer maintain the status quo. To achieve their mandates and serve their constituencies, they must face up to the unique challenges that the 21st century now presents. This report, produced by Deloitte Canada in consultation with Deloitte education practitioners from around the world,

All who have meditated on the art of governing mankind have been convinced that the fate of empires depends on the education of youth.

Aristotle

identifies the top 10 issues that will prove most pressing in the coming year for institutions of higher education and most in need of their attention. The report focuses on public universities and colleges and private non-profit institutions as well as looks at some of the issues facing private and market-funded institutions.

But identifying challenges is only the first step in what will need to be a radical transformation in the way tertiary institutions do business. Not only will they need to overthrow the status quo – no small task in many institutions of higher learning – but also aggressively execute on new approaches and seek out best practices from around the world and perhaps from outside the academic sphere itself. This report provides some essential strategies that institutions should consider as they seek to address their challenges as well as some fresh thinking on key institutional drivers. Drawn from the professional experience of Deloitte practitioners from both inside and outside the industry, these steps may not only help colleges and universities survive current economic hardships, but also reinvent themselves to meet the educational needs of the future.



Over budget and underfunded

As funding declines, cost management is key

What happens when access to funds drops at the same time costs rise? This is precisely the quandary facing higher education institutions – and solutions are hard to come by.

When the global financial crisis hit, the education sector was disproportionately affected. Private schools as well as public institutions that rely on private investment, saw the value of their endowment funds fall as declining markets took their toll. This affected many private donors as well, who lost either the ability or will to invest significant sums within the industry. At the same time, regulations limiting tuition fee increases are making it harder for many institutions to establish their own pricing and restricting them from delivering on their mandates.

Most notably, however, government budget challenges are leading to reductions in higher education spending around the world. In the United States, 43 states had enacted or proposed cuts to higher education as of August 2010.³ In the United Kingdom, the amount of money going to higher education is set to decline by as much as 80% over the next four years, although tuition increases will likely soften some of that blow.⁴ While this will likely work to the benefit of the Russell Group (similar to the U.S. Ivy League), which can attract students at high fees, lower tier institutions will likely struggle and may need to consider strategic mergers as a result. For the past five years, government funding to Australia's higher education sector has been on the wane. The same is true in Canada, where the proportion of federal funding to the sector fell from 80% of universities' operating revenues in 1990-91 to 57% in 2007-08.⁵



³ Center on Budget and Policy Priorities, August 4, 2010. "An Update on State Budget Cuts", by Nicholas Johnson, Phil Cluff and Erica Williams, accessed at <http://www.cbpp.org/cms/?fa=view&id=1214> on November 1, 2010.

⁴ The Guardian, December 19, 2010. "University funding to be cut before increase in tuition fees", by Allegra Stratton, accessed at <http://www.guardian.co.uk/education/2010/dec/19/university-funding-cut-tuition-fees> on December 28, 2010.

⁵ Times Higher Education, September 11, 2010. "A false economy? Canada counts costs of downsizing decade", by Sarah Cunnane, accessed at <http://www.timeshighereducation.co.uk/story.asp?storycode=413427> on November 1, 2010.

Beyond simply cutting budget allocations, governments are also taking a more hands-on approach in the funding approval process. Rather than providing funding upon student enrolment, Canadian and Australian governments are examining linking funding to the number of students retained to graduation. The United States (at the state level) is taking a similar tack in an attempt to coax institutions into improving efficiency, reducing program duplication and fostering cross-institutional collaboration as conditions for obtaining funding.

As operating margins shrink, higher education institutions must find new ways to cut costs without sacrificing services. Some are streamlining their business processes and back-end systems in an attempt to improve operating efficiency. Others are exploring new revenue opportunities as a way to enhance profits without raising tuitions. While responses will vary for each institution, it has become eminently clear that a proactive response is necessary to offset the potential for severe financial loss.

“As funding dries up, some universities are heading into debt for the first time. This is constraining dollars for classroom delivery and research, creating tension among different departments for scarce financial resources and jeopardizing faculty pay and staff increases. As institutions figure out how to leverage their limited resources to attract the best students, researchers and staff, they will learn valuable lessons related to realized losses on their endowment investments and likely begin to increase their investment policy due diligence.”

