Sustaining the College Business Model

How to shore up institutions now and reinvent them for the future
Harness the Power of Dual Transformation

Lay the foundation for tomorrow’s campus while strengthening your core mission today.

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### About the Author

Scott Carlson covers the cost and value of college as a senior writer at The Chronicle of Higher Education. In 19 years there, he has written about a range of issues: college management and finance, campus planning, energy, architecture, and sustainability. In 2017 he wrote the in-depth report “The Future of Work,” and in 2016 he led a series on how higher education perpetuates inequality. He was the founder and host of The Chronicle’s popular Tech Therapy podcast and has contributed to The Chronicle Review pieces on Marxist scholars, resilience, and practical skills in education. His work has won awards from the Education Writers Association, and he is a frequent speaker at colleges and conferences around the country.

Cover photo illustration by Paul Compton

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The 20th century was good to higher education, as institutions and enrollment grew. But pressures have mounted in recent decades. Rising labor costs, falling public funding, suppressed tuition revenue, and demographic changes are straining the college business model. And the sector isn’t known for finding efficiencies. Both buoyed and burdened by years of tradition, acres of infrastructure, and scores of personnel, many colleges and universities are struggling financially.

While converging crises have crippled some campuses, and a small number of them close every year, the grimmest forecasts seem unrealistic. Elite institutions, of course, are thriving, sitting on billion-dollar endowments and attracting more than enough students. Among the rest of higher education, competition is fierce. Small private colleges and regional public universities especially are scrambling to cover costs while seeking to improve their market positions. Whether they limp along or manage to prosper is largely a matter of the vision and will of campus leaders.

Some institutions have steadied themselves by focusing on fundamentals: solid accounting, cost controls, updated academic offerings, and robust student recruitment. Effective financial stewardship demands streamlining processes, programs, and sometimes personnel — and making strategic bets. Fortunately, the industry has enormous untapped potential. Some institutions have managed to leverage both tradition and innovation to pivot in new directions, even becoming exemplars.

Colleges aspire to be mission-driven, pursuing learning and knowledge untainted by business concerns. But campus leaders who don’t grapple with their costs and revenues in detail cannot set priorities wisely. To meet the demands of an evolving market, institutions must shore up their finances now while considering major transformations in what they offer, how, and to whom.

Diagnosing Problems

As external factors bear down on higher education, other challenges come from within. Keeping close account of expenses and revenue, down to departments and students, isn’t an established practice on many campuses. “I don’t know, and I don’t want to know,” said one board member, and it’s a prevalent attitude up and down the ranks. Many institutions have inefficiencies in academic programs and personnel management they can no longer afford. Cost tracking and program-prioritization studies are crucial to recognizing the uncomfortable truths and making the hard choices that will strengthen institutions.

Building booms, deferred-maintenance backlogs, and poor space utilization also pose problems for pressured institutions. Space inventories and campus plans for no net growth can help. On various fronts, leaders must immerse themselves in data and engage with stakeholders to understand options and set a course.
FINDING SOLUTIONS

Grow Tuition Revenue

Under financial strain, many institutions try to bolster a main revenue stream: tuition. They start programs relevant to the market, go looking for new student pipelines, encourage transfer in, or promote retention. A few common strategies are to focus on dual enrollment of high-school students, develop policies to attract adult learners, and reach out to underrepresented-minority populations. Three profiles show administrators making shrewd decisions about which programs to add, sometimes with unlikely partners; investing in advising and other resources to support students to graduation; and targeting recruitment to become designated as a Hispanic-serving institution.

Streamline Operations

The decentralized nature of many campuses can easily hide duplication and waste. The euphemism “right-sizing” may mean cutting departments, offices, and people — but also improving processes and services, so as not to make anything harder than it needs to be. A business mind-set should drive but not determine decisions, and cultivating buy-in from across the campus is key. Three profiles illustrate a strategic program review, an overhaul of academic departments, and the adoption of “lean management.”

Collaborate and Consolidate

Collaboration is uncommon in higher education and need not compromise colleges’ uniqueness. Mergers, too, should happen more often, experts argue. Both routes are fraught with angst and obstacles, and when campus leaders announce plans, the work is just beginning. But combining efforts and sharing resources, from academic programs to back-end office functions, can generate economies of scale and new opportunities for students. Two profiles describe consolidations in a large public system and between a land-grant university and an online player.

Reinvent Yourself

Change can be born of desperation. What passes for innovation in higher education typically just doubles down on or incrementally improves existing functions. But some institutions facing imminent or looming existential threats have pulled off major transformations. Three profiles describe the transition of an urban work college, the remaking of academic departments and colleges, and a turn toward low-residency adult education.
COLLEGES ARE ENDURING ENTITIES.

The nation is dotted with institutions of all types that are centuries old, having withstood shocks including the Civil War, the Great Depression, and the social upheaval of the 1960s.

If colleges are going to continue to weather uncertain times, then they’ll have to do what many over the years have done in the face of adversity: Adapt.

It’s the rare institution of higher education that has always held a commanding financial position. The vast majority vacillate between periods of relative wealth and want — with some perpetually on the edge of oblivion. Even notable institutions like Northwestern University, Pomona College, and the University of Chicago have grappled with dire financial challenges, Brian C. Mitchell and W. Joseph King point out in their new book, How to Run a College. Those places adopted innovations and emerged as industry leaders in the decades since. Over time, many institutions have clawed their way back from the brink, even reopening after dramatic closures.

The looming question today is: Will this time be different? The picture may not be as grim as doomsayers predict, but the financial pressures bearing down on colleges probably will do some in. Others will survive as shells of their former selves. It’s up to their leaders whether they merely linger or begin to prosper again.

For most of the past 100 years, the trend line in higher education was up. The 20th century brought remarkable expansion: surges in enrollment following both world wars, particularly World War II, when veterans went to college on the GI Bill, and a degree was a ticket to the middle class. Big public universities went from a few thousand students to tens of thousands within a few decades, and hundreds of community colleges opened. Many private institutions raised their profiles and their endowments.
Most of the people who lead colleges today came of age in that era, or their perspective on higher education has been shaped by those who did. Now they’re forced to realign their expectations with a new reality.

One fundamental problem is an imbalance of supply and demand. Growth in the number and size of colleges up to this point doesn’t match the starkly declining population of high-school graduates to fill them. Projections by the Western Interstate Commission for Higher Education already looked bleak, but a new demand index by the economist Nathan D. Grawe shows that around 2025, totals will fall off a cliff, with the steepest declines in areas where colleges are concentrated. Only in pockets — mainly the Rocky Mountain states and Texas — will the number of traditional-age students reliably increase. Regional four-year colleges, defined as outside the top 100 in the U.S. News & World Report rankings, will see demand plummet, notably in the Northeast and Midwest, says Grawe, a professor at Carleton College, in his book Demographics and the Demand for Higher Education.

