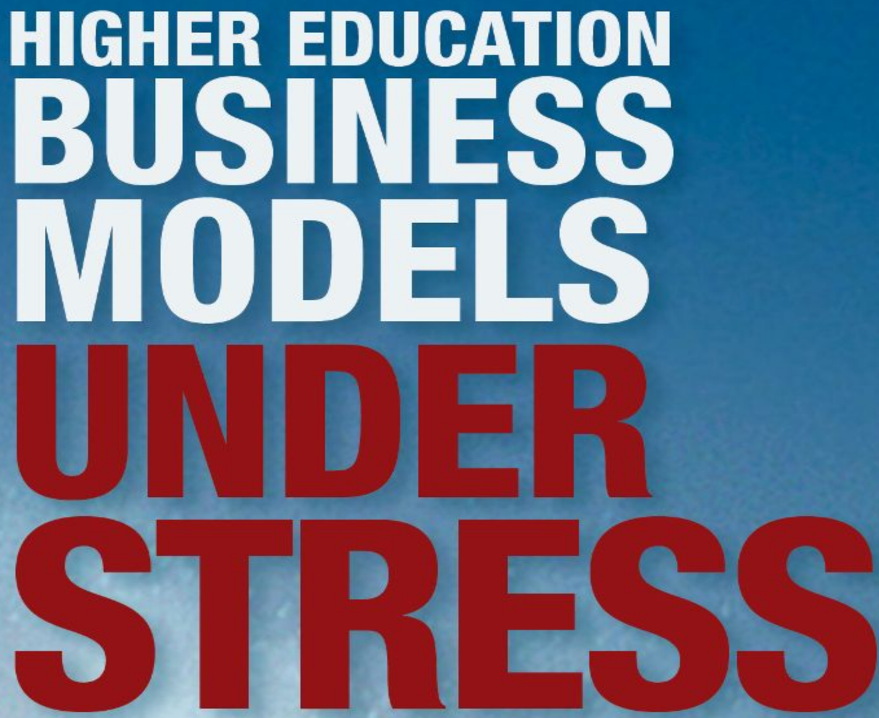
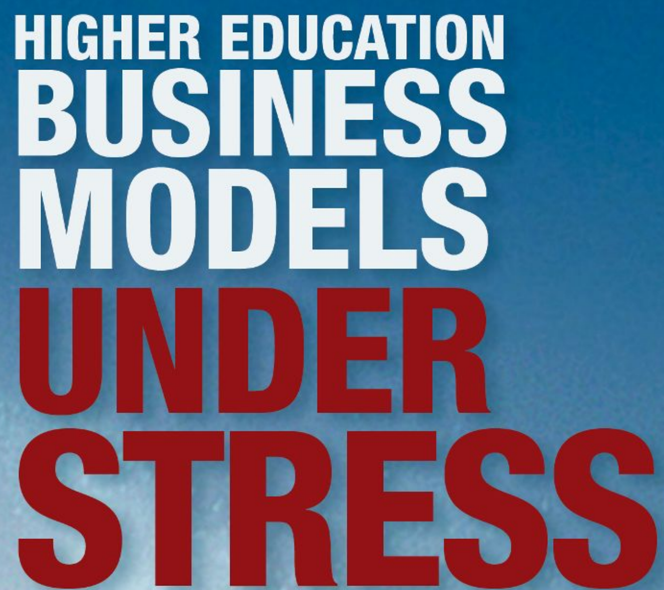


ACHIEVING GRACEFUL TRANSITIONS IN THE ACADEMY

Melody Rose
and Larry D. Large

AGB



ACHIEVING GRACEFUL TRANSITIONS IN THE ACADEMY

Melody Rose
and Larry D. Large

AGB

Higher Education Business Models Under Stress

Achieving Graceful Transitions in the Academy

Melody Rose and Larry D. Large

AGB

1133 20th Street NW, Suite 300, Washington, DC 20036

About AGB

The Association of Governing Boards of Universities and Colleges (AGB) is the premier membership organization that strengthens higher education governing boards and the strategic roles they serve within their organizations. Through our vast library of resources, educational events, and consulting services, and with 100 years of experience, we empower 40,000 AGB members from more than 2,000 institutions and foundations to navigate complex issues, implement leading practices, streamline operations, and govern with confidence. AGB is the trusted resource for board members, chief executives, and key administrators on higher education governance and leadership. For more information, visit www.AGB.org.

© 2021 by Association of Governing Boards of Universities and Colleges.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying, recording, or using any information storage and retrieval system, without permission in writing from AGB.
Printed in the United States of America.
ISBN 978-1-951635-12-1

Contents

Foreword by Henry Stoever

Introduction

Will the Business Model Survive?

The Plan of the Book

Chapter 1: Disruption and Danger Zones: A National View through Six Lenses

Lens #1: Student Demographic Trends

Lens #2: Higher Education as a Consumer-Defined Product

Lens #3: A Changing Business Model

Lens #4: Public Questioning of the Value Proposition

Lens #5: The Rise of Competing Alternatives

Lens #6: Student Debt—Media Hyperbole or Macroeconomic Threat?

The Need for Strategic Leadership

Chapter 2: Stress Testing the Business Model: Indicators and Alternative Models for Effective Strategic Decisions

Public Evaluations of Institutional Financial Health

Internal Financial Viability Measurements

Guidance to Board Members

Assessing Financial Health with Shared Governance

A Global Disruption with Local Ramifications

Steps to Transition

Considering Partnership Business Models

Acknowledging the Inevitable

Chapter 3: Closing with Grace: Definitions and Processes

Defining a Graceful Closure
Four Phases of Closure
Conclusion
Appendix 3.1: Closure Scenario

Chapter 4: Closing with Grace: The Marylhurst Experience

Historical Context
The Archaeological Dig Begins
The Turnaround Effort
The Announcement
Reflections form the Marylhurst Experience

Chapter 5: Achieving Graceful Transitions

Looking Ahead

Resources
About the Authors

Foreword

At AGB, we are committed to empowering board members, in collaboration with their chief executives and leadership teams, to serve as strategic thought partners focused on long-term sustainability and success for all students. Over the last 100 years, AGB has remained focused on supporting our members to navigate uncharted waters as they make strategic pivots necessitated by the changing landscape of higher education. And this moment of increased stress on the higher education business model is no exception.

Importantly, AGB's more than 40,000 members spanning more than 2,000 colleges, universities, and institutionally related foundations have recognized that maintaining the status quo should no longer be the goal for boards. To adapt to the changing landscape and environment, it is essential that higher education governing boards and their members act and think strategically while also embracing diversity of thought, expertise, and perspectives.

The advancement of higher education will demand in many cases greater vision to better align resource and programmatic priorities with student success and securing institutional vitality. Achieving this strategic alignment requires leadership, collaboration, and courage from the board, president, and cabinet members.

Governing board members bring valuable outside perspectives and experiences from other sectors which may elevate board conversations about innovation and change and help leadership see these issues with new insights. And the challenges higher education faces today may benefit from the reframing that board members provide.

It is more important than ever that we provide you with the insights and practical resources needed to respond to the ongoing transformations in higher education and society broadly.

This new work from Melody Rose and Larry D. Large is an important part of our efforts to focus your attention on strategic finance and the necessity to optimize the business model for financial viability. AGB's *Principles of*

Trusteeship: How to Become a Highly Effective Board Member for Colleges, Universities, and Foundations (2021) states explicitly that one of the fundamental responsibilities of each board member is to "think strategically by focusing on what matters most to the long-term success of the whole enterprise." It is axiomatic that effective strategic financial planning is informed by data-driven insights.

As boards fulfill their oversight responsibilities and collaboratively establish strategic plans with their presidents and leadership teams, it is imperative that discussions about finance and the business model are based on high-quality data and metrics, as the authors emphasize in chapter 2. We urge board members to request, evaluate, and discuss essential data and insights required to make well-informed, strategic decisions. Boards should rely on the chief executive and cabinet members to gather and present the necessary data to make good decisions. At the same time, board members should also ask probing questions to ensure that they and the administration understand and can address potential financial problems. Indeed, it is sound practice for boards to think about what may be missing and what other data and dashboard indicators might be more informative.