Brian McKenna, Partner, Deloitte Canada

Exploring education's budgetary woes

It is often said that when you are in the eye of a hurricane, a false sense of calm can prevail. On some level, this is how many educational institutions are functioning in the aftermath of the global financial downturn. But organizations that continue to act as though it's business as usual may end up scrambling for survival when the funding storm hits. And the inevitability of the storm can be seen in areas outside of straight-forward government cuts.

In the United States, for instance, rising loan default rates may act as harbingers of new budgetary woes to come. According to the U.S. Department of Education statistics released in September 2010, overall student loan default rates increased to 7% in fiscal 2008 compared to 6.7% in fiscal 2007. The worst marks went to market-funded colleges, which saw their default rate rise to 11.6%. This is almost twice the 6% default rate found at public institutions and almost three times higher than the 4% rate found at private institutions.⁶ As default rates rise, the Obama administration is doing more than tightening its lending standards. It may also deem certain schools ineligible for U.S. student aid programs – a move that could vastly limit the flow of funds to some organizations.

While Canada does not face similar default rates, educational funding is now being jeopardized on the research side. As research grant values decline and fewer grants become available, Canadian institutions need to get better at attracting research dollars. To this end, higher education institutions must do more than collaborate with industry to identify research programs capable of delivering a social benefit. They must vastly enhance their ability to track and manage research dollars.

This imperative was brought home when some of Canada's leading institutions failed the Tri-Council Review of Institutional Policies Dealing with Integrity in Research. To comply with the integrity policy framework, institutions that receive research dollars need to implement reporting mechanisms that promote integrity and ensure allegations of misconduct are properly investigated. Absent the adoption of sufficiently robust processes, research funding for some institutions could be revoked. This is creating added pressure for institutions whose administrative functions are already overburdened.

⁶ Bloomberg, September 13, 2010. "U.S. Student Loan Defaults Rose to 7% in 2008, Led by For-Profit Colleges", by John Laueran as accessed at <http://www.bloomberg.com/news/2010-09-13/u-s-student-loan-defaults-rose-to-7-in-2008-education-management-falls.html> on November 3, 2010.

“Educational institutions have budgetary issues so much different than a business. Schools funded by student loans, for instance, had almost come to view budgets as an unlimited resource. As lending tightens and legislatures continue to limit tuition increases, organizations need to learn how to handle potentially unprecedented budget constraints.”

Thomas Mann, Director, Deloitte United States



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The rivalry intensifies

Competition to attract the best students heats up

While India tends to have too many students applying for available spots, the reverse trend appears to prevail in many other countries. To be sure, top-tier institutions – like America’s Ivy Leagues, France’s Grandes Écoles and the United Kingdom’s Russell Group – rarely have difficulty attracting students. But the same cannot be said of most second- and third-tier schools.

The economic climate is partly to blame, as students shy away from higher-tuition private and market-funded institutions. However, other factors are also at play. Demographic trends in many developed nations have resulted in declining enrolment in elementary schools, which will ultimately affect enrolment levels at higher education institutions. The abolition of Australia’s quota system promises to have a similar result by giving students greater choice than in the past – creating greater competition for the best students. International competition also plays a role by siphoning off the best students of many countries.

As the rivalry intensifies, higher education institutions must find ways to gain a competitive advantage by differentiating themselves in an effort to attract top students as well as research dollars and top faculty. Strategies abound. Some schools are responding by enhancing their curricula as a way to attract students to particular programs, such as science or engineering. Others are gearing their educational programs at specific target groups, such as adult learners or high-school dropouts.

To truly compete effectively, however, higher education institutions must consider two additional strategies. First, they need to foster a greater spirit of cooperation by engaging faculty, students, staff, alumni, employers and the community in an effort to align regional educational offerings and meet the needs of various stakeholder groups. This may lead to greater convergence between higher education institutions and polytechnics or colleges, and may even see the wider adoption of apprenticeship models. Second, organizations must articulate a global strategy to determine both how they plan to attract students from around the world and how they plan to extend their educational offerings to different countries.

“To avoid brand erosion, higher education institutions must get very clear on their strengths and weaknesses. They need to assess if they play on a global, regional, national or local stage. They need to decide if they plan to specialize in specific degrees or student segments. Rather than offering a bit of everything, organizations must identify the key areas of expertise that can best support future growth.”