That’s as colleges are straining under steady expense growth. In this labor-intensive industry, rising labor costs are a main driver. Rosters of professors, administrators, and professional staff members are growing, graying, or both, and colleges need to cover those salaries and benefits. While mass production and overseas labor have driven down the cost of most products and services, the price of tuition has increased at two to three times the rate of inflation, outpacing food, clothing, housing, and, in some cases, even health care.

The price of tuition has increased at two to three times the rate of inflation, outpacing food, clothing, housing, and, in some cases, even health care.

Yet colleges face a third detrimental fact: suppressed revenue. States have pulled back support for higher education, making public institutions more dependent on tuition, as private colleges always have been. Meanwhile, family incomes have stagnated or declined, particularly following the 2008 recession. Fewer students and families are able or willing to pay full tuition, as the value of a degree has become a public debate.

In recent years, predominantly private col-
leges have offered incentives to enroll, but that practice poses its own challenges. Tuition discounting — a break on the sticker price in the form of scholarships, or institutional grants — can lure students by dangling the appearance of a bargain on a college education. The average discount rate has reached about 50 percent for first-time freshmen, meaning that colleges give half of tuition back to students, a share experts believe is unsustainable. Elite institutions still attract more than enough students, but among the rest of higher education, competition is fierce.

Some campuses have added expansive services, new facilities, and amenities: High Point University, in North Carolina, became famous for its lavish fitness center, first-run movie theater, five-course meals, massage services, and ice-cream truck — a “Disneyfication” of the college experience that other institutions have pursued in more modest ways. Some moves have saddled colleges with debt, inflated their administrations, and added to already pressing maintenance needs. In state systems, repair bills can run into the billions.

Converging crises have crippled some campuses. A number of small private institutions — Burlington College, in Vermont; Saint Catharine College, in Kentucky; and Saint Joseph’s College, in Indiana — have closed in recent years. Public colleges and universities in Wisconsin and Georgia are merging in efforts to become more efficient.

Most institutions operate in a tension be-

**FIG. 1: BALANCING THE BUDGET: A MOUNTING CHALLENGE**

Labor costs will drive expense growth, which may outpace lagging revenue growth.

<table>
<thead>
<tr>
<th></th>
<th>Change in revenue</th>
<th>Change in expenses</th>
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<tbody>
<tr>
<td><strong>Private nonprofit colleges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>2017 est.</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td>2018 proj.</td>
<td></td>
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<tr>
<td>2019 proj.</td>
<td></td>
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</tr>
<tr>
<td><strong>Public colleges</strong></td>
<td></td>
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<tr>
<td>2013</td>
<td>2%</td>
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<tr>
<td>2014</td>
<td>3%</td>
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<td>2015</td>
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<tr>
<td>2016</td>
<td>5%</td>
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<tr>
<td>2017 est.</td>
<td>6%</td>
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<tr>
<td>2018 proj.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019 proj.</td>
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<td></td>
</tr>
</tbody>
</table>

Note: The graphs display the aggregate annual percentage change for the approximately 550 Moody’s rated institutions. The 2017 figures are estimates; the 2018-19 figures are projections.

Source: Moody’s Investors Service, 2018 Outlook for Higher Education - U.S.
tween tradition and innovation, and some have been able to leverage both, even becoming exemplars. Southern New Hampshire University embraced competency-based education and forged relationships to conduct training for major corporations. The University of Central Florida tripled its enrollment; Arizona State and Liberty Universities became online giants. In lesser-known success stories, Paul Quinn College transformed itself into a work college, and Goddard College shuttered a tiny, money-losing undergraduate program and expanded a low-residency adult-education program. Other places have steadied themselves by going back to basics: They controlled costs, updated their academic offerings, and improved their marketing. If they’re lucky, that can be enough.

But strategies now may not work for decades, given the pace of technological and social change. The lifespan of companies on the Standard & Poor’s 500 Index has dropped from 67 years in the 1920s to 15 years today.

Leaders at the Georgia Institute of Technology know that its strong market position now has no guarantee. So they assembled 50 faculty and staff members and students to consider how changes in technology, the economy, and education will affect the institution by 2040 — and how it should adapt. A report released this spring advises Georgia Tech to develop lifelong relationships with students, to find new ways to educate them and award credentials based on real-world learning, and to reconsider the primacy of the physical campus to deliver a Georgia Tech education.

The task campus leaders confront is to
shore up their institutions now while reinventing them for the future. This report highlights efforts both to sustain the current business model and to transform it. Some distressed institutions, often small private colleges and regional public universities, might need to act fast; others may feel less pressure but could stand to strengthen their positions.

Beyond the market forces straining colleges, the report examines some internal deficiencies. Decentralized budgets and insufficient accounting make it hard to track costs. Many institutions can’t afford inefficiencies in academic programs and personnel management — or building booms, given deferred-maintenance backlogs and poor space utilization. A lack of financial stewardship can exacerbate problems.

The latter half of the report explores emerging ideas and practices that more colleges could adopt. Case studies profile institutions finding additional revenue through new pipelines of students and streamlining operations to control spiraling costs. Further examples focus on collaboration and consolidation and more-drastic pivots in new directions, with encouraging results.

This report is an overview of major challenges to the college business model and opportunities to fortify institutions. It is not a department-by-department audit. A cost-benefit analysis of college athletics, for example, is beyond the purview of this report. A previous publication in the series delves into enrollment management, and a forthcoming one will concentrate on fund raising, which, according to Moody’s Investors Service, has higher forecasted growth than just about any revenue stream.

A discussion of the “business” of higher education is unsettling for some, who bristle at the suggestion that it is an industry with customers. We want to avoid a debate about semantics and recognize some truths about colleges: They have costs and need revenue to cover them. They are employers and economic drivers in many communities across the country. They have products, in the form of certificates and degrees. Many of higher education’s problems come from an unwillingness to see institutions as businesses — a cultural intransigence rooted in nostalgia for what the system represented through much of the 20th century.

The best solutions to today’s financial woes will preserve the qualities that draw people to work at colleges in the first place: the love of teaching and pursuit of knowledge. It’s up to presidents and trustees, provosts, deans, faculty members, and other campus constituents to reckon with problems — sometimes arising from their own offices, boardrooms, and departments — to keep costs down and demonstrate institutions’ value. Students deserve and the country needs more than colleges that limp along. Only a strong, diverse system of higher education can continue to promote opportunity and economic prospects for individuals and communities.
Diagnosing Problems

Some might think of it as a market correction. Others, a reckoning. In any case, the strain on the college business model has been building for some time. As external factors bear down on the sector — chiefly demographic changes that will sap demand — other challenges come from within.

Colleges aren’t known for hard-nosed business decisions or cutthroat efficiency. In fact, the industry has long resisted bedrock notions of the corporate world, like creative destruction or even market-driven products. Decades of growing enrollment generally afforded that freedom. The rapid expansion of the past 70 years could hide inefficiencies across the campus.

