



MAINTAINING INSTITUTIONAL AUTONOMY

Information For Member Institutions that are Not Separately Incorporated

INTRODUCTION

HLC's guiding values include "governance for the well-being of an institution." This means that the governing board of an institution places the institution's well-being above the interests of its own members and the interests of any other entity. Because HLC accredits the educational institution itself, and not the state system, religious organization, corporation, medical center or other entity that may own it, it holds the governing board of an institution accountable for key aspects of the institution's operations.

The governing board's independent authority is necessary for such accountability. It requires the governing board to hold itself independent of undue influence from individuals, be they donors, elected officials, supporters of athletics, shareholders, or others with personal, financial or political interests. The effective governance of an HLC accredited institution of higher education also includes a significant role for faculty, in particular with regard to currency and sufficiency of the curriculum, expectations for student performance, qualifications of the instructional staff, and adequacy of resources for instructional support. In short, institutional autonomy is necessary because HLC accreditation does not extend to a parent organization.

While some institutions operate under the incorporated status of a parent organization HLC requires that the institution's governing board

be able to demonstrate sufficient autonomy. These guidelines are intended to provide member institutions that are not separately incorporated from a parent organization with a framework for how they can nevertheless satisfy these expectations. This information does not prohibit any member institution from separately incorporating from its parent organization in accordance with HLC's policy on Change of Control, Structure or Organization.

BACKGROUND

In November 2010, HLC adopted revisions to its Bylaws. The revisions included additional language in Article III, which established that to be eligible for affiliation with HLC, "an institution applying for, or holding accredited or candidate status with HLC shall demonstrate that it meets HLC's jurisdictional requirements, as established in the Bylaws of the Higher Learning Commission, related to 1) incorporation and 2) substantial presence." The jurisdictional requirement was further defined in HLC's policy on Jurisdiction, INST.B.10.010, which stated "an institution shall demonstrate that it is incorporated as an institution of higher education in one of the 19 states of the north central region or operating under federal authority in conjunction with an executive branch or independent federal agency or branch of the U.S. military."

The 2010 changes were adopted, in part, as a means to ensure that affiliated institutions maintained sufficient autonomy and independence.

Since then, HLC has recognized that an institution's governing board may be able to successfully demonstrate sufficient autonomy despite the fact that the institution may not be separately incorporated. In February 2019, HLC's Board of Trustees revised its policy on Jurisdiction which now states: "An institution shall demonstrate that it is incorporated in one of the 19 states of the north central region or operating under federal authority in conjunction with an executive branch or independent federal agency or branch of the U.S. military. An institution shall demonstrate that its primary purpose is higher education."

Under the current policy, a member institution that is not separately incorporated from a parent organization is recognized as having the ability to demonstrate that it meets all of HLC's requirements under an alternative framework. The Board further resolved:

Such a framework could be comprised of multiple factors to be weighed by peer reviewers, including but not limited to the following:

- In determining whether an institution's governance is sufficiently autonomous:
 - The ability of the institution's board to exercise significant oversight over the institution's budget and strategic planning, even if the parent organization makes final decisions with regard to the overall budget for the institution.
 - The ability of the institution's board to hire, evaluate and when necessary dismiss the institution's Chief Executive Officer and to provide significant input to the parent organization with regard to any nomination processes associated with selection of a Chief Executive Officer.
 - While the parent organization may have some degree of nominating authority to the institution's board, the latter should include a number of public members and members not affiliated with the parent organization.

- In determining whether an institution has sufficient financial resources:
 - Irrespective of any consolidated financial statements of the parent organization, the availability of a separate financial schedule pertaining exclusively to the affiliated institution.
 - The availability of clear documentation directly and exclusively related to financial support of the institution's current and future operations.
 - The availability of clear documentation indicating financial commitments on the part of any parent organization with respect to the affiliated institution.

HLC staff members consider such additional factors as may be appropriate in training peer reviewers to evaluate institutions that are not separately incorporated and publish such additional factors to such institutions in a timely manner.

Peer reviewers shall be authorized as needed to apply a holistic standard in determining whether, notwithstanding lack of separate incorporation, an affiliated institution successfully demonstrates that its governance is sufficiently autonomous for purposes of Core Component 2.C and whether resources available to it appear to be sufficient for purposes of Core Component 5.A during evaluations that require evidence of compliance with the foregoing requirements.

Nothing in this action limits the ability of the Higher Learning Commission to decline to evaluate unaffiliated institutions that are not separately incorporated from any parent organization in addition to having higher education as their primary purpose.

Please note: References to the Criteria for Accreditation are referring to the Criteria that were in effect February 2019.

RELEVANT CRITERIA FOR ACCREDITATION AND ASSUMED PRACTICES

Please note: HLC adopted new Criteria for Accreditation that will go into effect for evaluations beginning in September 2020.

While an institution must meet all HLC's requirements in order to maintain accredited status, Core Components (current and effective in 2020) most relevant to institutional autonomy follow.

Core Component 1.D.

The institution's mission demonstrates commitment to the public good.