It would be a mistake to assume that higher education is no longer vulnerable. The growing number of college closures and campus mergers suggest otherwise. Despite a trend of good news about campuses reopening and the disbursement of federal pandemic relief funds, many questions remain about what the future holds. It would be unfortunate if the recent COVID-19 Higher Education Emergency Relief Funds have provided a false sense of security about business model stability, therefore contributing to governing boards and presidents failing to use this time to resolve or get ahead of any underlying financial challenges. Board members need to be in partnership with their presidents and campus constituencies as appropriate to address today's challenges, sharing their thoughts and suggestions. At the same time, we all need to recognize that higher education as a sector is changing drastically. Although it is not possible to predict what the next 5 years (or even 10 or 20 years) will look like, our boards and campuses do need to focus on the horizon.

Even as the future may seem hazy and even though some institutions are struggling to remain viable, my discussions with our members have paradoxically given me a sense of optimism. At AGB, we believe these vast

changes in society, while challenging in the near term, will ultimately infuse higher education with a new sense of purpose as we think in new ways about all that we do. This same optimism and sense of purpose pervades this important resource.

Henry Stoever
AGB President and Chief Executive Officer

Introduction

On March 6, 2020, the University of Washington announced to its students that it would be moving all classes online in three days.[1] It became the first American college or university to send its residential students home as COVID-19, a highly contagious infection caused by the novel coronavirus, was ravaging the city of Seattle. At first, some observers saw this decision as an overreaction; others viewed it as an isolated result of an emerging U.S. epicenter of the global pandemic. But what rapidly became clear to the American public, as virtually every college and university in the United States followed the University of Washington's lead in the coming weeks,[2] was that higher education was in trouble—as it continues to be at the time of this writing.

As the pandemic health crisis cascaded into a global economic crisis through the spring of 2020, virtually no economic sector was left untouched: hospitality and tourism, retail, and health care were the first sectors immediately impacted, but the devastation would not end there. A crisis of such proportions, wrought by a global pandemic the likes of which had not been seen since the 1918 outbreak of Spanish Flu, would reveal the structural deficiencies of many organizations and economic sectors. And as American colleges and universities responded to COVID-19 by sending millions of residential students home,[3] higher education became another case in point.

The closing of most campuses around the country had the impact of highlighting for a broader audience some of the fragilities already inherent in the sector's current business model. Residential institutions are veritable petri dishes: Akin to small, highly concentrated cities with extremely dense housing and high levels of sociability, college campuses by their very design make disease transmission easy. Through tightly packed classrooms, oversubscribed dorms, centralized dining facilities, and cheering football stadiums, this sector is a challenge for the social distancing management tools put quickly into place across American industry and society at large. This format of intense living, learning, and social interaction is, of course, at its core what makes American higher education distinctive; institutions trade

on the intimacy of the learning experiences and living environments of their campuses as differentiating market advantages.

Those distinctive features in part rationalize the high rate of tuition increases, which has approached 200 percent in the past two decades.[4] Without the high-touch environment, what is the point of $50,000-plus tuition? Many students and families asked themselves and college leaders this very question and continued to challenge higher education's value proposition as online learning and limited co-curricular experiences lingered through the 2020-2021 academic year.

To the close industry observer, colleges and universities have been under scrutiny for more than a decade due to overreliance on ever-higher tuition, matched by commensurate increases in tuition discount rates;[5] a veritable amenities arms race;[6] projections of enrollment decline;[7] questions about how much learning takes place in a typical college experience;[8] scrutiny of fraudulent admissions practices;[9] and other tragic scandals.[10] It all has led one recent work of scholarship to lay out the case that higher education is a "merit myth."[11] But to the larger public, those challenges to the higher education business model were not quite as obvious until the pandemic sent students home, spiking campus expenditures for online-learning platforms (and by the fall 2020 term, miscellaneous unexpected expenditures related to COVID mitigation) and rapid-fire faculty training in online pedagogy, while simultaneously devastating the auxiliary revenue sources that had come exclusively from the residential experience (housing, recreation center fees, food service, athletics, and so on).

The race to send students home begged all kinds of questions for campus administrators: What would be their liability for student health? Would they refund any of the housing or tuition fees already collected? And, crucially, could they welcome students to return to campus for the fall term, when most colleges book their highest net tuition revenues? If so, how would the campus experience change, and what would be the implications to expenses and revenues?

Amid these devastating, immediate economic impacts to campuses, the variable effects on students were also laid bare, exposing the inequities underpinning the current model: While well-to-do students could return to comfortable, spacious homes with adequate Wi-Fi for the sudden shift to online instruction, what would happen to international students (paying full

tuition), undocumented students,[12] homeless students, or those without a quiet study space, complete with a dedicated laptop and high-speed internet capability?

Those challenges and more would reveal themselves as the spring term wound down, shifting commencement activities online and dissolving athletic competition through the fall 2020 semester. And while the pandemic triggered such sudden and stark changes to collegiate life, it is important to point out that the flaws in the higher education business model were there long before the virus hit our shores. These systemic and structural vulnerabilities were more widely revealed and amplified by the crisis, but they were not born of it. To use an apt analogy, America's colleges and universities had very serious life-threatening and preexisting conditions going into the crisis. The pandemic merely accelerated them.

Will the Business Model Survive?

The predictions of higher education's demise over the past decade are only partially accurate. Clayton M. Christensen and Michael B. Horn famously declared in 2013 that "the bottom 25 percent of every tier, we predict, will disappear or merge in the next 10 to 15 years."[13] Since that time, and up until his death just before the pandemic hit in 2020, Christensen consistently predicted a 50 percent overall closure rate owing to massive disruption in the industry.[14]

Christensen's advocacy of this perspective was aggressive; he was roundly criticized for ringing the alarm bell early and loudly about the potential for disruption in the higher education sector. But we cannot totally discount his projections, which may now become more accurate given the current COVID-19 pandemic.

In fact, Moody's downgraded the sector in March 2020 from a stable to negative outlook, reflecting the pandemic's early impact, and that year saw additional campus closures.[15] S&P Global Ratings quickly followed suit, downgrading the outlooks of 127 individual institutions in May of 2020,[16] though to some degree, aid from the federal Coronavirus Aid, Relief and Economic Security (CARES) Act in 2020 offset some revenue losses and may have prevented further permanent closures.

This book, written as the pandemic was unfolding in mid-2020 and campus leaders were searching for 2020-2021 academic year solutions, is an effort to advise governing boards and campus leadership on their institutional monitoring systems and how to evaluate their readiness for major structural changes to the business model. Our effort will focus on the metrics that governing boards, as fiduciaries, should be examining with their campus leaders to monitor their institution's current and future financial sustainability and to assist them in making well-considered and judicious decisions for its future. With the sector facing an existential crisis, now more than before the pandemic, we offer guidance for evaluating your institution's readiness for an academic transition—whether that be a merger, affiliation, or strategic partnership—as well as counsel regarding the potential for closure.

We understand the crossroads many college and university governing boards and leadership teams are facing better than most industry observers. Together, we have nearly 75 years of combined experience in higher education, and both of us have worked in independent colleges, public universities, and at a statewide system. Neither of us has shied away from tough assignments in that time; in fact, together, we also bore the wrenching experience of closing a small, private, religiously affiliated university in the Pacific Northwest. We both advise institutions nationwide, providing board development and education, acting as thought partners to campus leaders, and teaching every stakeholder group who will listen about how higher education functions currently and what it will take to move to a more equitable, responsible, and forward-thinking model.

We have reflected on our years of service in our beloved industry, and the many hard decisions we have either advised or made ourselves, including the closure of Marylhurst University. Our firm belief, and the motivation behind this volume, is that major structural changes to the higher education business model like mergers, affiliations, partnerships, and closures can be implemented gracefully and in a manner that reflects sound fiduciary responsibility, honors the legacy of the institution, and protects students, faculty, and staff as much as possible.

In order to achieve thoughtful, structural changes that prevent campus closures, not only must governing boards carefully monitor the vitality of their campuses, but faculty, students and staff also should be engaged in learning the business of higher education. Without a shared understanding of

the campus business model and its forecasts for future sustainability, they cannot be full participants in shared governance and aid in making the kinds of prudent changes that can protect their institution's mission. The following chapters will provide evidence of these views, as well as practical tools that you can use to assist in a fruitful journey toward structural change.