Analysts have noted warning signs. For one, tuition dependency of more than 85 percent. Debt service greater than 10 percent of expenses. In late 2017, Moody’s Investors Service downgraded its outlook for higher education from stable to negative. The closure of colleges with recognizable names has brought into relief the realities many institutions face: a remote campus, a dwindling student body, and an aging physical plant. Even in the absence of dire concerns, spending can still stack up.

Keeping close account of costs and revenues isn’t something that campus leaders have always been able or willing to do. But that work is crucial to recognizing the sometimes uncomfortable truths and making the hard choices that will strengthen institutions.

Crisis have a way of hastening that process. Yet notions of efficiency in higher education must come with a caveat that a college is not a production line but a mission-driven organization. Colleges serve

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**TAKEAWAYS**

- A close accounting of costs and revenue, down to the student, is crucial to setting priorities, cutting back, and investing wisely.

- Reining in academic sprawl requires examining enrollment patterns in departments, majors, courses, and even course sections.

- Administrative ranks have grown for some important reasons, but that growth demands scrutiny to keep the staff lean and effective.

- Building booms, deferred-maintenance backlogs, and poor space utilization challenge institutions, which should maintain space inventories and consider plans for no net growth.

- Financial stewardship means grappling with data and engaging with campus stakeholders to understand options and set a course.
low-income students. Support communities. Preserve skills and ideas.

Those endeavors, however vital, are not impervious to fiscal facts. That can lead to conflict on a campus. Shared governance is a dearly held tradition, and a hard look at costs often results in pitched battles between the faculty and the administration. The prospect of altering academic programs raises hackles, and as personnel represents two-thirds of most colleges’ costs, leaner budgeting gets personal fast.

Administrators may not effectively convey the challenges the institution faces, or permit the faculty to grieve any losses and adjust, says Peter Stokes, a managing director in the education practice at the Huron Consulting Group. “We don’t allow them the opportunity to acknowledge that something that they value is passing,” he says. “Instead we want them to skip over that step and just be positive about the future. That’s part of the problem.”

This section will address some of the common deficiencies in how colleges operate: in accounting for costs, programs, people, and facilities, and in financial stewardship. Before institutions can have serious conversations about innovation, they need to grapple with these fundamentals.

**Insufficient Accounting**

The persistent challenges of running a college or university often come down to the ledger. In the business world, successful companies thrive by tracking their costs to design, manufacture, distribute, and market goods, and balancing those costs with sales revenue. In many industries, such calculations are relatively straightforward.

But higher education is a complex, diffuse enterprise, and the flow of money is convoluted. Many institutions cannot detail what it costs them to graduate an English major versus a nursing major versus a business major. Most campus leaders can say how much money is going to various departments and units, but not precisely how that money is spent.

The revenue side of the ledger is also hard to follow. Tuition, including federal and state student aid, represents most of the money coming in to private institutions, and an increasing share in the public sector. But that primary source of revenue is a perpetual conundrum: Because of tuition discounting, a higher sticker price and steady or increased enrollment don’t

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**FIG. 2: REVENUE STREAMS, OR TRICKLES**

Net tuition revenue will depend on broader participation and increased retention, state funding will slow, and giving will be vital, said Moody’s Investors Service in downgrading the outlook for higher education from stable to negative.

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Private nonprofit colleges</th>
<th>Public colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net tuition and auxiliaries</td>
<td></td>
<td>74%</td>
</tr>
<tr>
<td>State appropriations</td>
<td>0%</td>
<td>24%</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>Endowment income</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Gifts for operations</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Other revenue</td>
<td>3%</td>
<td>4%</td>
</tr>
</tbody>
</table>

**Forecast growth for each revenue stream**

- **Net tuition and auxiliaries**: 2.3.5%
- **State appropriations**: 2.2.5%
- **Grants and contracts**: 1.2%
- **Endowment income**: 2.5%
- **Gifts for operations**: 6.6.5%
- **Other revenue**: 6.6.5%

**Note:** Median data is the median for each revenue stream at Moody’s-rated institutions and will not add up to 100 percent. The forecast growth assumptions are for the 2018-19 fiscal years.

Source: Moody’s Investors Service, 2018 Outlook for Higher Education - U.S.
guarantee more net tuition revenue.

Beyond that is a tangle of public appropriations, grants, contracts, endowment payouts, restricted and unrestricted funds, profits from auxiliaries like student housing, and other minor sources. That can lead to ambiguities in accounting: If a department chair pulls money from a five-year-old gift fund to cover expenses, did the department run a deficit that year?

Most institutions use incremental budgeting, determining each year’s funding levels based on the prior year’s, or zero-based budgeting, in which annual planning starts anew. Regardless of model, the general practice is that each division gets an allotment from the central administration.

The lack of financial proficiency of the people who manage those allocations can be a liability. It’s an open secret in higher education that many administrators — department chairs and deans on up — have little experience building budgets. Academic training doesn’t cover balance sheets.

Division heads often don’t understand or apply even basic metrics like student-to-faculty and faculty-to-staff ratios, says Kent Chabotar, a former president of Guilford College and an expert on higher-education finance. “Or they’ve done the metrics and they refuse to act.”

The need for cuts may be a reality managers prefer to avoid. “I don’t like firing people, either,” says Chabotar, who laid off 70 people as vice president for finance and administration at Bowdoin College. “It’s horrible, it’s the worst thing you can do, but you’ve got to do it if you’re going to right-size.”

That prospect makes many people on campuses wary of a close accounting of academic departments, for example. Assessing each one’s expenses and revenues would reveal which majors are making or losing money, which could lead to expanding some and shuttering others. “I don’t know, and I don’t want to know,” said a board member of a Northeast college at this year’s meeting of the Association of Governing Boards of Universities and Colleges. It’s a prevalent attitude up and down the ranks.

That cuts to the core of the financial problems in higher education. Colleges aspire

FIG. 3: EXPENSES ON THE RISE

Costs have climbed across categories, notably in student services and academic support, as colleges compete to enroll students and strive to retain them.

### Spending per FTE student

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>10-year change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>4-year private nonprofit colleges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student services</td>
<td>$4,636</td>
<td>27%</td>
</tr>
<tr>
<td>Academic support</td>
<td>$4,658</td>
<td>12%</td>
</tr>
<tr>
<td>Instruction</td>
<td>$17,552</td>
<td>12%</td>
</tr>
<tr>
<td>Institutional support</td>
<td>$7,215</td>
<td>14%</td>
</tr>
<tr>
<td>Public service</td>
<td>$799</td>
<td>1%</td>
</tr>
<tr>
<td>Research</td>
<td>$5,386</td>
<td>-1%</td>
</tr>
<tr>
<td><strong>4-year public colleges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student services</td>
<td>$1,966</td>
<td>42%</td>
</tr>
<tr>
<td>Academic support</td>
<td>$3,339</td>
<td>38%</td>
</tr>
<tr>
<td>Instruction</td>
<td>$11,725</td>
<td>23%</td>
</tr>
<tr>
<td>Institutional support</td>
<td>$3,080</td>
<td>30%</td>
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<tr>
<td>Public service</td>
<td>$1,891</td>
<td>7%</td>
</tr>
<tr>
<td>Research</td>
<td>$4,812</td>
<td>6%</td>
</tr>
<tr>
<td><strong>2-year public colleges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student services</td>
<td>$1,461</td>
<td>35%</td>
</tr>
<tr>
<td>Academic support</td>
<td>$1,168</td>
<td>34%</td>
</tr>
<tr>
<td>Instruction</td>
<td>$5,661</td>
<td>23%</td>
</tr>
<tr>
<td>Institutional support</td>
<td>$2,039</td>
<td>34%</td>
</tr>
<tr>
<td>Public service</td>
<td>$188</td>
<td>-3%</td>
</tr>
<tr>
<td>Research</td>
<td>$6</td>
<td>-13%</td>
</tr>
</tbody>
</table>

