

## **Strategic Leadership Decision-making at Power Four AAU Schools**

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### **Abstract**

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*Exogenous events have disrupted higher education and impacted the decision-making skills of university presidents. While all university presidents are affected, the problem is most acute at the thirty-six AAU members of the power four conferences. The exogenous events were the precipitous cancellation of federal research grants, the on again and off again restrictions on both new and current foreign students studying at US universities, the proposed 15% limit on indirect costs, the tax on university endowments, the changes in student loan programs, the annual \$20.5 million NIL revenue sharing settlement for Division I (DI) athletes, and their share of the \$2.276 billion Name Image Likeness (NIL) settlement payable to athletes for prior years (2016 to July 1, 2025). These events will challenge the strategic leadership of the AAU power four schools.*

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**Key Words:** NIL settlement, power four, exogenous events

### **Introduction**

In the summer of 2025, the thirty-six presidents of AAU universities participating in the power four athletic conferences entered the perfect storm. There were sixty-eight schools in the power four conferences. The power four conferences were the Atlantic Coast Conference, the Big 10, the Big 12, and the Southeast Conference.

Exogenous events disrupted higher education and impacted the decision-making skills of university presidents. While all university presidents were affected, the problem was most acute at the thirty-six AAU members of the power four conferences. The exogenous events were the precipitous cancellation of federal research grants, the on again and off again restrictions on both new and current foreign students studying at US universities, the proposed 15% limit on indirect costs, the tax on university endowments, the changes in student loan programs, the annual \$20.5 million NIL revenue sharing settlement for current Division I (DI) athletes and the settlement payment to former athletes from 2016 to July 1, 2025. These events challenged the strategic leadership at these schools.

## Background

There are sixty-nine presidents at AAU universities located in the USA, and two presidents at AAU universities in Canada. Twenty-nine of the sixty-nine AAU schools did not participate in DI athletics, thirty-six AAU schools were members of DI power conferences, and AAU members. The NIL and revenue sharing settlement were only binding on DI athletic programs. Within DI only power conferences committed to revenue sharing of \$20.5 million annually. For the non-power four DI conferences the required annual revenue share varied by conference and ranged from \$8.7 million for Mid America to \$13.6 million for the AAC.

## Foreign Students:

Higher education services were the U.S.'s tenth largest export product with a value like the value for the export of automobiles. In 2018, the U.S. export of educational services totaled \$50.2 billion including education enrollment spending (Liu, 2025). In 2023-2024 international students numbered 1,126,690 with an educational services export value of \$50.5 billion (Lu, 2025). The export value of education services occurred when an international student enrolled in a U.S. based education program. In financial terms, educational services were like a foreign airline purchasing a Boeing aircraft made in the U.S. International students paid to visit the U.S. as they pursued a degree. But unlike automobiles and aircraft which contained components from outside of the USA, education created value which was entirely delivered in the U.S.

The recent U.S. policy of cancelled student visas and restricted access impacted applicants as well as current international students. The policy impacted university revenue and disrupted a valuable source of talent and innovation. Foreign students were a source of revenue as well as talent for universities. Foreign students increased the competition for all students, especially graduate students (Lu, 2025).

International students comprised greater numbers at AAU research universities.

At AAU power four school's foreign students generated a significant amount full price tuition. A 10 % drop in enrollment across all current foreign students created a \$1 billion dollar hit in tuition and a total hit of \$3 billion (Jack, 2025). Universities needed to determine how to manage the revenue loss as well as the talent loss of graduate and doctoral students.

While enrollments remained steady, changes to federal student loans impacted universities with increased costs. These changes impacted future students with reduced payment options, reduced, or eliminated interest free options, and extensive borrowing limits on undergraduate and graduate loans (Trump Law, 2025).

On August 29, 2025, the Department of Homeland Security proposed a rule to end duration status with fixed end dates on visa applications. Students and visitors were required to file formal extension applications, faced shortened grace periods, and faced limits on program changes. If they were to be implemented, the changes created confusion, increased costs, and reduced applications for research degrees (DHS, 2025). Implementation of this proposal severely impacted graduate enrollments at all AAU universities.

## Federal Research Funding:

The total value of federally funded R&D grew steadily since the 1960's. Sources of federal funding were NSF, NIH, NASA, DOE, Agriculture, and other agencies (AAU, 2025a). This funding supported faculty, graduate students, and programs that created major breakthroughs in science, engineering, and medicine. Three quarters of foreign PhD students remained in the US after they completed their degrees.