Loic Jouenne, Partner, Deloitte France



Going global

In examining the industry's competitive landscape, higher education institutions are increasingly realizing that not all their competitors are domestic. As universities and colleges around the world extend their international footprints, the incentive to globalize becomes more pronounced. This is particularly true as some North American institutions consider establishing low-cost campuses and development programs in fast-growing regions, such as the United Arab Emirates (UAE).

Before expanding geographically, however, institutions must articulate a clear international strategy. Moving beyond local or regional borders will not make sense for every institution, particularly considering the significant costs. In some cases, it would be better for universities and colleges to strengthen their ability to both attract foreign students and encourage them to stay in the community after graduation. Achieving this aim takes effort enough, requiring institutions to raise their education standards to international levels, hire and retain globally-prominent faculty members and appear favourably on international ratings like the Shanghai Rankings.

Even where globalization is a viable option, it is imperative to lay the strategic foundation. Before entering global partnerships, institutions must identify appropriate partners and determine their cultural fit. They must also understand their motives for expansion, articulate the benefits and determine the right geographic locations for their offerings.

According to a recent report on the internationalization of education published by the International Association of Universities, the rationale for globalization differs from one institution to the next. Worldwide, the top five reasons for going global are to:

- Improve student preparedness
- Enhance the institution's international profile
- Strengthen research and knowledge production
- Internationalize the curriculum
- Diversify faculty and staff⁷

That said, regional variations exist, with universities in North America and Latin America stressing the importance of preparing students for international careers as well as institutions in Europe stressing the importance of both an international curriculum and profile.

Although the benefits of entering international partnerships, offering joint-degree programs and creating global campuses are considerable, risks exist. To prevent the commodification of critical programs, slipping education standards or inappropriate alliances, advance planning is imperative.

⁷ The Chronicle of Higher Education, October 22, 2010. "Internationalization of Higher Education: the Good, the Bad, and the Unexpected," by Francisco Marmolejo as accessed at <http://chronicle.com/blogs/worldwise/internationalization-of-higher-education-the-good-the-bad-and-the-unexpected/27512> on November 4, 2010.

“Universities and colleges are under considerable pressure to enter global partnerships. Yet this is not a decision to undertake lightly. Organizations need to make sure that they pick the right partner, identify the best fit, structure an appropriate program and define the benefits and risks well in advance.”

Omar Aguilar, Principal, Deloitte United States



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Setting priorities

The danger of making decisions in the dark

University and college administrations tend to be creatures of habit. That means processes, once established, often follow historic arcs, rather than paving new ground. This is especially true as institutions grapple with the challenge of setting strategic priorities.

In the area of budgeting, for instance, decisions are often made democratically as opposed to strategically. Programs funded in one year are sometimes not funded the next, to ensure an equitable allocation of resources. Extra money frequently goes to the stakeholders who bring it in, rather than being deployed to the areas of greatest need. Institutions are slow to phase out programs that no longer meet evolving student needs or to introduce new programs that lack a proven track record. High degrees of organizational fragmentation and decentralization also prevent various departments from working together towards common goals or to realize improved operational efficiencies.



This same attitude seems to dominate institutional leadership decisions. Historically, many higher education institutions have demonstrated a strong proclivity towards promoting leading academics to leadership roles rather than identifying (potentially private sector) candidates whose business acumen can help institutions enhance their performance agendas, attract leading researchers and evolve to meet changing student expectations.

To be sure, educational institutions operate in environments that are frequently not conducive to stark business approaches. Tenure mandates create no fly zones for strategic agility and flexibility. Consensus decision-making hampers rapid innovation. Complex governance structures make top-down accountability problematic. And meeting the needs of multiple stakeholders can pull decision-makers in countless conflicting directions.

Despite the challenges, the need to incorporate operational aspects into strategic planning is imperative. To succeed into the future, institutions must invest in data mining, financial analysis and IT systems that can help them identify optimal service delivery models and ensure they align to student needs. They must rationalize redundant programs, evaluate the continued relevance of costly ones and ensure their curricula keep pace with market changes. They must look for ways to enhance their core competencies and outsource the rest – which includes considering the merits of shared services and the consolidation of programs, departments and even institutions. Only in this way can they balance financial and academic priorities.