Note: FTE student is full-time-equivalent student. Values for two-year public colleges are calculated using reported 12-month FTE enrollment. Values for public and private four-year colleges are calculated using both undergraduate and graduate FTE enrollment.

Source: Integrated Postsecondary Education Data System, 2006 and 2016 fiscal years, 12-month enrollment and finance components.
FIG. 4: PUBLIC COLLEGES ALSO NOW DEPEND ON TUITION

Private colleges have long run on tuition, and given downward trends in state funding, public colleges are headed in that direction.

![Graph showing net tuition as a share of public colleges' total educational revenue over time.](image)

Note: Net tuition revenue used for capital debt service is included in net tuition revenue but excluded from total educational revenue. Source: Moody's Investors Service, 2018 Outlook for Higher Education - U.S.

FIG. 5: FAMILIES CAN'T KEEP UP

Tuition and fees have risen as annual household income has stagnated, contributing to theories of a higher-education bubble.

![Graph showing cumulative change in median household income, average published tuition and fees, and enrollment in 4-year private nonprofit, 4-year public, and 2-year public colleges.](image)

Note: All values are in real 2016 dollars. Source: Chronicle analysis of U.S. Bureau of the Census data retrieved from FRED, Federal Reserve Bank of St. Louis, and the College Board's Annual Survey of Colleges, weighted by full-time undergraduate enrollment.

FIG. 6: ENROLLMENT IS ALREADY FALLING

Recent semesters have brought fewer students.

![Graph showing annual percentage change in enrollment for 4-year private nonprofit, 4-year public, and 2-year public colleges.](image)

FIG. 7: PROJECTIONS LOOK EVEN WORSE
The number of high-school graduates, or traditional-age college students, will decline sharply starting in 2025, estimates show.

High-school graduates nationally

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tr>
<td>2.8</td>
<td>3.0</td>
<td>3.2</td>
<td>3.4</td>
<td>3.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


FIG. 8: DEMAND FOR REGIONAL COLLEGES IN PARTICULAR WILL SUFFER
The forecast for public and private four-year institutions outside the top 100 in the U.S. News & World Report rankings is especially negative, according to a new index by the economist Nathan D. Grawe. In many cases, projections for metro areas differ from those of surrounding states.

Forecasted growth in students who will attend a regional four-year institution, 2018 to 2029

- <20%
- -10% to -20%
- -10% to 0%
- >0%

Source: Nathan D. Grawe, Department of Economics, Carleton College
It’s an open secret in higher education that many administrators — department chairs and deans on up — have little experience building budgets.

Financial consultants immerse themselves in colleges’ budgets, allocating the costs of programs, personnel, facilities, purchasing, and so on to each full-time-equivalent student. That process begins by determining which costs to count and to which departments they accrue, applying those rules consistently to see how expenses line up and shift over time. Such a study should focus on a few essential questions, says Michael Leardi, who advises colleges as senior vice president at the Penta Services Group.

- **Which programs generate a surplus or require a subsidy?** If colleges go through academic-program reviews without detailed information on costs and revenues, he says, they are making decisions in the dark.

- **What are the implications for enrollment management?** If a university wants to expand an engineering program, for example, by 1,000 students, how will that affect costs in instruction and academic support?

- **Where is tuition discounting best applied?** Could discounting in under-enrolled programs boost the number of students?

At a minimum, cost tracking should turn up duplication of effort and waste, like individual units running their own internet servers or buying their own office supplies. Finding efficiencies could lead to significant cost savings.

Some institutions try to create incentives for respective divisions to know their costs by adopting Responsibility Center Management, or RCM, a budget model that puts personnel, facilities, student recruitment, and other higher-level expenses under the direction of each division.

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**FIG. 9: ALREADY MISSING THE MARK**

Significant shares of colleges report falling short of their own annual goals for both enrollment and net tuition revenue.

<table>
<thead>
<tr>
<th></th>
<th>Private nonprofit colleges</th>
<th>Regional public colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>37%</td>
<td>19%</td>
</tr>
<tr>
<td>2014</td>
<td>43%</td>
<td>34%</td>
</tr>
<tr>
<td>2015</td>
<td>37%</td>
<td>27%</td>
</tr>
<tr>
<td>2016</td>
<td>43%</td>
<td>28%</td>
</tr>
<tr>
<td>2017</td>
<td>42%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Source: Annual Chronicle survey of members of the Council of Independent Colleges and the American Association of State Colleges and Universities
The idea is for the units to be as self-sustaining as possible. Such decentralization can help some departments thrive, particularly if entrepreneurial deans raise revenue as well as keep costs in check. After the University of Oregon moved to an RCM model, the School of Music and Dance trimmed costs and adjusted its course offerings to raise enrollment in popular programs.

**Academic Sprawl**

Examining costs and spotting inefficiencies on a campus requires an audit of academic programs. That means studying departments, majors, and courses, especially enrollment patterns.

With the programs comes the faculty roster. Is the distribution of full-time and contingent professors sound? Are the course loads appropriate? Instructional costs per full-time-equivalent student have seen double-digit percentage growth across sectors in the last decade, and keeping those costs in check while preserving quality is a constant quandary.

Cost studies as described above usually yield a clear picture of courses or particular sections that are under-enrolled, and programs that generate surpluses versus deficits. The crucial question is what colleges choose to do with that information. Some programs that are central to the mission or the curriculum might be operating at a loss. Others — pre-professional or online programs, which may challenge the tradition of the institution — could be moneymakers.
A close assessment can also reveal some surprises. At one institution, a financial consultant reports, religious studies was more profitable than some programs in law and business. And initial results of a cost study aren’t necessarily what they seem. At Brenau University, in Georgia, online programs seemed heavily enrolled and wildly profitable, especially when compared with some traditional divisions, like the women’s college. Yet when administrators tracked which students enrolled online, a large proportion were coming from the women’s college. If the university had de-emphasized the women’s college and invested online, that may have hobbled online enrollment.

From departments down to course sections, which could be under-enrolled and scheduled for more optimal times, a key task is to rein in any sprawl.