The disruptions in our industry, wrought by the fourth Industrial Revolution and now accelerating due to the pandemic, must be managed effectively and efficiently. How we govern colleges and universities in the United States differs from the governance of other economic sectors and even from that of higher education systems found in other countries. American higher education is governed by two distinct systems, reflecting a multi-stakeholder view not found in corporate America or even in the rest of the nonprofit sector. The board of trustees (or regents, visitors, governors) works as a fiduciary and strategic guide with myriad stakeholder groups: students, staff, faculty, campus leaders, city administrators, alumni, donors, and policymakers. Though the board bears ultimate legal, financial, and moral responsibility for the institution's health and sustainability, it must be responsive to complex and competing constituencies, and it is most fully realized when it has the right composition, the right relationships, and the right focus.[17]

The board delegates management of the institution to the president or chancellor and senior administrative team and curricular oversight to the faculty in the American model of shared governance. In the best of times, the board/CEO/faculty matrix provides role clarity and effective processes for timely decision-making; shared governance is viewed as a "system of aligning priorities."[18] But in other cases, such as when colleges and universities went into the recent pandemic with preexisting financial health conditions, fractures and ambiguities in the governance structure became contributing factors to institutional distress. And when a crisis hits as abruptly and as unexpectedly as COVID-19 did in early 2020, the speed with which vital decisions must be made accelerates, and any structural or cultural weaknesses in governance may impede sound and timely action.

Our view is that sound governance is a prerequisite of a healthy institution. Without it, it is difficult to succeed, under any circumstances. When boards or campus shared governance participants move too slowly, or act from a place of constituent advocacy instead of shared interest, even change necessary for survival can become elusive. Fear of and resistance to

structural change will not serve us now. As we consider the necessity of structural change, be it institutional mergers, strategic affiliations, partnerships, or campus closures, we must responsibly consider the vital role of enterprise governance and identify urgent areas for its improvement. As with everything else about American higher education today, disruption in our governance structures is possible, and perhaps even desirable, to avoid decision paralysis. We must tackle this challenge head-on for the benefit of our institutions and their many beneficiaries.

We wrote this book to offer encouragement and practical advice to boards and leadership teams who are considering structural change. Never has a moment for change presented itself quite so starkly to our industry. Fiduciaries and leadership are being called to answer the question: Do we repair a broken system, or do we reimagine it?

Our hope is that the reader will consider the latter, buoyed by our experience and guidance. While some analysts offer practical tips for executing a merger,[19] and others offer advice about how to avoid a closure through affiliation or turnaround,[20] we believe ours is the first offering to encourage a fearless look at your institution and a willingness to consider hard, structural change. In fact, we believe it is the fiduciary's responsibility to do so, which is why we link structural change with strong board oversight throughout this book. In the pages that follow, we hope to provide you both with our compassion and our collective insight, and to suggest that you approach the necessity for change with hope and determination.

The Plan of the Book

Chapter 1 will make the case for structural change by setting our current institutional crisis in a broader, national context. We catalog the many disruptors our colleges and universities were facing even before COVID-19 hit our shores. We consider those disruptors the preexisting conditions that left our higher education patient weakened and with few traditional cures, even as the pandemic took hold. From there, we offer specific guidance about *how* boards should monitor their institution's health and readiness for a shift in the business model toward mergers or strategic affiliations in Chapter 2.

Rather than be overly prescriptive about *what* to monitor by mandating a standard set of metrics,[21] in Chapter 2, we encourage a process that will strengthen board governance, clarify roles, and reveal a set of local metrics that can have shared meaning and meaningful buy-in, where all relevant stakeholders have committed to making the outcome successful. The optimal process will result in a shared understanding of the institution's condition and its concomitant options.

In Chapter 3 we turn our attention to the grim reality facing a growing number of distressed institutional boards: that their beloved college or university is beyond the opportunity for merger or strategic affiliation, and thus fiduciary responsibility dictates a closure. Here we encourage a timely and thoughtful decision that, in our view, results in a graceful closure and protects the institution's legacy as well as limits individual and institutional liability.

Chapter 4 applies the practical advice from Chapter 3, demonstrating how we operationalized these closure protocols in our own experience closing Marylhurst University. To our knowledge, this is one of the first accounts of a closure, and the only one specifically for governing boards from the perspective of the executives who implemented it,[22] and we offer our best thinking regarding how-tos and lessons learned. As such, we lend insight into what key challenges may be expected during a closure, even one well-conceived and carefully executed.

Our conclusion provides some final thoughts on the current closure wave and the steps already in motion to regulate the closure of colleges and universities. Policymakers, regional accreditation bodies, and the U.S. Education Department are leaning into the trend of "abrupt" closures, which are detrimental to all stakeholders. And while their desire to protect students, in particular, is well-intentioned and well-placed, we believe some of the proposed policy changes will have negative, unintended consequences. Our hope is that by strengthening board oversight and decision-making grounded in the institution's financial realities, such regulatory impulses will become unnecessary.

Chapter 1

Disruption and Danger Zones

A National View through Six Lenses

American higher education is experiencing a period of rapid transition. Campuses nationwide are feeling the impact from major shifts in demographics, pedagogy, business models, student aid and financial monitoring, technology, competition from alternative education credential providers, and public support, among other key areas. In conversations in state and federal capitols, and in the homes of current and prospective students, people are increasingly questioning the value propositions of colleges and universities. And employers are wondering if institutions are adequately preparing students with the skills necessary for productive careers in their organizations and industries.

Given this dynamism and the heightened scrutiny, higher education is a topic of growing public interest. A professional media ecosystem has long covered the day-to-day news and trends in the sector, headlined by the *Chronicle of Higher Education*, *Inside Higher Ed*, and *Higher Ed Dive*. Major national newspapers like the *New York Times*, *Boston Globe*, *Washington Post*, and magazines like the *Atlantic*, *Forbes*, and the *Economist* have also taken frequent interest in issues concerning colleges and universities. Each one has documented the new forces and challenges besieging a substantial portion of American higher education institutions—even before the widescale campus closures and the shift to remote or hybrid instruction modes in 2020. The news media coverage has been echoed in the reports of financial rating organizations such as Moody's[1] and Standard & Poor's,[2] which downgraded their assessment of the financial health of many of the nation's campuses in 2020 and again in early 2021.[3]

Those contemporary descriptions of American colleges and universities often deviate substantially from an earlier narrative that highlighted the

stability, sanctity, security, and independence of America's college campuses. Instead, the current news accounts and financial reports depict an industry in financial crisis and under threat, standing in stark contrast to earlier, halcyon days, when the United States was seen as the world's gold standard for higher education.

The discussions surrounding the accelerating market disruption in American higher education now include recurring themes such as affordability, equity, and access; fiduciary responsibility; alternative business models; student debt levels and loan default rates; and new models of online instruction and delivery, including for-profit providers of alternative education credentials. Public interest and analyses now incorporate concepts previously foreign in their application to higher education settings: productivity measures, cost-benefit analyses, scorecards, online delivery platforms, teach-out plans, mergers and acquisitions, transparency, and transformation.

Several earlier cautionary examinations of the industry signaled that serious threats to the business model were looming. More than a decade ago, both the late Clay Christensen, a Harvard Business School professor, and Robert Zemsky, from the University of Pennsylvania's Graduate School of Education, separately predicted the deep disruption of American higher education—with prescient calls for innovation.[4] Indeed, Christensen developed the widely cited theory of disruptive innovation that subsequently swept the business world. Zemsky, founder of Penn's Institute for Research on Higher Education, pioneered and championed the use of industry market analyses while calling for reform in college costs and quality.

A review of the macro circumstances, including the preconditions and unprecedented disruption brought about by COVID-19, brings immediate context to those scholarly arguments. The current financial and academic health of American higher education is best understood through six "lenses" that provide a useful perspective for understanding the array of factors at play in our nation's colleges and universities today.[5] These lenses include: (1) student demographic trends; (2) a shift toward higher education as a consumer-defined product; (3) changing business models; (4) public questioning of the value proposition; (5) emerging alternatives to the traditional higher education model; and (6) growing student debt. A look through each lens can give college and university board members a clearer

view of how higher education institutions must operate today, the challenges they must confront, and why their business models are under such unprecedented stress.