“The economic environment can no longer support a culture where everyone asks for their unique wants and the administration strives to provide that. Although cultural change can be painful and slow, institutions must get better at aligning their programs with their strategic priorities.”

Mark Price, Principal, Deloitte United States

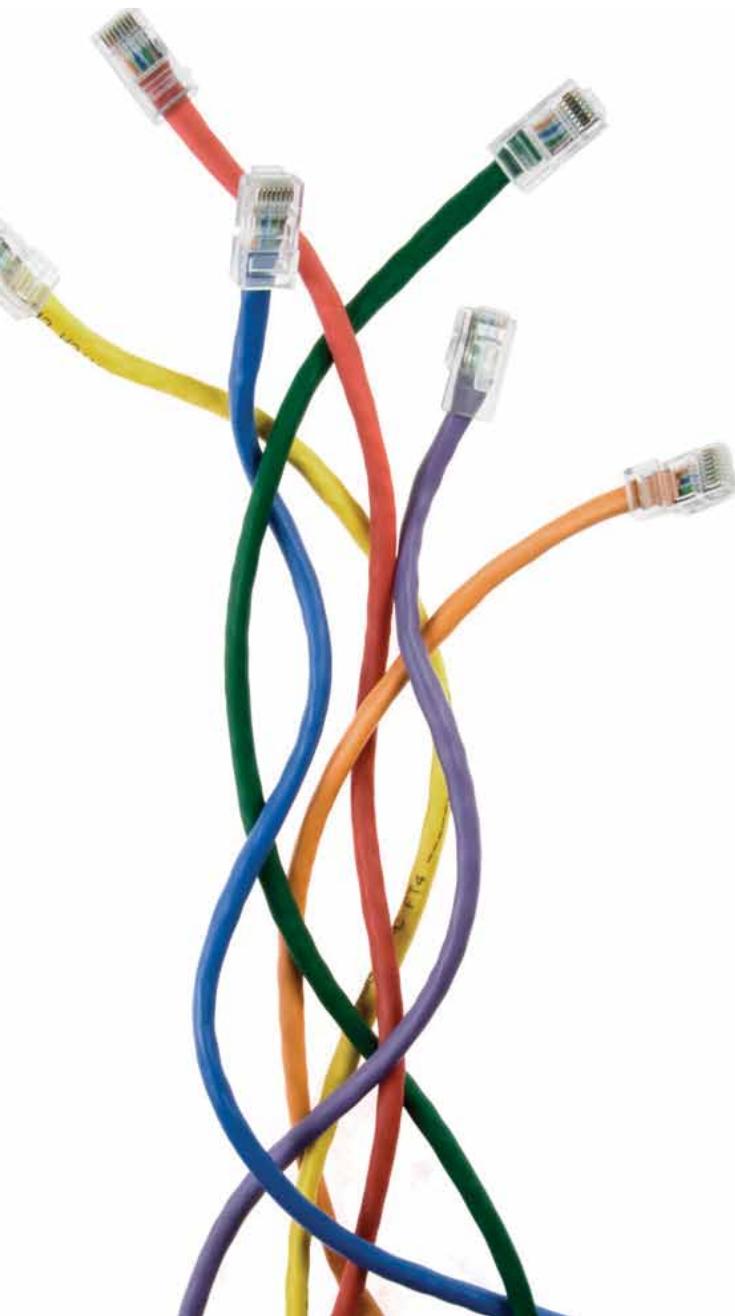
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Moving at the speed of cyberspace

Technology upgrades are needed across the board

Managing a sprawling campus is akin to managing a small city. While stakeholders across the campus all have different needs, they expect access to equivalent levels of service. For faculty, this translates into a need to access critical information seamlessly – whether they are full-time staff or visiting professors. For students, it manifests in the growing expectation for integrated services, such as one-stop enrolment, web-based interaction and the ability to access educational support online.