In business terms, academic programs are a mess, says Robert Zemsky, a professor of higher education at the University of Pennsylvania. For decades experts have criticized the “buffet table” approach to courses, based in part on the interests and whims of individual faculty members. One small, Midwestern college, Zemsky found, had 47 majors but fewer than 1,000 students. Four majors accounted for 65 percent of the enrollment. Colleges — and especially the faculty — will argue that students want choice, but a college of that size cannot sustain those offerings.

At a high-profile forum last year at The New York Times, a dean at Boise State University said, “It simply does not work.” It also helps to see some growth in enrollment already, and not to rely on undergraduate tuition for all or most of the institution’s revenue. Due diligence should include pricing and marketing studies and an 18-to-24-month financial analysis.

3 Criteria for a ‘Tuition Reset’

Many small, private colleges with high tuition-discount rates have considered tuition resets, or lowering the sticker price, to attract publicity and students. But the strategy has to go deeper than that, says Laura Casamento, president of Utica College and architect of the plan there, who also researched tuition resets for her doctorate in higher education. “If you’re considering a tuition reset as an enrollment grab,” she says, “it will inevitably fail over the long term.” These factors, she says, can make a move more successful.

**A low percentage of full-pay students**

“Otherwise, the math simply does not work,” says Casamento. It also helps to see some growth in enrollment already, and not to rely on undergraduate tuition for all or most of the institution’s revenue. Due diligence should include pricing and marketing studies and an 18-to-24-month financial analysis.

**A message other than price**

The college should be able to promote curricular innovation and high-quality programs relevant to market demands. A sufficient marketing budget will trumpet the tuition reset and the college itself, not rob from either activity. “The level of investment in marketing,” she says, “needs to be maintained long after the tuition reset has been implemented.”

**A sustained commitment to affordability**

The college must maintain the value proposition that attracted students there, Casamento says. That means keeping an eye on costs and price going forward. “Tuition resets in and of themselves are not an answer to addressing the issue of college affordability,” she says. “Responsible fiscal management is a must.”
versity told an audience of campus, business, and civic leaders that colleges are reluctant to retire existing programs, even if they divert money and energy from new ventures that could spark innovation. One program at his university cost $2 million a year, he said, and in nine years had produced six graduates. “We’re great at universities at launching things,” the dean said, “and we end up with these zombie programs.”

Not all programs running a deficit should be closed. Administrators might feel pressure to pump resources into more-lucrative majors or degrees and diminish less popular or profitable programs. But some of the latter may be important to a college’s identity, history, or mission, or those programs may support others. Decisions need to be carefully considered with broad input from the campus community. After tracking costs and revenues, a program-prioritization study helps make those calls.

That process should be driven by faculty members, using data from institutional researchers, with criteria for evaluation defined from the outset. To avoid the appearance of bias, faculty members should be assigned to study divisions or departments other than their own.

Decisions about academic programs inevitably involve personnel, and in many cases potentially eliminating positions. Closing a department probably means laying off the professors in it. Short of that, colleges may seek to reduce the size of the faculty through hiring freezes, attrition, or promoting early retirement.

Running ratios to compare an institution to its peers can guide work on this front. Elite colleges tend to have 10 to 12 students per faculty member, while other ratios may hover around 15 to 1. Sweet Briar College, prior to its closing in 2015, had an unsustainable ratio of 8 to 1. After its reopening, the college’s ratio is 5 to 1. If increased enrollment is a viable goal, colleges may determine how many full-time professors it can reasonably employ.

Over the last 40 years, colleges have attempted to cut instructional costs — and, some argue, diminish the political power of the professoriate — by hiring more contingent faculty members. In 1975, 55 percent of the faculty was part-time or off the tenure track. Today, 70 percent of it is. That shift can lower spending: According to a study by the American Institutes for Research (AIR), private four-year colleges with higher shares of contingent instructors spend, on average, 37 percent less on total compensation per full-time faculty member, while public four-year colleges spend 24 percent less.

This issue is fraught, however, and campus leaders must tread carefully. In another study, AIR noted that colleges employing high shares of part-time faculty members post lower graduation rates. Faculty advocates argue that instructors who are underpaid and overworked — some adjunct professors earn little and teach several courses per semester — are less likely to invest time and energy in students.

Although financial consultants may see the tenured professor as an inefficiency, the faculty can be one of the greatest assets a college has, its defining core. Engaged professors attract students and produce grateful alumni, who give back to the institution. The Gallup-Pur-
due Index, a large, long-term survey of U.S. college graduates, has determined that a close relationship with a professor can lead to better employment outcomes and a higher quality of life.

**Administrative Bloat**

Some familiar criticisms of bureaucracy apply to a college administration. The staff may be growing for important or unavoidable reasons, including to step up the student services and academic support that help institutions serve and retain a broader population, to perform accountability functions and comply with government regulation, and to fundraise at higher levels. But that growth demands scrutiny. At a minimum, some positions may need definition, some divisions realignment.

To critics from different corners, the term “administrative bloat” signals a managerial class padding its own ranks. The professoriate complains that a swelling administration sucks money away from instruction, while conservative commentators contend that, as the National Review put it, it’s “a big reason for the rising cost and falling quality of college.”

While the value of college administrators is hard to measure and provokes debate, there’s little doubt that their higher numbers increase costs. Campus leaders would do well politically and financially to reckon with the expanding payroll.

A study in 2014 by AIR and the New England Center for Investigative Reporting found that administrative positions had doubled over the previous 25 years. A report that same year by the Delta Cost Project determined that administrator hiring had driven a 28-percent expansion in the higher-education work force from 2000 to 2012, as the number of full-time faculty members had declined. Last year the State of California reported that the California State University system had hired managers at more than twice the rate of faculty or support staff, at salaries that outpaced

![FIG. 12: WHO'S ON THE PAYROLL](image-url)

The greatest shares of full-time-equivalent employees in higher education are faculty members and office and administrative staff members.

<table>
<thead>
<tr>
<th></th>
<th>4-year private nonprofit colleges</th>
<th>4-year public colleges</th>
<th>2-year public colleges</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Faculty</strong></td>
<td>35%</td>
<td>32%</td>
<td>46%</td>
</tr>
<tr>
<td><strong>Office and administrative support</strong></td>
<td>13%</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Computer, engineering, and science</strong></td>
<td>7%</td>
<td>9%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Service occupations</strong></td>
<td>7%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Business and financial operations</strong></td>
<td>7%</td>
<td>8%</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>10%</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Community, social service, legal, arts, design, media, entertainment, and sports</strong></td>
<td>6%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Student and academic affairs and other education services</strong></td>
<td>4%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>11%</td>
<td>16%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Notes: Includes Title IV-participating institutions. Full-time-equivalent staff is the number of full-time staff members plus one-third of the number of part-time staff members. Other occupations include health-care practitioners and technicians; graduate assistants; librarians, curators, and archivists; natural resources, construction, and maintenance; production, transportation, and material moving; and sales and related occupations. Percentages may not add to 100 due to rounding.