Lens #1: Student Demographic Trends

Today, there are more than 5,000 postsecondary institutions in the United States, of which over 3,800 are accredited and eligible to have enrolled students receive federal financial assistance. The supply of higher education opportunities in comparison to the demand for admissions is becoming increasingly unbalanced, with more "seats" within American colleges and universities than high school students willing to fill them. Some initial worrisome demographic projections suggested that, while certain subgroups of potential students, such as Latinx students, will grow, fewer 18- to 24-year-old students in total will be available to enroll in traditional institutions of higher education beginning in 2026.[6] Most recently, a report from the Western Interstate Commission for Higher Education's (WICHE) on high school graduation projections show 3.8 million American high school graduates in 2019, a number projected to peak at nearly 3.9 million in 2025, about 10 percent higher than those earlier projections. After 2025, however, "the U.S. should expect successively fewer annual number of graduates in virtually every graduating class between 2026 and 2037," the WICHE report concluded. The high school graduating cohort in 2037 is projected to be about the same in number as in 2014 (3.5 million).[7] These predictions are corroborated by data that shows the birthrate in the United States declined for the sixth year in a row in 2020. The pandemic has exacerbated that trend, with birthrates dropping 4 to 8 percent during that year alone.[8] The bottom line: boards should not expect their institution to thrive over the next decade by growing enrollment from the traditional source—the annual pool of high school graduates—as that is not going to correct the imbalance.

Other demographic groups may partially offset the enrollment decline, such as veterans and working adults. In fact, an estimated pool of 36 million military veterans and working adults have some college credits but no degree and are not currently enrolled, and of those, potentially 10 percent have "high potential to attain a credential," according to the National Student Clearinghouse Research Center. Those potential completers could fill more

higher education seats if college and university business models adapted to facilitate their enrollment in greater numbers with, for example, generous credit transfer policies and work- and family-friendly support systems.[9] For-profit colleges with online instructional models have, in fact, targeted people in those very groups to fuel part of their growth.

Ultimately, however, no current enrollment pattern in the nonprofit portion of the higher education sector will adequately fill the void of the shrinking high school applicant pool. The drop in national enrollment is ongoing, and in sum, fewer students across the nation are attending college than they were six years ago, according to the National Center for Education Statistics.

Another important demographic shift is occurring in the racial makeup of the college-eligible high school cohorts. AGB describes some of these changes while making the business case for governing boards to pay greater attention to issues of justice, equity, and inclusion in a recent AGB Board of Directors' statement:

> 'Between 1996 and 2016, the percentage of undergraduate students of color grew from 29.6 percent to 45.2 percent, and the share of graduate students of color grew from 20.8 percent to 32.0 percent' (ACE, 2019). The projected demographics of high school graduates by race and ethnicity 2012–2032 indicate that within the next decade the White non-Hispanic population will decrease by as much as 15 percent in the Northeast, Midwest, and in some western states, while the number of Hispanic and Asian/Pacific Islander public high school graduates is expected to grow by over 7.5 percent in most states.
>
> Additionally, the total United States population is expected to become increasingly racially and ethnically diverse (Census.gov, 2020). Between 2016 and 2060, the Asian population is expected to double and the LatinX population to nearly double. The African American, American Indian and Native Alaskan, and Native Hawaiian and Pacific Islander populations are each expected to grow by a minimum of 38 percent. Individuals who define themselves as multiracial are projected to increase almost 200 percent over the next few decades, while Non-Hispanic Whites are expected to decline by almost 10 percent during the same period.[10]

WICHE's report shows the White non-Hispanic percentage of high school graduates will dip below 50 percent before 2023 and continue to gradually decline thereafter. Meanwhile, LatinX high school graduation numbers are expected to expand at a faster rate than any other group, with smaller growth rates for Asian/Pacific Islander students and multiracial students."

As Don Hossler and Jerry Lucido note regarding these trends in *Understanding Enrollment Management: A Guide for College and University Board Members*: "The largest percentage of nonwhite students will be LatinX students, many of whom will be first-generation college students coming from low-income families. Such students … will be more price sensitive than previous student cohorts and will be more likely to live at home."[11] The needs of these students will differ from the mostly White cohorts that preceded them, and they will be more cost sensitive and perhaps less interested in or willing to pay for a residential campus experience. To enroll these students and help them complete a degree, colleges and universities will have to adapt.

Native American, African American, and LatinX student populations continue to have suboptimal access to higher education. This is despite decades of public attention to the pattern and the overall negative economic impacts on affected families (in terms of building capital for intergenerational transfer of wealth) and the national economy (in terms of fully developing human capital).[12] Unfortunately, higher education in general has yet to provide not only adequate access to these underserved populations but also the support they need to succeed in and graduate from college.

For example, even though more LatinX students have been enrolling over the last decade, degree completion for these students continues to be a significant challenge. African American and Native American students are also still struggling to realize access and completion rates on par with their White non-Hispanic peers. Colleges and universities' shift to a consumer-defined mix has not been driven by efforts to meet the needs and preferences of these underserved populations, but sustaining future enrollment streams will, without doubt, require college leaders and boards to better understand and respond to their particular needs. It will also require collecting more data on these subpopulations of potential students to inform and improve leadership decision-making, as Tia Brown-McNair, Estella Mara Bensimon and Lindsey Malcolm-Piquex advocate in *From Equity Talk to Equity Walk*.[13]

Lens #2: Higher Education as a Consumer-Defined Product

Demographic trends, along with advances in technology, have changed who determines the bundle of goods and services that make up the educational and social product that virtually all colleges in America offer. To reduce the dynamic to an oversimplified generalization: students will choose to attend those institutions that provide what they—and in some cases, their parents—perceive to be what they want and need.[14]

Most of the academic traditions in the world have generally operated in the opposite direction, a pattern unchanged for centuries. That is, the faculty members, governing boards, and administrators have set the academic curriculum and related services; students have then competed to fill the highly valued seats on a particular campus. And historically, remarkable levels of similarity have existed among colleges and universities across the United States in terms of the mix of academic programs and services.

That is no longer the case. The consequences for all colleges and universities related to the paradigm shift in American higher education from provider- to consumer-driven dynamics is significant and profoundly complicated.[15] Besides the major projected decline in college-bound students and advances in technology, what else caused this evolution from institution-led decisions to student-led demands?

Societal changes

To start to answer that question, one must first look to the past. The public's current perception of higher education as an individual consumer benefit sharply contrasts with a more optimistic and confident view following World War II, when a long period of economic expansion and advancing technology called for an educated workforce. Later, a more complex and information-based economy brought still more societal demand for access to postsecondary education. All the while, lower-income segments of American society could achieve some semblance of social mobility through educational opportunity, even if it was not equitably distributed across racial groups.

Indeed, during most of the 20th century, a fundamental premise prevailed: that a high-functioning democracy is best served by a more highly educated electorate and citizenry. This notion of the public good of higher education is

an important American value that is often underappreciated today. It connotes that broad access to higher education serves to improve society and make it better for everyone.

But the commitment to higher education as a social good, with positive externalities spreading beyond the student receiving the education (or the student's family), has gradually eroded with cuts in public funding and the rise of for-profit online degree and program-management systems. Instead, a new ethos, casting higher education as a commodity to be marketed to those consumers who can afford it, suggests the benefits are wholly or mostly private and individual. Richard D. Legon, past president of AGB, captures this attitudinal change elegantly: "The substantial paradigm shift from higher education being understood as a public investment (a public good) to being treated as a private benefit for the consumer (the individual student) has reallocated the cost burden in ways that have real risks and policy implications."[16]

Shifts in government programs and subsidies

Part of this attitudinal shift is the result of cutbacks in government support per student at both the federal and state levels. In the heyday of the mid-20th century, The GI Bill, or Servicemen's Readjustment Act of 1944, granted stipends covering tuition and expenses for the people who fought in World War II, helping educate millions of veterans and leading to the significant expansion of colleges and universities. The National Defense Student Loan program and higher education legislation starting in 1965 (amended throughout the 20th century with more limited amendments in the 21st century), also provided incentives for growth in the number of postsecondary institutions. Perhaps the most significant government program was the creation and funding that year of the Federal Supplemental Educational Opportunity Grant, later named Pell grants after its principal legislative sponsor, Senator Claiborne Pell, which provided funding for lower-income students with financial need to attend college. All of these federal programs contributed to the stability and growth of traditional higher education institutions.

