The ROLE of the PRESIDENT

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Richard Kneedler, President Emeritus, Franklin & Marshall College

Welcome to our session, "When Does Debt Turn into Financial Risk." I would begin this new year—one devoted to electing a US president when a straw man seems to be required at the beginning of every argument—with a straw man of my own – to wit, people say that our sort of president is more and more principally a fund-raiser. In my experience the "people" who say that are not usually presidents, because they know that notion is bogus and dangerous for institutions, boards and presidents, alike.

Successful presidents understand that theirs is a unique responsibility for the whole college. It is very much an intellectual challenge – to be the person who conceptualizes, contextualizes, understands and reimagines the institution continuously. This allows the president to be the one who sees the essence of the challenges and opportunities that the institution faces, who communicates them to the institution's constituencies, who frames the response to them, and who leads in its implementation. This is a true leader who, better than anyone else, understands the institution's essence and can convey, manage and enhance it as a fund-raiser who is strategically engaged with all facets of the institution, and who knows enough to beware of apparently easy answers.

OK. That straw man has been trampled. But our subject here today isn't fund-raising, at least not directly. It's debt. And here I've found that there lurks another menacing figure among presidents, but it's often not a straw man. It's someone who says, thinks, or feels: "I'm the President, not the CFO or the Chair of the Finance Committee. It's their job to manage money and debt, not mine." "I'm sorry," I will answer, "but we just agreed that your job is to understand the totality of your college. You cannot do that if you go about saying – 'I was an English major - I don't do money.' Debt is part of the whole picture that you manage."

Debt needs to be a top-of-mind presidential concern because it is a key strategic element of an institution. Its appropriate use is a presidential responsibility. The presidential view of debt, I would argue, needs to begin by recognizing that debt is neither a panacea nor in all cases a curse. Too much debt can weigh down a college, frustrate planning, and, in extreme cases, cause a college to lose its independence, even force its closure. Conversely, reflexive aversion to debt can constrain a college's future as surely as too much debt. Both extremes foreclose the freedom of action needed to create a dynamic presidency equal to the challenging circumstances we all face today.

As President, you must know and understand the finances of your institution well enough to answer the questions that come to you, to anticipate what they will be, to keep your Board informed of potential risks and contingencies in their decision-making, to be able to relate present realities, future dreams and needs, resource development of all kinds, long-term development and management – all together, all related, all understood dynamically – past, present and future. And to do that, you need to understand finance, including debt, or you risk being "Spaniered," waking an ex-president the day after your Board asked, "Why didn't you just tell us?" It happens more than you might think and often to presidents who did not know how to ask the right questions about finances.

This may sound like a huge task, but it really isn't if you develop the right habits of mind in your work. As someone who "prepared" to be an administrator and president by majoring in French and then doubling down with a Ph.D., in French, I know that as long as you have learned how to learn, you can do this, especially now that there are resources available to you that will help tremendously, notably, for the lucky/smart folks who are CIC members the "KIT" and "FIT" programs that Mike Williams will discuss.

Before I conclude, here are a few key tactics I've used that helped me be an active participant in institutional finance issues in a variety of circumstances:

1. Don't ever pretend to know something if you don't. If you need information, definitions, explanations, ask for them, note the answers, and ask follow-ups. Consider the process a valuable tutorial to bring you fully up to speed on your college's finances.

2. Be a strong partner with your CFO. Don't wait for someone to bring you issues. Be proactive in understanding your college's finances – cash flows, sources of funds, timing, fit between cash and expenses, lean and good cycles, major changes in recent years, what those changes mean for the future, particular challenges and opportunities that the CFO sees, how the CFO goes about dealing with them. Further, develop a personal understanding of the college's capital structure – cash cushion, invested funds, nature of investments, oversight of investments and managers, role of the trustees. Understand how the school finances projects – fund-raising, debt, nature and duration of debt, use of lines of credit and other sources of funds during lean cash periods, covenants of debt instruments, relations with banks and other key financial partners, limitations on institutional flexibility deriving from lines of credit and other debt instruments (including on the part of commercial partners such as food service and other vendors).

3. Develop a dashboard to help you spot potential trouble or opportunity by tracking key metrics: status of cash at critical times (typically June and December in operations and times of peak demand for cash in construction projects), admission applications and enrollment deposits at key dates, ratio of secured debt (bonds, mortgages, line-of-credit, other bank debt) to financial investments plus year-end cash, ratio of uncommitted surplus to annual expenditures, and cash gifts to-date, among others. These should be monitored year-to-year so that you can engage colleagues about their work, understand trends and keep your board apprised of issues before they become critical.

4. Ensure that your college doesn't operate in a knowledge vacuum by comparing its metrics to appropriate reference groups. That's the purpose of CIC's KIT and FIT programs. Mike Williams of the Austen Group will use data from them to help you answer a key question for presidents – "If you build it (with debt), will they come?" Or, asked another way: "I want to build Shangri-La, but could it be my Heartbreak Hotel?"

This piece is based on a presentation by Richard Kneedler at the Council of Independent Colleges' January 2012 Annual Presidents Institute in Florida.