1. Actions and decisions reflect an understanding that in its educational role the institution serves the public, not solely the institution, and thus entails a public obligation.
2. The institution's educational responsibilities take primacy over other purposes, such as generating financial returns for investors, contributing to a related or parent organization, or supporting external interests.
3. The institution engages with its identified external constituencies and communities of interest and responds to their needs as its mission and capacity allow.

Core Component 2.C

The governing board of the institution is sufficiently autonomous to make decisions in the best interest of the institution and to assure its integrity.

1. The governing board's deliberations reflect priorities to preserve and enhance the institution.
2. The governing board reviews and considers the reasonable and relevant interests of the institution's internal and external constituencies during its decision-making deliberations.
3. The governing board preserves its independence from undue influence on the part of donors, elected officials, ownership interests, or other external parties when such influence would not be in the best interest of the institution.
4. The governing board delegates day-to-day management of the institution to the administration and expects the faculty to oversee academic matters.

Core Component 1.B. Effective Sept 2020

The institution's mission demonstrates commitment to the public good.

1. The institution's actions and decisions demonstrate that its educational role is to serve the public, not solely the institution or any superordinate entity.
2. The institution's educational responsibilities take primacy over other purposes, such as generating financial returns for investors, contributing to a related or parent organization, or supporting external interests.
3. The institution engages with its external constituencies and responds to their needs as its mission and capacity allow.

Core Component 2.C. Effective Sept 2020

The governing board of the institution is autonomous to make decisions in the best interest of the institution in compliance with board policies and to ensure the institution's integrity.

1. The governing board is trained and knowledgeable so that it makes informed decisions with respect to the institution's financial and academic policies and practices; the board meets its legal and fiduciary responsibilities.
2. The governing board's deliberations reflect priorities to preserve and enhance the institution.
3. The governing board reviews the reasonable and relevant interests of the institution's internal and external constituencies during its decision-making deliberations.
4. The governing board preserves its independence from undue influence on the part of donors, elected officials, ownership interests, or other external parties.
5. The governing board delegates day-to-day management of the institution to the institution's administration and expects the institution's faculty to oversee academic matters.

Core Component 5.A

The institution's resource base supports its current educational programs and its plans for maintaining and strengthening their quality in the future.

2. The institution's resource allocation process ensures that its educational purposes are not adversely affected by elective resource allocations to other areas or disbursement of revenue to a superordinate entity.

Core Component 5.B. Effective Sept 2020

The institution's resource base supports its educational offerings and its plans for maintaining and strengthening their quality in the future.

1. The institution has qualified and trained operational staff and infrastructure sufficient to support its operations wherever and however programs are delivered.
2. The goals incorporated into the mission and any related statements are realistic in light of the institution's organization, resources and opportunities.
3. The institution has a well-developed process in place for budgeting and for monitoring its finances.
4. The institution's fiscal allocations ensure that its educational purposes are achieved.

Core Component 5.B

The institution's governance and administrative structures promote effective leadership and support collaborative processes that enable the institution to fulfill its mission.

1. The governing board is knowledgeable about the institution; it provides oversight of the institution's financial and academic policies and practices and meets its legal and fiduciary responsibilities.
2. The institution has and employs policies and procedures to engage its internal constituencies—including its governing board, administration, faculty, staff, and students—in the institution's governance.

Core Component 5.A. Effective Sept 2020

Through its administrative structures and collaborative processes, the institution's leadership demonstrates that it is effective and enables the institution to fulfill its mission.

1. Shared governance at the institution engages its internal constituencies—including its governing board, administration, faculty, staff and students—through planning, policies and procedures.
2. The institution's administration uses data to reach informed decisions in the best interests of the institution and its constituents.
3. The institution's administration ensures that faculty and, when appropriate, staff and students are involved in setting academic requirements, policy and processes through effective collaborative structures.

Core Component 5.C

The institution's governance and administrative structures promote effective leadership and support collaborative processes that enable the institution to fulfill its mission.

1. The governing board is knowledgeable about the institution; it provides oversight of the institution's financial and academic policies and practices and meets its legal and fiduciary responsibilities.
2. The institution has and employs policies and procedures to engage its internal constituencies—including its governing board, administration, faculty, staff, and students—in the institution's governance.

Core Component 5.C. Effective Sept 2020

The institution engages in systematic and integrated planning and improvement.

1. The institution allocates its resources in alignment with its mission and priorities, including, as applicable, its comprehensive research enterprise, associated institutes and affiliated centers.
2. The institution links its processes for assessment of student learning, evaluation of operations, planning and budgeting.
3. The planning process encompasses the institution as a whole and considers the perspectives of internal and external constituent groups.
4. The institution plans on the basis of a sound understanding of its current capacity, including fluctuations in the institution's sources of revenue and enrollment.
5. Institutional planning anticipates evolving external factors, such as technology advancements, demographic shifts, globalization, the economy and state support.
6. The institution implements its plans to systematically improve its operations and student outcomes.