Although higher education institutions understand these requirements, aging technology systems make it exceptionally difficult to deliver on these promises. In many cases, back-office systems used to manage student information, finances and human resources are woefully outdated, hampering organizational ability to streamline the student enrolment process, realize cost efficiencies or hire new or visiting staff. To complicate matters, many departments maintain homegrown IT systems that are almost impossible to upgrade or centralize or maintain parallel systems that cause redundancy and inefficiency. Even schools that have invested in new technology in recent years often are not leveraging its full capacity.



Similar challenges exist with front-facing technology. Students that have grown up using online social networking sites expect certain standards of interaction from their providers, including their schools. Universities and colleges that fail to provide students with intuitive online systems to streamline registration, enrolment, identity management and payment run this risk of increasing churn due to rising user dissatisfaction. Similarly, schools that have not yet embraced online forms of communication – including Facebook and Twitter – are losing a critical opportunity to build student loyalty and cement long-term relationships.

In addition to system upgrades, higher education institutions must also respond to the growing demand for web-based training. To attract a wider range of students and meet the needs of disparate student groups, many organizations are already considering the viability of offering online courses, webinar instruction and other forms of virtual or remote education. Beyond lowering the costs of delivering education, reducing infrastructure demands and offering programs to higher volumes of students, this type of online education has interesting implications for declining enrolment. In some scenarios, it may even help improve student outcomes.

Before universities and colleges can realize any of these benefits, however, they must commit to renewed IT investment and take steps to continue enhancing online security and data privacy. This is critical not only to meet evolving student demands, but also to attract a new generation of IT employees who simply lack the skills to manage many institutions' legacy applications.

“Today’s students have very high expectations of the technology experience. Higher education institutions that cannot meet these standards by supporting online enrolment, enabling online fee payment or empowering interaction with professors through social media risk losing students.”

Troy Kay, Senior Manager, Deloitte Canada

Rethinking infrastructure

A renewed focus on asset optimization

When endowments seemed endless and financial security assured, many institutions committed significant resources to expanding their campuses. The rationale was sound. After all, students today assess schools on criteria beyond their academic offerings, looking at the quality of residences, academic facilities and athletic centres. To meet these expectations, many institutions planned to build new facilities and/or renovate old ones.

Much has changed since the economy shifted. As the value of endowments declined, institutions were forced to scale back on their capital expansion plans or halt them entirely. Harvard's decision to put its \$25 billion Austin campus construction project on hold may have been the most visible example, but other higher education institutions have since followed suit. Schools that already built new facilities are now struggling to pay ongoing operating and maintenance costs. And even those that did not build are grappling with the consequences of deferred maintenance, particularly as their facilities, technology, equipment and campuses continue to age.

In this new world order, asset optimization is becoming increasingly critical. To reduce infrastructure costs, some institutions are now partnering with the private sector to build and/or operate shared facilities, such as community centres that can be used by students and citizens alike. Others are disposing of surplus assets and taking steps to streamline their real estate portfolios.

In a particularly notable trend, numerous campuses are also looking for ways to boost revenues by monetizing their existing assets. Several institutions have partnered with developers to establish multi-use buildings – setting up retirement homes on campus, for instance, or leasing out properties to external stakeholders (for both community and private use). Others are reevaluating fees charged for existing uses, including residence fees and parking lot charges. Still others are exploring strategies for leasing out building space that sits vacant during certain times of the year.

Although each institution must articulate a unique strategy, one thing is clear: a strategic approach to asset optimization is essential if campuses hope to keep costs in line in the coming years.

“In the wake of the global financial crisis, higher education institutions must explore new ways to reduce their infrastructure costs. This involves more than addressing their deferred maintenance fees or converting properties to multiple uses. It requires a wholesale assessment of how they can use their assets more effectively.”

Rod Barrass, Manager, Deloitte Canada



Linking programs to outcomes

Where training and market demand intersect

In countries around the world, there has long been a distinction between university education and vocational training. Typically, universities are perceived as offering superior academic and research environments focused on helping students acquire a well-rounded education. For their part, vocational programs are often seen as “lower-tier” offerings designed to provide students with practical, on-the-job training.