Yet after the enrollment bubble of the Baby Boomers subsided in the mid- to late-1970s, the dynamics gradually—and some would say imperceptibly—changed. The availability of federal dollars for low-income students via Pell

grants and evolving advances in instructional technology were both added growth factors to the emergence of a robust for-profit sector that greatly expanded the capacity of American higher education. In other words, public policy encouraged the creation of more supply (seats) just as other factors (e.g., the aging of the Baby Boomer generation) shifted demand downward. That gap between supply and demand has had obvious impacts on the bottom lines of many traditional institutions.

Meanwhile, federal support did not keep up with the rising costs of college, and in turn, the price of tuition for students. A case in point is the Pell Grant: from a high in 1975-76, its purchasing power has shrunk from covering nearly 80 percent of a four-year degree at a public university to now only about 28 percent.[17] Another example: while a new GI Bill in 2008 was enacted to support veterans, the benefits it provides are far less generous than those in the original bill.[18]

In addition, beginning in the 1980s, state funding per student began to drop in public systems just as more and more students enrolled in colleges and universities while tax revenues were increasingly redirected toward other public priorities, such as prisons and state employee pension funds.[19] Increasingly, the cost—and in many ways, the perceived benefits—of attending college shifted to the individual student. In recent decades, tuitions have risen twice as fast as inflation and also grown as a proportion of college budgets, especially at public institutions.[20]

As Jon Marcus of the *Hechinger Report* has written, state appropriations per full-time student, adjusted for inflation, have fallen notably over the last decade, pushing up the portion of university budgets that come from students' tuition. Citing the State Higher Education Executive Officers association (SHEEO), he notes: "Ten years ago, students and their families paid for about a third of university operating costs.… Now they pay for nearly half."[21]

Pandemic challenges

The dynamics of the 2020 pandemic have accelerated the challenges for many higher education institutions of responding to consumer demands, creating unexpected pressures on institutional bottom lines. Indeed, the full ramifications of the pandemic have most likely yet to play out.

While colleges demonstrated admirable nimbleness and responsiveness by immediately switching their classes from residential to virtual when the pandemic began, a number of students have questioned the need to pay full tuition for online only courses. As reported in *Inside Higher Ed*, students and parents have filed hundreds of lawsuits demanding their tuition be refunded for educations "they deemed to be either substandard or not what they were promised." IHE goes on to say, that while judges have dismissed a good percentage of them, and such suits may face an uphill battle, "dozens of other courts have given the plaintiffs preliminary victories by allowing the lawsuits to go to trial—and at least two colleges have agreed to pay millions of dollars to settle lawsuits."[22] This trend is indictive of increasing demands for transparency regarding when and how institutions allocate their expenditures.

Also of growing concern: pandemic-mandated adjustments on campuses, such as limited or closed housing, have affected some demographic groups more profoundly than others. A disproportionate number of low-income students, for example, do not have personal or family access to high-speed internet to receive remote instruction. Unfortunately, prior solutions, such as campus-based technology and Wi-Fi, do not always suffice, given the extensive restrictions to campus access, including in some cases closed buildings and libraries.

The inequities highlighted in the pandemic have exacerbated a growing awareness of the underlying disparities in higher education: that some people can afford the advantages of attending college much more than others—and that higher education has thus become more of a personal benefit and individual responsibility than in the past.

Lens #3: A Changing Business Model

After viewing higher education through the first two lenses, it is now easier to see that compelling socioeconomic forces are spurring the evolution of new business models for colleges and universities. Today's consumer-driven product is not likely to roll back to the previous century's more traditional academic model. Demographic swings, the erosion in government investment, societal shifts in attitudes, the challenges of the pandemic—the

sheer scope of the many disruptions calls for fundamental reform of the higher education business model. But will our institutions have the financial agility and the governance cultures to adapt and survive—to navigate the necessary transformation?

Colleges and universities now must grapple with growing pressures on both the cost and revenue side of their business ledgers. We've discussed the shift in revenue streams in recent decades from state and other government appropriations to a greater reliance on tuition payments by the individuals enrolling in higher education. As a result, despite the changing racial and ethnic mix of student cohorts and an overall college enrollment decline, a decades-long, counterintuitive pricing pattern has prevailed. Notwithstanding the unfilled capacity of many colleges and universities, there is a nearly universal pattern of tuition increases that are multiples of the general price inflation for the same periods.

Indeed, the news media have reported extensively on rising tuition, as the rate of growth has exceeded both standard price inflation indices and the increase in average family income.[23] What has not been as widely covered, however, is the phenomenon of tuition discounting, or a form of campus-based "scholarship," whereby a student doesn't pay the full, advertised sticker price of the tuition but is assessed a lesser amount. The typical admissions department on campus would label the practice as awarding scholarships based on merit, and to be sure, the academic strength of the prospective student and receipt of a discount on tuition have usually been correlated. That said, tuition discounting has more often than not been a means for colleges and universities to compete for students to fill their seats. (Such merit scholarships have also been a way to elevate the profile of the campus to future prospective students via national ranking publications like *U.S. News and World Report* and others.)

The practice of tuition discounting got generally began in private, nonprofit colleges in the 1980s with discount rates in the mid-teens—perhaps not coincidentally at about the same time states started disinvesting more in higher education. Average tuition discount rates grew into the mid-20 percent range for many of those same institutions in the early 2000s. And these days, it is not uncommon to find private, nonprofit institutions discounting more than 50 percent of the published price.[24] In fact, it was recently reported that, among private nonprofit colleges, the average discount rate for first-time

undergraduates has reached almost 54 percent.[25] Somewhat similarly, since the 2008-09 Great Recession and the accompanying reduction in state support to public institutions, many public college and university campuses have adopted the practice of setting high out-of-state tuition and then offering discounts to nonresident applicants.

Yet for the most part, higher education institutions' net revenues have remained relatively flat. That suggests rising costs in the form of these discounts and other direct expenses are keeping net revenues flat or below historical averages. In other words, colleges and universities are not making bigger margins despite charging higher prices for their offerings.

Meanwhile, institutions must cover significant fixed costs. Higher education is a labor-intensive industry, and colleges and universities are often valued according to the extent to which they provide students with close relationships with their instructors. Unlike in other industries, economies of scale in education delivery have not been encouraged or easy to come by. As higher education has become a consumer-defined product, like we described in section #2, students and their families have been increasingly demanding more individualized attention, not only in the instruction they receive but also throughout the rest of their experience on their campuses.

We'll discuss the key cost drivers for colleges and universities, several of which are somewhat more controllable than others. But even those costs that are less fixed, such as marketing costs, are usually propelled by the institution's need to meet consumer demands and, in some cases, to simply survive in today's competitive environment.

Amenities costs

Older visitors to a contemporary American college or university, especially those who have never been on a campus or parents who haven't returned since their own graduation, are often taken aback by the expansion of the amenities and services now offered as a matter of course. From lavish dining facilities with lots of options to climbing walls in brand new fitness centers, higher education institutions have been competing for students in part via a veritable amenities arms race over the last 25 years.

For example, one of the highly valued and high-cost services that prospective students, and especially parents (particularly in an era of campus mass shootings in America), expect is a robust campus security force. The form this service takes is replete with variables, in part affected by the profile of the urban or rural setting where the institution is located, and could feature armed or unarmed security staff, sworn public safety or police officers, working agreements with community police forces, or some other arrangement. Prior to the 1970s, campus security often was limited to a small workforce patrolling the campus in the evening and weekends, ensuring buildings and residence halls were locked and secure. Now consumer expectations range from fully sworn officers to escort service providers. Thus, colleges and universities are making much larger investments in campus security, the costs for which are covered with a combination of tuition and auxiliary enterprise revenue. In short, the increased demand for campus safety adds to the price of attendance.[26]

Another set of student services, focused on student health and support for success, has also expanded substantially over the past 30 years. These include campus infirmaries and student health centers, mental health support staff, career counseling staff, and the general academic and social support infrastructure. A case in point: the demand for mental health services for students, faculty, and staff has been growing exponentially—a demand the pandemic has significantly increased.

The technology infrastructure is an additional expensive cost center that also only became more expensive in response to the pandemic. With the proliferation of smartphones and computers, students, faculty, and staff are expecting extensive Wi-Fi availability for their personal and productivity devices. And the massive switch by colleges and universities of many, if not all, of their classes and operations online during COVID-19, certainly intensified the demands.