A 25 % cut to public research funding forecasted a 3.8 % drop in GDP (Mims, 2025). Current research funding cuts were 40 % for NIH, 56 % for NSF, and significant cuts in R&D spending at NASA, DOE, and other agencies (Kaimal, 2025). These cuts impacted the status of faculty and students at AAU research universities and created a significant revenue gap.

## Other Revenue Cuts:

At least three other actions impacted revenue at major universities.

First, the proposed reductions in indirect cost rates impacted university facilities and operating costs for major research operations. Indirect costs covered the operational expenses for research, such as the salaries of administrative and facilities staff, utilities, and library services.

Second, new tax rates on university endowments were expected to reduce revenue distribution from endowments. Endowments were designated for a specific purpose faculty support, program support, or students. The bottom line was that resources would be reduced. This limits the ability of a university to cover revenue shortfalls elsewhere. These endowments and tuition generate revenue along with auxiliary services (Gulla, 2025). At present the new endowment taxes only impacted top end private universities (Schneider, 2025).

Third, the scheduled change to federal student loan borrowing and loan repayments capped loans for attending undergraduate, masters, and professional programs. The caps were designed to reduce or slow tuition increases at universities. In the short run the caps limited enrollments and reduced university tuition revenues (Schermele, 2025). The proposed changes in federal loans raised interest costs, reduced payment options, and capped student borrowing (Trump Law, 2025).

These exogenous actions impacted the bottom line at major research universities. Such actions included loss of research funding, loss of talented graduate students, loss of tuition related to enrollments, cuts in indirect cost, taxes on endowments, and reduced federal backed student loan education programs.

#### College Athletics:

Historically the athletic programs were part of the university atmosphere and culture. Students were athletes, and a scholarship provided support for their degree. Coaches and athletic staff were not dissimilar from other university staff. Athletics provided visibility for the universities' academic programs.

The college sports industry and its conferences were not monopolies like the professional leagues but were more like forms of monopolistic competition. They were regionally located and happenings at one conference were independent of events elsewhere.

Once athletes made their commitment to a university, they were locked in for four years unless they wanted to sit out for a year and transfer to another athletic program. The expansion of cable created a need for content to fill the cable time slots. Networks began to bid up their payments for sports broadcasting and signed up conferences. The major conferences, their athletic departments and their coaches benefited from this largess. The student athletes did not benefit one dollar from this windfall. Athletic programs felt the need to invest more to keep up with the competition as they added staff and enhanced facilities. The "power five were born" (Robinson 2023). The reality was that the athletic departments, with their significant revenue generation, which they needed to support their athletic programs, created little or no benefits to the rest of the university. The power five programs became independent of the university. While athletics were touted as having a role in attracting applicants, their importance at AAU schools was called into question given the significance of high-quality applicants at the undergraduate and graduate level. The other argument focused on alumni engagement. Again, a dubious argument at private AAU programs where attendance at athletic events has declined.

As the power programs generated more revenue, the financial benefits to the athletes changed little. In fact, as more pressure focused on winning, athletes realized they were not winning for the university, but for the coaches and the athletic departments (Dinich, 2023). The myth remained that athletes create revenue for the university. In fact, any revenue created resided in the athletic department and not the university. This situation triggered events which resulted in the current state of power five and subsequent power four with the demise of the Pac 12. Two events were internal. The transfer portal in simple terms allowed athletes to post their names as being available for immediate transfer to another university without restrictions (Norlander, 2023). The NIL and revenue sharing allowed athletes to financially benefit from their name, image, and likeness (NIL) independent of the school. The NIL movement created collectives which provided benefits to athletes in exchange for using their name, image, and likeness (Bilas, 2022). Interesting side bar is why aren't universities rewarded for their name and brand use?

#### Transfer Portal and NIL:

The transfer portal created fluidity for athletes to move between schools without being locked in for four or five years. The transfer portal created a secondary market for recruiting which was more robust in terms of measuring an athlete's skill set and benefits from having a more experienced and knowledgeable athlete. This created benefits for the athlete and the school. NIL was not regulated but was more of a patchwork of state regulations. Collectives provided funds to athletes independent of the schools. Since the collectives were outside the control of the athletic departments, they were effectively competing with the athletic departments and the university for fund raising.

This situation created a huge opportunity for buyers and sellers' "remorse" for the collectives and the athletes (Higgins, 2022). Regardless of their flaws, the portal and NIL both created benefits for the athletes. As one coach bluntly said if you want us to win, the collectives need to provide more money (not sure if he was thinking about the athletes as much as himself) (Stefanik, 2023).