Yet, despite their reputational challenges, vocational schools may be trumping universities in one of the most critical performance metrics: post-graduate employment. In the U.S., a recent report found that the employment growth in occupations requiring vocational training is projected to be more than double overall employment growth over the next decade. Similarly, according to the Manpower Demonstration Research Corporation, unlike college degrees, career academies and vocational schools tend to boost student earnings by 11%.⁸

This may explain some of the challenges being experienced by countries like India that lack a focus on vocational training. With over one billion citizens, India has the second largest higher education system in the world.⁹ However, the country has exceptionally limited access to people trained in critical vocations. Aside from creating a significant workforce gap, this educational omission may be contributing to the country’s outsized illiteracy rate, which hovers in the range of 35%.¹⁰

To meet the growth mandates of developing nations – and the career aspirations of students everywhere – a stronger focus on vocational training is required. This means higher education institutions must take steps to design programs that align with marketplace demands and employer needs. It also means they must engage in more focused research and analysis in an effort to correlate their educational offerings with their students’ ability to secure gainful employment. As students and parents increasingly come to assess degrees based on the economic value they confer, institutions will need a way to demonstrate the practical outcomes of the programs they offer.

⁸ Harvard Political Review, October 30, 2010. “Beyond the Liberal Arts”, by Luka Oreskovic. Accessed at <http://hpronline.org/higher-education/beyond-the-liberal-arts/> on November 10, 2010.

⁹ National Portal of India, October 25, 2010. Accessed at http://india.gov.in/overseas/study_india/studyinindia.php on November 10, 2010.

¹⁰ UNESCO, Education for All Global Monitoring Report 2010. Accessed at <http://www.unesco.org/en/efareport/reports/2010-marginalization/> on November 10, 2010.

“Despite the merits of a world-class liberal arts education, there is a danger in supporting a curriculum that is too theoretical. Today’s fast-paced world needs construction crews, hospital workers and people to build cell phone towers. Institutions must respond to these realities by ensuring their educational agendas are in sync with forecast marketplace demands.”

Arsh Maini, Senior Consultant, Deloitte India



The best and the brightest

Attracting and retaining talented faculty

Most organizations realize that their performance hinges on the talent of their staff. For universities and colleges, however, attracting and retaining the right faculty can spell the difference between success and failure. In addition to enticing the best students, high-calibre academic staff often support considerable research dollars and can even help to raise an institution's public profile.

However, despite the critical role of faculty, many higher education institutions lack a solid strategy for attracting and retaining talent, measuring performance and enhancing teaching quality. This failure to put sufficient emphasis on the human resources function is particularly egregious in light of demographic trends that continue to make it harder for universities and colleges to draw qualified talent.

Like most sectors of the economy, education is not immune to the effects of aging populations. As staff members get older, they risk falling further out of touch with rapidly-evolving student needs and expectations. This situation has been exacerbated by the sector's typically low retirement rates, which has prevented institutions from hiring some of the industry's emerging bright lights. Even in cases when schools do try to actively recruit top talent, they often find themselves competing on an international stage where they risk losing top educators to higher-paying or higher-profile jobs both within and outside academia.



Given these trends, higher education institutions may find themselves facing a critical talent gap in the near future. To stem the tide, they must do more than invest in new HR technology systems. They must also develop focused talent management strategies designed to help them become employers of choice within the sector at large. They must adopt a performance culture capable of identifying and nurturing top talent. They must bring in new leaders to reinvigorate the workforce. And they must use pending retirement rates as a way to hire a more diverse faculty capable of inspiring and connecting with a new generation of learners.

“With the continued aging of the population, institutions are finding it hard to replace retiring staff, particularly within the academic ranks. Even in non-academic fields, education providers are often not seen as progressive and aspirational employers – compelling high-quality candidates to choose other careers. Educational institutions need to act immediately and with urgency to implement focused talent management strategies to recruit and retain the best in an increasingly competitive environment.”

Michael Jabour, Director, Deloitte Australia



A sustainable future

Enhancing environmental performance

In industries around the world, younger populations are driving the push towards greater environmental awareness. Notably, as the breeding ground of these younger populations, higher education institutions are working to lead the pack.

In fact, for many institutions, the commitment to sustainability extends far beyond environmental performance. Institutions building new facilities generally work to adopt energy-efficient systems and remove barriers that can potentially cause environmental illness. IT teams are limiting energy use with technologies like virtualization and blade servers. Even maintenance teams are moving towards green cleaning practices.