The added investment in these expanded student services is a direct response to student and parental demands—the consumer-driven product trend from well-off families as described in the earlier section on lens #2. It is also a result of admitting a growing number of students from disadvantaged backgrounds, who perhaps enjoy fewer social and economic supports than their better-off peers. First-generation students and/or students with few financial resources need different support services than middle-class and

wealthy students do and recognizing that trend and funding it appropriately is a premise of equity in higher education. Not to provide such services creates added opportunity barriers for the under-served and can also compromise the competitive position of a given campus and impede its ability to attract and retain students from all backgrounds.

The proliferation of these services has added substantially to the cost structure of the traditional campus. The current business strategy has been to provide high-quality student services in order to attract more students, especially to entice and enroll those who come from more privileged and high-income families—those that can afford to pay full, undiscounted tuition. Such well-heeled consumers of higher education increasingly determine what mix of services colleges and universities provide and at what quality levels, as we saw in lens #2. They enroll at the institutions that most closely meet their expectations and that they or their families can afford.

At the same time, a parallel yet very different market trend has emerged. In order to break down equity barriers for poor and first-gen students with historically low college-going rates, colleges and universities will have to meet them where they are and provide the service they need. As we've suggested, these new students will make new demands, and in this case, if higher education institutions don't adequately respond, they will be erecting further barriers to access. In fact, you could say the well-heeled students are demanding "amenities" while the less affluent and traditionally underrepresented students need "support services."

In either case, it is a market-driven phenomenon. The question then arises: How can campuses not only identify the appropriate menu of services to provide but also afford to market and deliver them?

Marketing costs

Although nothing in higher education is universal, one cost that has had a measurable impact on virtually every campus is the increased investment in marketing to drive institutional reputation and enrollment over the past 30-plus years. Campus leaders are correct to point out that investing in marketing is essential in order to achieve enrollment goals. Both lenses #1 and #2 (shifting demographics and the consumer-driven demand) signal that without such investment, enrollment numbers and tuition revenue will suffer.

Steep increases in marketing expenditures are a function of the level of tuition dependency of each campus. Some elite private and public institutions with large endowments and a flood of applicants do not need to increase marketing expenditures significantly to protect enrollment goals and tuition revenue, but many do anyway for other competitive reasons (e.g., to recruit high-profile research faculty, to rise in the national rankings, and so forth) and for fundraising purposes.[27]

Personnel and legal costs

Administrative personnel costs have spiked in the last few years, a pattern that corresponds to the trend toward more services and amenities, which has created the need for increased levels of professional employees to develop, deliver and administer those services and amenities. In turn, as those staff members have proliferated, they have required more managers to oversee and direct them. The high cost of the salaries of such supervisory personnel often exceeds the pay levels of faculty and academic support staff, though these salary differentials vary significantly among campus types.

As institutions become more committed to providing a variety of services and amenities, they are also experiencing an increase in civil litigation from employees and students. Rock-climbing walls afford greater opportunities for injuries; study abroad programs come with a myriad of legal risks and exposures.

Most recently, the COVID-19 pandemic has provided an extreme example of the legal risks higher education institutions can suddenly and unexpectedly incur. The pandemic has added to the already growing legal expenditures, as colleges have had to interpret and adjust policies in order to comply with ever-changing regulations related to testing, masks, vaccines, and the like. Moreover, institutions have confronted not only the loss of tuition dollars from homebound students who are no longer using auxiliary offerings like housing, dining and many other services, or from those who have totally withdrawn during the pandemic, but they are also facing significant legal costs as students have sued for refunds. And after having to lay off some employees due to the difficult financial conditions created by the pandemic, some institutions are grappling with legal actions instigated by faculty and administrators claiming wrongful terminations.

Government regulation compliance costs

While government support has declined as a portion of many institutions' revenue streams, colleges still receive significant funding from federal and state governments. In fact, American higher education has become a highly regulated enterprise supported by billions of dollars from federal financial aid programs, research grants, and other public investments. Meanwhile, each state also financially supports public higher education institutions with direct appropriations, and several offer state-funded, need-based financial aid to students attending private, nonprofit institutions within that state, as well.

Not surprisingly, federal and state governments require reporting and accountability for how those dollars are used. The costs of such regulatory compliance are not insignificant. Institutions must monitor and report on such data as: graduation rates, employment metrics for graduates, debt/default rates on student loans, Title IX compliance (including assurance of equal opportunity for athletic participation and facilities, as well as the appropriate handling of sexual discrimination cases), and much more.

Likewise, the costs incurred for institutions related to compliance with regional and discipline-based accreditation agencies have increased owing to added requirements imposed by federal oversight of the accreditation process. Federally recognized and approved accreditation is the threshold for eligibility for students to receive federally funded and administered loans and Pell grants plus other benefits. As the accountability for complying with federal guidelines becomes more complicated, the frequency and level of review that accreditors have to implement increases. Those increases have escalated the costs for accreditors—and therefore for campuses, as well.

Athletics costs

Intercollegiate athletics is a more variable cost center—one that is seldom carefully examined in business models but that can have significant impact on an institution. With the exception of, at most, 20 Division I campuses in the National College Athletics Association, most intercollegiate athletics programs require financial subsidies from their institutions even after accounting for philanthropic gifts from alumni and other fans. Many Division II and III programs also contend that tuition revenue should be added into the

financial analysis and rationale for supporting athletics. The argument is that athletic programs not only attract student athletes to enroll but also create social and recreational opportunities for *all* students. It is difficult to know the full financial impact of the subsidies to athletics because the difference between tuition discounting and offering athletic scholarships is not always possible to separate.

Proliferating new services and amenities, increased marketing requirements, expanded personnel, additional legal risks, growing government regulations, rising athletics expenses—the quest for new business models requires strategies that make these costs more transparent to the internal and external constituencies of institutions. As campuses incorporate more and different instructional options, especially in the wake of the pandemic, an à la carte philosophy, whereby students pay only for the services they use, may emerge in the pricing of tuition and amenities. Such a shift would force more institutions to focus on finding strategic partners to achieve economies of scale for both student support and academic services. At the same time, as institutional business models adapt to the new challenges, many of the traditional functions of American colleges and universities will come under public scrutiny, especially those that go beyond the narrow definitions of academic programs.

Lens #4: Public Questioning of the Value Proposition

Is college worth it? An increasing number of prospective students, and their parents, are asking that question. And many low- and middle-income families, staring at high tuition sticker prices that exceed general rates of inflation, answer that question in the negative.[28]

Why? Most often, the reasons they give relate to price. And, of course, the sticker price is the direct result of the escalating cost structure we've described. Yet, as we also noted, ever higher rates of tuition discounting have ironically left net tuition revenues flat for many campuses.

The fact is that news media accounts of why tuition is rising faster than general inflation are based on an outdated concept of what contemporary higher education is now expected to deliver. That is especially true when compared to the expectations of 30 years or more ago.

We’ve already touched on students and families’ desire for modern amenities and expanded support services like plush residence halls, lavish dining services, and state of the art fitness centers and facilities. Moreover, college and university marketing campaigns often tout these same amenities as reasons to enroll at a given institution. Each campus is trying to attract more from that ever-shrinking pool of new students or transferring students.

The public presentation of what college is about tugs at the continuing dichotomy: Is higher education a public good, or is it a personal benefit? Public opinion on that question is divided, with correlations to one side or the other tied to race, income level, and political identification.[29]

While somewhat of an oversimplification, our view is that the people who have the time and financial capacity to complete a degree tend to think it is a personal responsibility and a personal gain. Typically, they also see the achievement of a degree as serving the public good, but they do not always favor a public investment to assure that lower-income families have that same opportunity. At the same time, those who cannot afford to attend college still want the opportunity to climb that ladder of economic and social mobility, which for prior (mostly White) generations made true the American Dream.

But the construction of the “personal benefit versus public good” presents a false dichotomy.[30] Educational outcomes are real and important for both the individuals who directly invest in a college degree and for the general welfare of our society more broadly. Individuals certainly do benefit from access to a college education and its amenities and services and, after graduation, to a higher lifetime earnings potential.[31] And society also benefits from higher tax revenues, a more efficient use of human capital, and a stronger economic and social fabric from the spread of social equality.