Source: NCES, Digest of Education Statistics 2017
those of other employees. According to a state auditor, the hiring trends did not demonstrate results in student performance.

Campus leaders should compare, over time, the ratio of particular categories of staff to faculty members, as well as to students. Those ratios will probably trend up, but the rates of change may be surprising. Depending on the size and selectivity of the college, the staff-to-faculty ratio may range from 1 to 1 for smaller campuses to 3 to 1 for more elite institutions. There are no magic numbers, but priorities should align with resources. Campus leaders need to assess whether offices are growing in line with overall goals.

Colleges can also break down their labor costs by function and track changes over time, then compare themselves to peer institutions. Flagship universities especially tend to spend the most on personnel in facilities, followed by information technology, student services, finance, and communications, according to the Academic Benchmarking Consortium (ABC), a company started by business professors at the University of North Carolina at Chapel Hill. Extensive facilities and acreage among the consortium’s members mean, on average, they spend $13.7 million annually on labor in construction, maintenance, and repair, and employ 344 full-time employees in housekeeping and janitorial services.

When it comes to the labor needed to run a college, central planning has benefits. Even if divisions operate their own budgets, hiring and

A Primer on P3s

In an era of tight budgets, public-private partnerships, known as P3s, have become a way for colleges to add new buildings without begging for or borrowing money to do it. Typically, a company provides capital and construction services for a revenue-generating facility, like a residence hall. The company is then paid back (and earns profits) over time.

The deals are complex — and can be huge. One company, Corvias, struck a $517-million agreement with the University System of Georgia to build residence halls with nearly 10,000 beds. Geoff Eisenacher, the company’s vice president of partnership development, has this advice for a successful, efficient project.

**Know your numbers**

The college should have accounting records detailing how much the function it plans to outsource generates and what maintenance costs. Revenues from auxiliaries like housing, dining, and parking need to be disaggregated, as do expenses for the corresponding campus facilities. Without that, says Eisenacher, there’s “no ability to really look at the university enterprise broken down into separate cost centers.”

**Study the market**

Before issuing a request for proposals, administrators should do their homework on how these complex financial partnerships work. “The smarter you get, the smarter we get about what you want to accomplish,” he says, “and the better equipped you are to evaluate and look at options.”

**Think bigger**

Colleges sometimes take a tactical approach to P3s to solve a discrete problem. But the arrangements can tackle multiple issues at once. A 40-year, $307-million deal between Corvias and Wayne State University, in Detroit, will build and renovate facilities with 1,200 beds, retail stores, and green spaces.
personnel decisions can run through the administration. The consortium’s most efficient institution, says Chris Gosk, its vice president for client services, is Miami University, in Ohio, which manages its staffing centrally. Otherwise labor costs can escalate. A department will hire, say, an IT specialist to set up a server or some such task, but when the project is finished, the manager will keep that employee, whether to maintain a relationship or expand the unit. “All of a sudden you have a $100,000 project coordinator running around doing odds-and-ends jobs,” Gosk says. In a large organization like a university, titles can be ambiguous, and it’s hard to know who is doing what. ABC audits often find the clearest description of some employees’ job duties on their LinkedIn profiles.

To keep the administration lean and effective, other moves merit consideration.

- **Realignment:** Institutions may reorganize or combine some units, a process that often involves layoffs. These efforts borrow from corporate streamlining techniques like “lean management” meant to identify administrative excess.

- **Outsourcing:** Auxiliaries like dining or the bookstore have long been run by companies, but colleges are increasingly outsourcing activities beyond the core functions of teaching and learning. The Texas A&M University system struck a deal with Compass Group USA to handle landscaping and maintenance, as well as custodial and dining services, generating $360 million in savings and revenue for the system over 10 years. Recent arrangements contract out services like counseling and online program management.

- **Sharing resources:** There are well-established collaborations among colleges for back-office administration in, say, IT or payroll. The Claremont Colleges have one of the oldest consortia in the country, sharing administrative functions like mail services, maintenance, and human resources, as well as library services and some academic and student programs. On the whole, collaboration is underutilized in higher education. Institutions may continue to see themselves as unique while sharing some standard functions.

### Deferred-Maintenance Backlog

A tangible symbol of financial trouble stands on most every campus in the country, in brick and stone. Buildings are one of any college’s most significant investments and expenditures. Often the investment has not been managed well because administrators have not planned for facilities’ long-term costs.

For decades, new buildings have been used to signal priorities, progress, and status for institutions. They have put up gleaming student and fitness centers, with students often voting to raise fees to cover construction. Top researchers have made new lab or office space a condition of a move. And presidents, in what observers have dubbed an “edifice complex,” have pointed to expanded square footage and signature architecture as major accomplishments.

In the past several years, many institutions have continued to add space despite flat or declining enrollment. The bet to put up a new residence hall or athletic facility to attract students doesn’t necessarily pay out.

Even if snazzy new buildings draw atten-
tion, students, or star professors, they come at a tremendous cost — an outlay that doesn’t end when a president and donor cut the ribbon. Roughly two-thirds of the lifetime cost of a new building accrues after it opens, in the form of operations, maintenance, utilities, and, finally, demolition, according to APPA, the association of facilities officers in higher education. Utilities and maintenance cost about $6 per gross square foot annually, estimates Jim Kadamus, a co-founder of Sightlines, a facilities-planning company.

Say a campus is planning a new science center at 100,000 square feet. Kadamus’s first question is: “Where are you getting the $600,000 every year to operate this?”

Many colleges solicit donations to put up new buildings, but fund raising is a difficult prospect for repairs in the decades ahead. Donors want to put their names on auditoriums, not essential updates to boilers and sewer lines. And students probably won’t vote to raise fees for a new roof.

In the last several decades, colleges have neither accounted for nor kept up with maintenance costs. That has led to an unsustainable backlog of renovations and repairs. The University of California, California State University, and California Community College systems, for example, will need an estimated $47 billion for deferred maintenance over the next five years, a level of funding they are unlikely to attain.

Smaller colleges may have less daunting backlogs, but campus tours would reveal crumbling bricks and peeling paint, if not corroding pipes and coughing ventilation systems hidden underground and behind walls. In surveys of more than 400 institutions, Sightlines found that deferred maintenance, on average, exceeds $100 per gross square foot.

Two architectural eras — peaking in 1970 and 2005 — will compound the pressure of deferred maintenance in the years to come. Buildings tend to require major renovations at 25 and 50 years, which means those two generations of construction will hit those critical renewal periods consecutively.

Colleges should have a budget and schedule for repair and renewal. Many now set up an endowment for new buildings, but campuses need to account for all existing structures. Recurring allocations can help an institution stay ahead of repairs and replacement of building systems and avoid more expensive work down the line.

Old buildings can pose particular problems. If, as a college opened a new facility, it knocked down a dilapidated one, that would help clear the deferred-maintenance backlog without adding more space to maintain. Kadamus advocates

**FIG. 13: TWO WAVES OF CAMPUS CONSTRUCTION**

The first was driven by growth in enrollment, the second by growth in enrollment and programs.