Yet, as far as campuses have come, there is a long way to go. Public scrutiny, media attention, regulatory mandates and ongoing student demands continue to exert pressure on organizations to improve their environmental performance. This is starkly highlighted by the release of the annual College Sustainability Report Card, published by the Sustainable Endowments Institute. After assessing 322 U.S. and Canadian universities and colleges, the Report Card “grades” each school’s sustainability practices. The

comprehensive report reviews performance across 52 indicators in nine categories: administration, climate change and energy, food and recycling, green building, transportation, student involvement, endowment transparency, investment priorities and shareholder engagement.¹¹

As these categories show, sustainability in a higher education setting crosses organizational lines. Institutions that earn top marks must generally do more than reduce their carbon emissions and improve energy efficiency. They also need to examine a range of non-traditional practices – such as managing a campus garden or farm, introducing trayless dining, composting organic waste, incenting students to reduce water and electricity use, introducing bicycle-sharing programs and constructing green buildings.

¹¹ Sustainable Endowments Institute, October 2010. “The College Sustainability Report Card 2011”. Accessed at <http://www.greenreportcard.org/report-card-2011/executive-summary> on November 11, 2011.

“Higher education institutions work with a population that is environmentally aware and active. To meet the needs of these stakeholders, schools must be able to demonstrate and account for their environmental performance. They also need to enhance their environment-related programs to provide students with the educational credentials they need to drive this agenda in the community at large.”

Michael Pentland, Associate Partner, Deloitte Canada



Education for all

Tackling diversity, accessibility and affordability

While very few issues cross social, cultural and geographic lines, access to education is one of them. In countries around the world, governments and citizens grapple with the challenge of educating hard-to-reach students – particularly those who struggle with income disparity, have an illness or disability, live in remote communities or are members of disenfranchised ethnic groups.

To be sure, the issue has particular relevance at the primary education stage, where roughly 72 million children around the world are still out of school.¹² However, higher education institutions are by no means immune.

For instance, the Association of Universities and Colleges of Canada views increased Aboriginal access, participation and success in higher education as a national priority. In the U.S., barely 40% of adults between 25 and 34 hold even a minimum of an associates degree and graduates are still predominantly white. According to the U.S. Department of Education, 60% of white students who attend a four-year college complete a bachelor's degree within six years, compared to 49% of Hispanic students and 42% of African-Americans.¹³ Similar challenges prevail in Europe, where institutions are still struggling to democratize their traditionally elite educational systems. South Africa also continues its long process to de-segregate education.

¹² United Nations Girls' Education Initiative, April 2010. "Equity and Inclusion in Education". Accessed at http://www.unicef.org/education/files/Equity_and_Inclusion_Guide.pdf on November 11, 2011.

¹³ Complete College America, 2010. Accessed at <http://www.completecollege.org/> on November 11, 2010.



In most cases, universities and colleges are not equipped to resolve these issues on their own; government assistance and regulation tend to go a long way towards making education more accessible. That said, many institutions have begun to explore ways to extend their educational offerings to a broader base of students. Online programs, video streaming and other forms of digital education can bring education to remote communities or students struggling with physical disabilities. Financial aid programs that focus on assisting key segments of the population can help to attract students from low-income families. Maintaining a diverse faculty and encouraging cultural diversity can also bring in a wider range of ethnic students.

While simple solutions may not exist, access to education remains a critical issue that should impel institutions to design programs that best meet their unique constituencies.

“As schools work to cut costs out of their operating structures, they must still make the investments required to meet student demand. That includes devising strategies for attracting atypical students who will likely constitute the growth groups of the future.”

Peter Present, Executive Lead, Deloitte South Africa



Regulations and reporting

New responsibilities require better disclosure

Funding constraints and cost containment are not the only legacies of the global financial crisis. In the wake of the international market meltdown, governments around the world have been stepping up industry oversight by flexing their regulatory muscles. In many cases, the education sector has been caught in the crossfire.

In the U.S., for instance, where funding accountability has become a rallying cry, some market-funded institutions are under scrutiny for holding the industry's lowest repayment rates on government-backed student loans. In some instances, they are also being accused of misrepresenting post-graduate employment opportunities. As a result, the federal government has tightened student lending standards and is making it harder for schools to qualify for U.S. student aid programs.