What’s more, while colleges and universities are offering an expanded menu of attractive amenities to attract enrollees, they are also providing a longer list of vital support services to make up for the failure of alternative social safety nets. Teen depression, anxiety, and suicide rates are skyrocketing, and colleges and universities are being asked to cover for the failures of the other systems.[32] Those trends have only been exacerbated by the pandemic, and America’s colleges and universities have a moral obligation to meet these needs. To be sure, the vital contributions of a professional cadre of campus security personnel or clinical psychologists are

not ordinarily highlighted in articles about tuition hikes. People also often tend to give short shrift to all that is required to meet students' expectations of job placements into high-paying positions within weeks of graduation.

That said, the public's diminishing recognition of the value of higher education is a clear and present danger for colleges and universities. A tangible manifestation of that occurred in the Paycheck Protection Plan of the U.S. federal government in the spring 2020 allocation of funds to support American workers during the pandemic. Airline companies in the United States employ about 750,000 Americans, and those companies received $50 billion in the PPP program. By comparison, American higher education institutions employ 2.3 million people across the nation, yet the higher education enterprise received just $14.3 billion—about one-fifth of the airline industry's allocation, in the first wave of federal assistance.[33] Eventually, a third wave of federal assistance, authorized by the passage in December 2020 of a new coronavirus relief package, pledged another $21.2 billion to higher education institutions via the Higher Education Emergency Relief Fund (HEERF).

The original outlay in spring 2020 was in disregard of the major economic impact colleges and universities have on their surrounding communities. With employee layoffs and reduced student attendance—if not complete evacuations in the spring of 2020—the local communities where the campuses are located lost a high percentage of business driven by the campus community. Without graduations, other special events that bring family and friends to campus communities, and the normal off-campus business activities, those local communities—and the support systems they provide—also lost substantial tax revenues.

The PPP metrics clearly demonstrated that this economic impact was not in the calculus of the policy makers in spring 2020. It's one more glaring indicator that—from Eugene, Oregon, to Russellville, Arkansas, to Hiram, Ohio, the level of the public confidence in American higher education and belief in its value are diminishing.[34]

Lens #5: The Rise of Competing Alternatives

Many students can't afford college without also working, or they are older and often parents with family demands—all of which has required extending the time it takes to complete their degrees. In a digital era when instant gratification is the norm, it is not surprising that four-year degree programs—or, in many instances, what have become *de facto* six-year programs—seem too protracted and expensive for some students. Meanwhile, the employers who are seeking skilled personnel for their businesses are feeling just as impatient—albeit for different reasons—as college-age students are. Both stakeholder groups are chaffing at the opportunity costs related to longer time frames for degree completion.[35] Those high opportunity costs have fueled a growing demand for faster and cheaper alternatives to the traditional college bachelor's and/or associate degree. Such options include badges, certificates, various "nano degrees," and the like—many of which are delivered online.

Micro credentials are especially appealing to the lower-income and debt-averse portions of the American public, and they represent opportunities for direct access for students to some job skills that are vitally important in the economy. Many of those options have the capacity to become "stackable." In other words, some of the same micro degrees or credentials might be applied in the future as credit(s) toward associate or bachelor's degrees and beyond.

The ability to transfer such credits to more traditional degree programs, however, varies significantly. The credit transfer options depend both on the level of accreditation of the entity that is delivering the curriculum and certifying the competency, as well as a varied pattern of acceptance by receiving institutions. In some cases, for example, an institution will only accept credits through student examinations. In others, the receiving campus will offer students a pre-committed acceptance of for specific courses and levels of achievement.[36]

The emerging alternatives to the traditional postsecondary programs of study are challenging the heretofore monopoly of nonprofit higher education for making people smarter and officially certifying them as such. For some time, people have made implicit assumptions about Americans with a bachelor's degree and their capacity to perform professional employment and citizenship responsibilities with a high level of intellectual agility. Yet technology and progressive financial models are producing changes that are now extending the culture to include new modalities of learning and the

certification of acquired competencies. The pervasive shift to online learning during the pandemic most likely only reinforced the viability of this type of education.

In short, American practices for signaling professional aptitude and job-skill credentials are changing. This is in direct response to what employers and students are seeking (faster and more flexible training), and what the new, mostly for-profit, educational technology companies offer (course content and credit delivered via remote digital modes).

Yet despite the disruption to the market by these new providers, which face smaller startup and transaction costs than traditional residential colleges, traditional institutions continue to market and cater predominantly to the recent high school graduate. Although most college administrators seem to recognize that the profile of the contemporary student is evolving and diversifying, fast and cheaper degree alternatives are not yet fully incorporated into the planning and execution of the missions of most traditional campuses.

The continuing migration of students to competing alternatives to traditional institutions seems inevitable. In fact, some of the competition to traditional colleges and universities is coming from business and corporate entrants into the market, such as Walmart and Starbucks, who are developing their own programs to train workers.

As we mentioned in section #2 of this chapter, the most recent predictions are that the percentage of White, traditional-aged college-going students will decline significantly due to falling birth rates in that category. Meanwhile, U.S. Census data projects pockets of growth among the Latinx population (and to a lesser degree, Asian Americans). Another growth opportunity will certainly be working adults, many of whom have already gained some academic credits. Consider the following snapshot of some additional demographic information and circumstances of the undergraduates already enrolled today:

- One in five is at least 30 years old.
- About half are financially independent of their parents.
- One in four is caring for a child.
- 47 percent have or are now going to school part time.

- 25 percent take one year off before starting, (prior to the 2020 pandemic).
- Two out of five attend a community college.
- 44 percent have parents who have not completed a bachelor's degree.[37]

Those demographic characteristics suggest the value of a more flexible and adaptive delivery model than most American campuses have implemented to date. That inflexibility will probably change out of financial necessity for a substantial number of institutions. Of course, make no mistake, a handful of campuses will try to cling to the less-flexible models, and a few of those stalwarts will survive and may even flourish.

Which institutions are most likely to continue to do so? Undoubtedly, it will be the selective, elite institutions with national brand recognition and large endowments, which are experiencing record applications despite the pandemic. Which are most likely to falter? Regional institutions located in rural areas with low selectivity and small endowments. What students are most likely to want the traditional model? Students at such campuses will very likely differ from the above profile of the general market that's emerging and, given the limited size and number of those institutions, will increasingly be the wealthy and/or the academically prepared.[38]

Lens #6: Student Debt—Media Hyperbole or Macroeconomic Threat?

Few higher education issues have commanded more public media attention in the 21st century than escalating student loan debt burdens. When the aggregate debt level nationally passed one trillion dollars in 2012, the press focused extraordinary attention on the magnitude of the total amount and some extreme examples of individual debt. Some of the examples cited were well into the six figures.[39]

We've heard fewer stories, however, about average debt balances—which have been running just a little over $30,000 in recent years—as well as what percentage of students did not use student loans as their means of financing their enrollment.[40] As data from a recent College Board report reinforces, the

extreme examples obscure the real impact of average debt on graduates. The news media also rarely explain that most students don't pay the full tuition price. As we described in section #2 on the changing business model, a strategically embedded tuition discount practice (e.g., campus-based "scholarships") is part of many institutions' business models.

Yet even with deep discounting, the "net" tuition for many students is still so unaffordable that they require additional aid from the federal government and oftentimes from state governments, as well. Increased borrowing remains an inevitable outcome of this cycle, and the loan balances per student continue to grow higher.[41]

The rising tuition sticker price is also negatively impacting the enrollment of students from low-income and/or minority families. Many of these students may be the first in their family to seek a college degree. Lacking experience with the college admissions system, they may not understand the common discounting of tuition that mitigates the high sticker prices. Those high tuition prices put off inexperienced applicants and their families, who often do not realize the net price will be much lower with Pell grants and after tuition discounting. Thus, our complex pricing systems create yet another barrier to entry.