Assumed Practice A. Integrity: Ethical and Responsible Conduct

1. The institution has a conflict of interest policy that ensures that the governing board and the senior administrative personnel act in the best interest of the institution.
8. The governing board and its executive committee, if it has one, include some "public" members. Public members have no significant administrative position or any ownership interest in any of the following: the institution itself; a company that does substantial business with the institution; a company or organization with which the institution has a substantial partnership; a parent, ultimate parent, affiliate, or subsidiary corporation; an investment group or firm substantially involved with one of the above organizations. All publicly-elected members or

members appointed by publicly-elected individuals or bodies (governors, elected legislative bodies) are public members.¹

9. The governing board has the authority to approve the annual budget and to engage and dismiss the chief executive officer.¹
11. The institution documents outsourcing of all services in written agreements, including agreements with parent or affiliated organizations.
11. The institution takes responsibility for the ethical and responsible behavior of its contractual partners in relation to actions taken on its behalf.

¹ Institutions operating under federal control and authorized by Congress are exempt from these requirements. These institutions must have a public board that includes representation by individuals who do not have a current or previous employment or other relationship with the federal government or any military entity. This public board has a significant role in setting policy, reviewing the institution's finances, reviewing and approving major institutional priorities, and overseeing the academic programs of the institution.

Assumed Practice D. Resources, Planning, and Institutional Effectiveness

1. The institution is able to meet its current financial obligations.
2. The institution has a prepared budget for the current year and the capacity to compare it with budgets and actual results of previous years.
3. The institution has future financial projections addressing its long-term financial sustainability.
4. The institution maintains effective systems for collecting, analyzing, and using institutional information.
5. The institution undergoes an external audit by a certified public accountant or a public audit agency that reports financial statements on the institution separately from any other related entity or parent corporation. For private institutions the audit is annual; for public institutions it is at least every two years.²
6. The institution's administrative structure includes a chief executive officer, chief financial officer, and chief academic officer (titles may vary) with appropriate credentials and experience and sufficient focus on the institution to ensure appropriate leadership and oversight. (An institution may outsource its financial functions but must have the capacity to assure the effectiveness of that arrangement.)

FRAMEWORK FOR MAINTAINING INSTITUTIONAL AUTONOMY

This framework has been developed to assist institutions that are not separately incorporated in understanding HLC expectations. HLC makes no presumption of lack of autonomy under such circumstances. Nevertheless, during a review process, institutions should be prepared to respond (with supporting documentation) to the following expectations.

Criterion 1. Mission

The institution should be able to demonstrate that its educational role is to serve the public, not solely the institution or any superordinate entity, and that its educational responsibilities take primacy over

other purposes, such as generating financial returns for investors, contributing to a related or parent organization or supporting external interests. (Current Core Component 1.D, Revised Core Component 1.B)

Criterion 2. Integrity

The institution should be able to demonstrate that its governing board meets the legal and fiduciary responsibilities owed to the institution while adhering to appropriately documented processes and procedures designed to preserve its independence from undue influence and to appropriately manage conflicts of interest. While members of the parent organization may have representation on the institution's board, the board of the institution should possess at least one public member. The institution should also be able to demonstrate that its governing board appropriately delegates day-to-day management of the institution to its administration and that faculty are empowered to oversee academic matters (Current Core Component 2.C, Revised Core Component 2.C and Assumed Practice A.8).

Criterion 5. Institutional Effectiveness, Resources and Planning

The institution should be able to provide clear documentation directly and exclusively related to financial support of the institution's current and future operations and where applicable, indicating financial commitments on the part of any parent organization with respect to the affiliated institution. (Current Core Component 5.A, Revised Core Component 5.B)

The institution should be able to demonstrate that its model of shared governance engages its internal constituencies, including its governing board, administration, faculty, staff and students through planning, policies and procedures and that faculty are substantially engaged in roles expected of faculty with regard to the academic enterprise. (Current Core Component 5.B, Revised Core Component 5.A and Assumed Practice B.2.d)

The appointed chief executive officer of the institution should not possess a conflict of interest with the parent organization. For purposes of HLC's expectations, such a conflict could reasonably be construed if the chief executive officer is also employed

² Institutions under federal control are exempted provided that they have other reliable information to document the institution's fiscal resources and management.

in another capacity by the parent organization (Current Core Component 5.B, Revised Core Component 5.A and Assumed Practice A.1)

The institution should be able to demonstrate that it allocates its resources in alignment with its mission and priorities. (Current Core Component 5.C, Revised Core Component 5.C)

Additional Information related to Finance

If funds are to be moved between the parent organization and the institution, a procedure should be implemented that provides a clear mechanism for the transfer of funds, which should include limitations on the drawing down of institutional revenues in excess of expenses.

If the institution and parent organization utilize a shared service(s) framework, with or without a fee structure, the parties should adopt a shared services arrangement(s) that ensures that the institution remains in compliance with HLC requirements.

If the institution does not possess the authority to create a financial reserve, the institution should demonstrate that its parent organization maintains a financial reserve explicitly dedicated to the institution. At a minimum, the institution should demonstrate that its parent organization has allocated reserves sufficient to support the institution.

When Autonomy is Reviewed

Evaluation of institutional autonomy will occur at least at the time of an institution's comprehensive evaluation but may also be a subject of examination at other times if the institution's autonomy becomes a matter of concern.

Questions

Contact an HLC Staff Liaison.