#### Free Agency:

The third and bigger impact was that the transfer portal and NIL removed any pretense of student athletes wanting to play and win for old glory. Amateurism was dead. Players were free agents, and the power five schools were professional franchises located within universities (Armato, 2022). This had a profound impact on where and when athletes decided to transfer until they were deemed professionally ready. However, many student athletes without many professional opportunities focused on maximizing financial opportunities and extending their eligibility to continue playing. This applied to the majority of student athletes.

For the recruited athletes, the objective was more about athletics and a professional career than a commitment to academics. The athlete's school selection was based on the ability to start for a team, their potential for exposure, and money. The selection not only involved the school but conference composition and the ability to compete against conference programs with similar priorities (Macintosh, 2023).

Conference consolidation continued and, in the end, created a duopoly. The recent conference movement was motivated by the economy and the declining fortunes of cable networks. The result was consolidation and conference shrinkage in an oligopolist situation, merely slowing down the race to an eventual duopoly (the power two) (Besanko, 2016).

#### Settlement Details:

The House settlement, which was effective July 1, 2025, has two parts: one governing a past athlete and the other governing current athletes. The settlement created a \$2.8 billion fund for athletes who competed in college at any time from 2016 through July 1, 2025. The second part was the revenue sharing cap. The cap was based on 22 % of current athletic department revenues. The cap varied by conference but for the power four conferences the revenue sharing cap was \$20.5 million. Current scholarships and other benefits already received are not included within the revenue sharing cap. The settlement also increased the roster limits for all sports. A school could decide to expand their current scholarship spending, but any increase reduced the revenue sharing cap by up to \$2.5 million. Any revenue cap funding was paid directly to the athlete (Murphy, 2025). Athletes were independent contractors, not paid employees. The settlement was limited to DI athletics Conferences and schools could opt in or out. The Ivy League opted out.

Players were allowed to sign third party contracts outside of the revenue sharing cap. To ensure "fair market value" based on an actual endorsement and not for recruitment, any NIL third party contract exceeding \$600 must be sent through a clearinghouse. It was expected that many of the prior contracts would not be approved. (Bachman, 2025) (Talty, 2025).

Schools controlled distribution of the revenue shared cap. The expected distribution (but not required) for a shared revenue cap of \$20.5 million was: football \$13-\$16 million, men's basketball \$2-\$4 million, and the balance shared with the other men's and women's sports. Schools were free to determine the distribution. The proposed distribution posed implications for Title IX and minor sports. There was also concern over the language used in the contracts to limit movement and in repayments on multi-year contracts (Jeyarajah, 2025).

#### AAU Presidents at Power Four Schools:

Based on the changing landscape of college athletics and the recent anti-trust landscape college athletics was at a crossroad.

Power four universities committed to the NIL settlement of \$20.5 million per year in revenue sharing. \$20.5 million was paid from additional athletic department funds, boosters, collectives, conference revenue distribution, and other sources. The other sources could include university funds. However, AAU member schools faced significant cuts in federal funding, so any institutional assistance would be off the table (Randazzo, 2025). Universities could support athletics with a direct transfer of funds. However, state schools could have restrictions on direct use of funds so they would use revenues from auxiliaries such as parking, housing, and dining.

Another avenue would be reduction or elimination of athletics' payments for policing and housekeeping at sporting events and payments for facilities use.

The thirty-six AAU presidents of schools in the power four conferences faced tough choices. The federal research cuts, loss of tuition revenue from missing foreign students, reduced IDC rates, lost tuition from federal financial aid, and the taxes on endowment income collectively will impact the universities bottom line. In addition, these cuts, and potential limits on indirect cost adversely impacted research, reduced the number of graduate students, and reduced potential faculty positions.

At the same time, the NIL settlement, and the commitments by power four schools required a distribution of \$20.5 million to athletes in 2025-2026 and may be increased by 4% in 2026-2027. The ability to offset this required distribution varied by athletic program. If a program were not able to cover the distribution where would the funds come from? The academic enterprise was under severe financial stress and faced challenges to provide the funds. Athletics were likely to share the pain in the form of cutting scholarships and sports (Schrotenboer 2025).