![Two Waves of Campus Construction Chart](chart.png)

Note: Percentage of constructed space is aggregate change in five-year increments relative to the previous total of gross square feet. The sample includes more than 300 U.S. and Canadian campuses in the Sightlines database.


Individual classrooms are generally used less than 60 percent of the time classes are offered.
“renovation through replacement”: instead of renovating a building, razing it to make way for a new one, clearing away millions of dollars in maintenance in the process.

Swing space is one challenge to that approach. Where will people work and classes be held before the new building opens? Another obstacle is sentimentality. Iconic or historic structures should be spared, but faculty members, students, and alumni may be attached to even unremarkable buildings. In time, though, they might see benefits to opening up the campus.

Whether by halting new construction or replacing buildings along the way, colleges — particularly those with flat or declining enrollment — should consider campus plans with no net growth.

**Space Waste**

What prompts many colleges to build and incurs costs itself is an inefficient use of space. Offices, classrooms, and common rooms sit empty much of the time. Campus space is often a proxy for status among departments, which may hold on to room they don’t need.

Many campus leaders don’t know how much square footage they actually have. A space inventory is essential to making the most of existing resources.

And quantifying space has never been easier. In the old days, facilities planners would traverse the campus with a tape measure. Today, armed with a tablet loaded with a measuring app, someone can stand in the middle of a room, take a 360-degree scan, and load the size, location, and use into a database. Two people can conduct an inventory of a small campus in a week, revealing

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**FIG.14: MORE NEW SPACE THAN STUDENTS**

Many institutions may be building more facilities than they can fill.

<table>
<thead>
<tr>
<th>Baccalaureate colleges</th>
<th>Master’s institutions</th>
<th>Research universities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cumulative growth in constructed space</strong></td>
<td><strong>Cumulative growth in enrollment</strong></td>
<td><strong>Cumulative growth in constructed space</strong></td>
</tr>
<tr>
<td>0%</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

*Note: Cumulative growth values are indexed to the 2007 fiscal year and represent averages of more than 300 U.S. and Canadian campuses in the Sightlines database.*

Finding Energy Efficiencies

There can be savings in going green. As sustainability director at American University, Chris O’Brien led projects like a green-energy partnership with George Washington University for a 52-megawatt solar array. Over 20 years, it will save the institutions tens of millions of dollars.

Now director of business development at Customer First Renewables, O’Brien consults with colleges on such strategies. Here are some of his tips.

Conservation, then energy efficiency, then renewable energy is still a good approach

The conventional wisdom is to follow that order, and while each step can yield savings, the first two are “ongoing commitments, not ‘one and done’ type projects,” O’Brien says. Each new class of students has to be trained to conserve, and facilities managers need to maintain green equipment for peak efficiency. When it comes to purchasing renewable power, costs are relatively steady, and through power-purchase agreements, colleges can lock in long-term price.

A comprehensive strategy is more effective

Energy and utility planning, procurement, conservation, and efficiency projects are not always planned in conjunction. For example, a department might lobby for solar panels on a new building, but not consult with the facilities staff to vet the company, technology, or placement. Institutions should invite various stakeholders to research current practices and come up with a coherent plan.

Sustainability is about systems

Individual projects are designed to achieve different goals, which can limit the results of each one. If design and facilities teams aren’t in regular communication about a new building, for example, then innovative designs can clash with green-building components, O’Brien says, leading to lower building performance.

un- or underutilized space.

Faculty and staff offices, at roughly 100 square feet apiece, make up about 30 percent of all nonresidential space on campus. For professors especially, offices can become vacant repositories of papers and books. Yet the faculty office is a fixture, sometimes enshrined in contracts, and few administrators will make the bold proposal to recoup that space, or tear down walls to reconfigure offices. The open plan may have caught on in the corporate world — and in some administrative divisions — but not among the faculty.

Younger faculty members, though, may be looking for team work spaces, which call for more-flexible office plans. New configurations could serve to encourage engagement with colleagues and interaction with students, who may be less likely to hunt for a professor’s office than to meet with him or her in a “huddle space” next to a classroom. “Given the preponderance of private offices, it’s going to take a while to shift the needle,” says Persis Rickes, a consultant to colleges on master planning and space optimization. “But I do think it’s coming.”

Classrooms are spaces on campus key to producing revenue. But individual classrooms are generally used less than 60 percent of the time classes are offered, Sightlines research indicates. By another estimate, the average classroom — which cost about $250,000 to build — is used only about five hours a day.

And the latest trends in teaching, which emphasize active learning in small groups, are more space intensive. An old-fashioned lecture hall, where students sit in tablet-arm chairs in long rows, requires about 15 square feet per person. Sitting around circular
tables demands about three times that. But new habits may change campus space more drastically. Today’s students don’t see traditional boundaries between different types of buildings. They want to eat in the library and study in the student center. Those patterns can help increase space use if rooms are flexible. A common area in a library or a residence hall could become a classroom or a meeting room. Swapping out furniture would allow a classroom to double as a group work space.

Central control of space may be an unpopular move, but it could increase utilization. Short of that, some colleges have tried applying market forces by charging departments for space, though that approach can punish those with fewer resources. Ohio State University put up posters around campus to remind anyone feeling possessive that “Space is loaned, not owned.”

The biggest frustration of chief business officers, edging out "never enough money," is "culture that resists change."

Lack of Financial Stewardship

Some colleges’ financial woes are exacerbated, if not caused, by a lack of stewardship. Chief financial officers today generally have more business experience than their predecessors did, says James Galbally, a former associate dean for strategy and operations at the University of Pennsylvania. But too often they are sidelined, or expected to deliver a rosy picture to the president and board, says Galbally, who as a consultant has held interim CFO positions at several colleges.

Slightly more than half of chief business officers think their institutions will be financially stable for the next five years, but expanding that horizon to 10 years, the proportion drops below half, found a recent survey by Inside Higher Ed. The biggest frustration of people in that role, edging out “never enough money,” is “culture that resists change,” according to another survey, by the National Association of College and University Business Officers.

Advancing a culture of innovation by motivating and incentivizing faculty and staff members to act is the responsibility of top leaders: the president and board of trustees. So are major decisions to bolster revenue and keep expenses in check. To a great extent, the fortunes of a college rely on the vision, competence, and will of the people guiding it. A weak leader or rudderless board can start a college down a rocky path — and in the case of a fragile institution, doom it.

Those who ascend to the presidency on a traditional path may not be prepared to serve as chief executives. Academic training rewards yearlong research on big questions; practical leadership requires decisive action with the information at hand. And new presidents may not even know what they’re getting into: According to a recent survey by the American Council on Education, a quarter said they didn’t get a clear sense of their college’s financial situation. Even if they do, an expectation for cheerleading can hinder leaders from pointing out real problems with how the institution operates, and from proposing new ideas.