Australia, too, is calling for tighter regulations in a bid to enhance national accreditation standards and improve protection of foreign students. In fact, higher education institutions around the world have been working to strengthen their systems in recent years in a bid to better track foreign students in general, to ensure their safety and welfare.

In light of these new responsibilities, many institutions find themselves struggling to comply with an increasingly complex disclosure environment. In addition to meeting the regulatory mandates of several different governing bodies, higher education institutions are under greater scrutiny than in the past. Regulators, students and other stakeholders expect schools to adhere to higher standards of transparency – not only with regard to the allocation of their research dollars but also with regard to their student success rates, commitment to sustainability, program outcomes, teaching standards, comparative rankings and beyond.

To meet these expectations, institutions will need to do more than simply comply with the letter of the law. If they hope to differentiate themselves in an increasingly crowded marketplace, they will need to invest in more sophisticated information systems that allow them to track and report their performance across the criteria of greatest interest to each of their stakeholders.

“Higher education institutions face greater regulatory responsibilities than in the past. In addition to improving financial accountability, they must act as corporate parents to exchange students, report on enrolment statistics and enhance transparency across the board. How many institutions have the information management systems necessary to track and report all these data?”

Julie Mercer, Associate Partner, Deloitte UK



Accelerating the learning curve

Responding to industry challenges

Given the wide variety of funding models, geographic reach, educational focus, student constituency and faculty talent, it's no surprise that industry challenges affect every institution differently. That means each institution must craft strategies of its own in response to prevailing conditions. That said, there are certain best practices organizations should consider as they prepare for the future.

While variations exist, there are essentially **four key drivers** of educational institution value that colleges and universities can manipulate to improve their performance. Here are some strategies to consider in each of these areas:

Funding and revenue growth

In light of current funding constraints, many higher education institutions are seeking ways to attract additional funding and uncover new sources of revenue. To achieve these aims, institutions should:

- Incorporate an operational element into strategic planning to ensure a focus on the highest priority issues
- Streamline the governance process to empower stakeholders to quickly make informed budgetary and research allocation decisions
- Clearly define roles, responsibilities and accountabilities
- Improve information tracking to better measure and report on program outcomes
- Explore innovative public-private partnership opportunities
- Enhance institutional brands in an effort to attract additional private investment
- Leverage social media and other online forms of ongoing communication to establish and maintain relationships with students, parents and alumni
- Improve tracking of research dollars
- Consider globalization strategies.

Operating margins

In addition to pursuing top line growth, higher education institutions must continue reducing their costs to widen operating margins. Here they can:

- Implement and/or leverage technologies designed to streamline core business processes, such as student services, research, finance, administration, human resources and procurement
- Engage in more sophisticated planning and forecasting
- Pinpoint opportunities to share services and outsource non-core functions
- Eliminate program redundancies and inefficient processes.

Asset efficiency

Yet another way for higher education institutions to enhance performance includes optimizing the use of existing assets. To succeed in this effort, institutions can:

- Engage in talent management strategies to attract and retain the highest calibre faculty
- Streamline procurement and sourcing to optimize the supply chain
- Review regional delivery models to eliminate program duplication and pursue consolidation where it makes sense
- Extend access to their programs through initiatives like distance learning and online education
- Identify and target optimal student populations
- Engage in sustainability initiatives to improve energy utilization, reduce waste and identify ancillary opportunities to cut costs and improve performance
- Rationalize IT and real estate portfolios.

Expectations and strengths

A final critical area of focus includes enhancing institutional brands in a bid to build on existing strengths and lay a solid foundation for the future. Here they can:

- Improve information management and data analytics to identify areas of competitive differentiation
- Solicit opinions from outside the education sector
- Leverage technological innovation to better engage students and improve services
- Revisit existing strategies and processes with an eye towards identifying areas for improvement
- Benchmark against competitive institutions
- Share best practices.



Taking it
to the
next level

“To succeed into the future, higher education institutions must take a good, hard look at their organizing principles. They must assess how well their academic and non-academic functions work together, the caliber of their student experience, their ability to attract the best students and faculty and the strength of their systems and processes. Ultimately, the victors will be those who can support their decision-making with the strongest business case.”

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