In the presence of no boundaries or limits, the cost of athletics ballooned. The benefits now resided with the athletes who were free agents, the coaches, the athletic departments, and the individuals who attended their events (Nietzel 2025). For an AAU institution, the brand was the quality of students, faculty, and research, not athletics. These universities produced innovative research, and their brand attracted students. The athletic programs provided zero or negative impact attracting outstanding students, high quality faculty, research funding, donor driven gifts and endowments, innovation, copy rights and patents. In fact, athletics competed with the universities for gifts and endowments as well as other revenue streams.

Athletics needed to be a stand-alone enterprise that created revenue from licenses, boosters, media rights, and ticket sales. If the revenues were insufficient, then like universities, the athletic departments should re-arrange the deck chairs. Unlike many universities that were limited in raising tuition, athletic programs raised ticket prices. Other options included increased student athletic fees, improved booster support, reduced costs, or eliminating programs. The individuals that consumed the product paid the cost of producing the product (Schrotenboer, 2025).

The costs continued to rise as free agent athletes bid up the costs and coaches' salaries rose at an accelerated rate. Faculty salary increases averaged 3.4 % over the last five years (AAU, 2025). At almost half of the power four schools, the combined cost of the coaches at a school exceeded the costs attributed to all student athletes at the school (referred to as the crossover point) (Dinich, 2025).

The athletic programs at power four schools were more like professional franchises than athletics at Division III schools. Pro teams sold for more than the value they created, but they sold because the owners wanted the association of owning a team. In college athletics boosters were like owners and were willing to pay even if cash flow was zero. The real test of the value of athletic teams was whether private equity was willing to invest. Private equity positioned themselves to make the investment worthwhile and expect a 10+% return, a situation which was the empty set without boosters covering the created loss (namely the \$20.5 million dollar NIL settlement (Baker, 2025). What were College football programs actually worth? Under this scenario rather than subsidizing athletics, universities should expect a 10% return. A highly unlikely prospect at most power four schools if not most schools in Division I (Rizzuto-Flancbaum, 2024). In the absence of a salary cap and restrictions on movement, costs will continue to rise faster than revenue generation.

Next:

What decisions were required? In strategic decision making the outcome is limited by cognitive capabilities. Bounded rationality and the magnitude of available information impaired decision making. This environment created cognitive biases: prior hypothesis bias, confirmation bias, escalating commitment, reasoning by analogy, representativeness, illusion of control or availability error. All these biases collectively or individually impaired decision-making. Another impediment to decision making was group thinking when decision makers failed to question the information or underlying assumptions. These factors resulted in poor decision making by strategic leaders. The decision-making was complicated by the mix of public and private and AAU and non-AAU schools which have different missions and objectives. University presidents fall victim to these biases in deciding to support professional athletic programs on campus programs. These programs clearly create value for athletes, coaches, athletic administrators, sports betting, networks, and fans, but what value do they create for elite academic research universities?

While the choice was between subsidizing athletics or not, the larger issue was should universities be in the professional sports business? The Ivy League and DIII answered the question with a no.

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**Table 1: NCAA REVENUE SHARING & NIL ESTIMATES 2025**

<b>Conference</b>	<b>Number of Schools</b>	<b>Avg. Annual Athletic Revenue per School</b>	<b>22% of Revenue</b>	<b>Est. Revenue Sharing 2025</b>
SEC	16	\$122,170,753	\$26,877,566	\$20,500,000
Big Ten	18	\$116,190,176	\$25,561,839	\$20,500,000
ACC	18	\$85,546,578	\$18,820,247	\$20,500,000
Big 12	16	\$77,077,997	\$15,415,599	\$20,500,000
Pac-12	2	\$60,974,391	**	**
P5 Sub-total	70	\$100,420,042	\$22,092,409	\$20,500,000
Mountain West	12	\$19,862,094	\$4,369,661	\$4,369,661
American Athletic	15	\$13,597,219	\$2,991,388	\$2,991,388
Sun Belt	14	\$9,187,681	\$2,021,290	\$2,021,290
Mid-American	12	\$8,651,993	\$1,903,438	\$1,903,438
Conference USA	12	\$7,466,103	\$1,642,543	\$1,642,543
G5 Sub-total	65	\$11,493,375	\$2,528,543	\$2,528,543
Another NCAA I	229	\$3,881,357	\$853,899	\$853,899
Totals – All NCAA I	364			

Source: NCAA, 2025

Indications were that every Power Conference school intended to commit to the maximum revenue sharing allowed of \$ 20.5 million for the 2025-26 year. If a school awarded additional athletic scholarships beyond the NCAA team limits in effect prior to House v NCAA, then the increased awards were counted as part of their revenue sharing pool up to \$ 2.5 million per year (NCAA, 2025).