What's more, even if average individual student debt is lower than often reported, the gross amounts of student debt can have negative macroeconomic implications on students and the U.S. economy. For example, students with average student debt are required to pay higher interest rates for other debt instruments like auto, credit card, and mortgage debt. Writing in May 2020, the Student Borrower Protection Center stated: "Findings show that the impact of student debt is much bigger—even borrowers who can afford their monthly student loan payment are paying an additional secret price on other credit products."[42]

Shady lending and collection practices are also among the troubling manifestations of the high student debt levels. In a five-part series, "The Killing of American Higher Ed," Alan Yeck, the director of professional and continuing education at Elmira College, describes the abusive practices of the federal government and private firms that profit from the student debt programs. As a measure of the national interest and attention to student debt dynamics, Yeck enumerates 31 separate proposals for student debt relief and remedy proffered by U.S. presidential primary candidates in 2020.[43] More

recently, a number of states and the federal government have, in fact, been considering forgiving and cancelling the debt of many students and their families.

There are significant disruptions to the American economy and political dynamics stemming from the current student loan model. Although not intended to be a comprehensive inventory of those disruptions, they include:

A. The intersection of federal policy and the business interests of for-profit lenders has created a stream of policies that continues to prohibit discharging of student loans through bankruptcy. Though not well known, the federal treasury also realizes direct revenue from the loan programs for students and parents.

B. Institutions cannot be held accountable for excess borrowing by their students because they cannot prevent students from borrowing while they are enrolled. Students are discouraged from over borrowing, but the campus personnel cannot prevent such practices.

C. Students with significant debt from student loans, even those who complete their degrees and have well-paying jobs, are strapped with monthly payments that often preclude them from buying other consumer goods such as houses, cars, and other products that underpin the broader economy. A growing percentage of students return to live with their parents as a hedge against housing and utility costs.[44]

D. Some students borrow extensively but do not complete their degrees. This "debt but no degree" outcome inhibits their lifelong earning capacity yet does not lessen the burden of repayment.

Meanwhile, students who opt out of college for fear of incurring large debts, or who drop out after having done so, also significantly impact higher education institution's business models through the loss of their tuitions. And that means, ultimately, that the student debt crisis has profound implications for the financial viability of many colleges and universities going forward, as well.

The Need for Strategic Leadership

Looking at higher education through the six lenses, we can see that a combination of pressures is forcing a series of changes in how colleges and universities operate. Some of these disruptors to the industry include demographic trends; mission expansion due to consumer demand (amenities and support services); a higher cost structure, including administrative salaries; an erosion of public support over the past decades; and the emergence of alternative education providers with shorter completion times.[45] The foregoing are examples of what one might call preexisting conditions that threaten the viability of the traditional offerings of higher education even under normal economic circumstances. The 2020 pandemic has intensified and accelerated the financial impacts of those challenges, and the pressure to adapt and change will only continue to grow amid these trends.

The result of these ramped-up pressures may include more closures of campuses and more mergers, strategic affiliations, and partnerships crafted to keep some institutions from financial collapse. The closures and mergers could even approach the levels predicted by Clay Christensen, including his early disruption projections, widely thought by many professionals at that time to be unreasonably aggressive. His forecast, however, did not consider the intervention of a global pandemic. And he did not expect several rounds of financial assistance from the federal government as an eventual, if belated, response.

The challenge for everyone who values the history and contributions of the higher education sector in the United States is not to let panic overwhelm directive and corrective action. Rather, campus leaders—presidents, administrators, trustees, and faculty—must respond with a higher level of strategic agility than in past decades, focusing on three goals: 1) student success, 2) the financial well-being of the institution, and 3) the education of stakeholders.

First, leaders must not compromise the delivery of educational services to students. That might involve examining and evaluating the potential for multilateral partnerships with other institutions or even outside entities in the delivery of campus services. New business models may turn in that direction as the costs of the services and tuition price pressures mount. And as these

partnerships/consortia develop and gain increasing levels of acceptance, the reduction in costs could eventually lead to some reduction in tuition, as well.

There has been an enduring notion underpinning the current business model—a kind of "monastery mind-set"—that implicitly assumes that all content and services must be designed and delivered from within each individual campus. But that doesn't necessarily have to be the case—and could very well be counterproductive going forward.

For example, when it comes to campus security, public systems of colleges and universities could share resources, as they do in Nevada, enabling them to obtain economies of scale. In fact, public systems around the country, under the leadership of the National Association of System Heads, are already examining how they can provide many more new opportunities for collaboration and innovation in ways that help fundamentally reduce the cost base of individual institutions.[46]

Some colleges and universities could also contract with local, county, or state police forces to provide the same high level of service they once offered alone. The recent nationwide protests in the wake of longstanding racist patterns in law enforcement have eroded confidence in the police, especially among college students. But higher education institutions may find opportunities to aid the police in a transition out of a highly military ethos into a more modern set of values centered on community-engaged policing.

More college leaders could also explore partnerships with nearby technology companies to help support their institution's technology infrastructure and achieve economies of scale. Greater numbers of campuses could also join with others to deliver low-enrollment courses concurrently. That would allow economies of scale and the use of technology to minimize costs.

As case in point is the University Innovation Alliance (UIA) headquartered in Arizona. The UIA member campuses are producing outcomes, especially for low-income students, with reduced costs per credit for classes that are typically under-enrolled if offered only by a single institution.[47] Greater acceptance of technology-driven teaching and learning platforms, part of the changing business model, encourages such partnerships.

Second, in the context of financial health, campus leaders should make maintaining a balanced budget over multiple fiscal periods their operational North Star. (The ubiquitous slogan: "No margin, no mission" is simple but

accurate). The increase in campus bankruptcies and closures demonstrates what happens when an institution's budget enters a dreaded cycle of unsustainable deficits.

The third goal requires each president or chancellor to become a "teacher" with a distinctive lesson plan for campus constituencies, depending on the relevant financial health indicators for that institution. In fact, the acronym "CEO" has taken on new meaning in the current environment: a campus leader must increasingly play the role of "chief education officer" in addition to handling the conventional responsibilities of college and university presidents.

Nearly all colleges and universities are tuition dependent; perhaps only as few as 20 of approximately 3,800 accredited postsecondary institutions are not. Therefore, a higher education leader disclosing and delivering enrollment details and patterns is a primary message that campus personnel need to hear and understand. Likewise, campus employees should be informed and knowledgeable about other revenue sources such as fundraising, research grants, and auxiliary revenue streams.

Increasingly campus CEOs are also being asked to account publicly for cost patterns and the changing trends in campus expenditures. What new programs are succeeding in attracting student interest? What program reductions are under consideration? How are those changes most efficiently and effectively executed within a shared governance culture? What are the balances between instructional expenditures and other costs for administration, athletics, campus security, regulatory reporting requirements, and the like?

The teaching burden on the campus leader, in fact, does not stop on campus with internal stakeholders. Presidents and chancellors must also engage the members of the governing board. The level of understanding among trustees varies when it comes to the macro circumstances of the higher education enterprise and how their specific campus fits into the national patterns. Explicating those circumstances to the board must be a goal for each president or chancellor.

Governing board members, in turn, must communicate the new realities facing their campus, and the broader circumstances for higher education, to their closest constituents. That includes, typically, alumni or connected business colleagues. Boards also need to learn the scope of the changing

interpretations of the fiduciary responsibility clauses in their states that apply to nonprofit boards for colleges and universities.[48] This is especially important when the financial viability of the institution is under increasing stress.

Two additional “classrooms of students” that presidents and chancellors need to address strategically are local businesses and the news media. Few journalists know about or fully understand the financial and other challenges facing American higher education in general and the local campuses within their areas of coverage in particular. Campus presidents and system heads can provide an important public service by taking on this challenge. The broader public needs to know the how and why of major shifts in what institutions do, and can do, to fulfill their traditional public missions.

Finally, and most important, college and university leaders must recommit to achieving higher education’s core values. Those include fostering student success, teaching critical thinking, developing interpersonal skills, achieving intellectual agility, encouraging effective citizenship, ensuring professional preparation, and addressing equity issues to provide opportunities to students of all economic and ethnic backgrounds. As the tagline for one institution in Georgia states: “Make a Life, Make a Living, Make a Difference.” The nation’s economy and democracy need that special attention and leadership, and they need it now.

Inevitably, different challenges for higher education institutions will emerge in the future. That is not only expected, but it is also a desirable outcome. Governing boards, presidents and campus leaders—as well as state and federal officials, professional associations, alumni, and faculty members—will all need to cooperate around the principles of student success. All must be consonant with the core values listed above if colleges and universities are to transition gracefully through a series of major disruptions.