“It’s just not in their realm of experience to take risks,” says Josh Wyner, vice president and executive director of the Aspen Institute’s College Excellence Program. And presidents might be wary of faculty opposition, by no-confidence votes or other means.

Presidents who come in from the business world might be more accustomed to placing strategic bets. But they can run into trouble if they discount the roles of shared governance and mission, and push a hasty agenda.

Transparency and communication are key to financial planning in higher education. A common problem is that the rank and file — in administrative offices or academic programs — have the most complete information, but it
doesn't filter up to decision makers.

That gap also applies to boards of trustees. Observers say members are too often unfamiliar with the complexities of higher education, or they take cues from the corporate sector, ignoring important distinctions. On public boards, political appointees might be downright hostile to institutions. Private-college boards often include members with sentimental attachments — a local personality, a retired alumnus — but little expertise in governance.

The position of educating the board often falls to the president, who shares as much as he or she knows, or wants trustees to know. Members may remain oblivious of the college’s challenges, says Peter Eckel, a scholar of higher-education leadership and senior fellow at the University of Pennsylvania’s Graduate School of Education. “Boards often don’t ask the right questions — or have the skills or knowledge to ask the right questions,” he says. “They’re checking off the boxes, not really doing the due diligence on the issues.”

To help leaders serve as effective stewards of their institutions, experts have proposed several ideas.

- **Professional development in finance:**
  Galbally has heard many small-college presidents laud a high fall enrollment while ignoring a high tuition-discount rate and low net tuition revenue. One scholar of higher education has met college presidents who say, “I don’t do numbers.” Presidents, provosts, and aspiring senior administrators — along with incoming board members — should get training in the complex finance of higher education.

- **A “translator” position on boards:** A trustee who understands higher education and the corporate world, where trustees often work, can help bridge that gap.

- **An “outsider” position in the president’s cabinet:** “Every senior leadership team should have a vice president for innovation,” says Wyner. That role could bring perspectives and ideas from other industries and help the president accomplish them, while cultivating talent from outside higher education.

- **An inclusive budget process:** When the College of Wooster set out to cut $4 million from its $80-million operating budget, campus leaders provided 20 years’ worth of administrative and staffing data, then asked individual units for input on where to cut. Ultimately, top administrators made the decisions, but the process helped the college community understand the outcome.

In some circles — particularly policy and ed tech — much of the discussion on how to carry higher education forward centers on innovation. It is often a facile approach. Colleges are not start-ups. They have established histories and missions, scores of employees, a vast physical infrastructure, and financial commitments to support all of those things. To honor that, they must strive to make the current business model as effective as possible.

From there, campus leaders can ponder innovations, drawing inspiration from the business world, health care, and other industries. In the four sections ahead, we will explore new directions, profiling colleges where people have taken bold steps to fortify their future — even transforming their institutions’ identities.
FINDING SOLUTIONS

CONCORDIA U. ST. PAUL • FLORIDA INTERNATIONAL U. • METROPOLITAN STATE U.
Grow Tuition Revenue

The most direct response to financial strain is to find new revenue. Colleges can come up with creative ways to do that — through real estate, for example, or new inventions — but the method that most tuition-dependent colleges turn to is to try to increase that main revenue stream. They start programs, identify new student pipelines, encourage transfer in, or promote retention. A growth strategy may also help administrators avoid painful cuts to staff, faculty, and programs to keep a college afloat.

While finding new students is an appealing approach, especially in competitive markets, institutions need to meticulously study whom they want to enroll and what would attract them. Often that requires unconventional thinking and conflict.

Consider the case of Trinity Washington University, which opened in 1897 as a Catholic women’s college primarily serving wealthy, white students who were shut out of all-male institutions. As they went coed, Trinity’s enrollment dwindled — to just 300 in the 1980s. Administrators responded by recruiting adult students, non-Catholics, and black and Hispanic women. Those efforts caused a rebellion among some students and alumni who felt Trinity was abandoning its traditions. But the board backed the administration, and today the institution is educating more than 2,000 students.

Many regions of the country offer ample opportunities for colleges to find new students.

- **Dual enrollment:** These programs, in which high-school students enroll in college courses, are gaining popularity. The model promises families a head start and brings in new tuition dollars. Courses may be taught at the high school or the college, by either faculty, and offered during the traditional academic year or not. Texas Lutheran University, for example, is starting a summer course in writing and Mexican-American studies to draw students from local high schools.

- **Minority populations:** For students from racial and ethnic backgrounds long underrepresented in higher education, access to college can mean social mobility. Serving them benefits individuals and institutions. Augsburg University, in Minneapolis, has spent years establishing itself as an institution that welcomes Hmong, Somali, and Hispanic students, among others living in and around one of the nation’s most diverse ZIP codes.

- **Adult students:** More than 35 million adults nationally have earned some college credit but not a degree. And the economy demands more workers with postsecondary credentials. Institutions that adopt competency-based education, prior-learning assessment, and other adult-friendly policies could tap a huge potential market.

In each of the cases detailed below, administrators seeking to bolster tuition revenue devised a plan, invested in it, and defined metrics to measure progress toward the goal. They also proceeded with patience. Growing enrollment or changing the composition of the student body takes time.

**TAKEAWAYS**

- New pipelines of students can bolster a main source of revenue, tuition.
- Adding programs requires business acumen, careful accounting, and sometimes a valuable partner.
- Retaining students calls for a range of efforts in academics and student services and pays off both financially and in terms of mission.
- Serving minority populations in line with demographic shifts means rethinking recruitment and student support.
Start New Programs With an Eye on ROI

Concordia University St. Paul operates in a difficult environment. It is surrounded by big players and scrappy competitors: the University of Minnesota-Twin Cities and several regional public institutions and community colleges, not to mention Augsburg University, Hamline University, St. Catherine University, and the University of St. Thomas. And the upper Midwest is a region of the country where colleges are vying for a flat or declining number of traditional-age students.

Yet the university just completed a strategic plan that includes starting two to four programs a year for the next five years, and growing from just under 5,000 students today to 7,000 by 2024. Concordia commanded national attention in 2013 with a tuition reset, which cut its published tuition and fees by a third, to $19,700. The growth plan will try to extend that buzz.

Executing the plan, says the provost, Eric E. LaMott, will rely on careful accounting and a shrewd business sense. The foremost principle for identifying new programs, of which Concordia has already started 15 in recent years, is what will happen after students walk off the stage with a diploma. Administrators select for a robust job market and convey that information to prospective students. Successful programs can’t start on a whim.

Second, the university tries to find partners or benefactors to help build a program and cover the start-up costs. Concordia recently began a program in orthotics and prosthetics with the help of Century College, a two-year community and technical institution that couldn’t pull it off on its own. Some collaborations are unexpected: The university recently acquired a nursing program from the for-profit Globe University and Minnesota School of Business, which the state shut down in 2016 for misleading criminal-justice students about career prospects.

“When other people were celebrating, I looked at that completely differently,” says LaMott. “They had a perfect nursing program. We spun that up in six months, and we have our classes already operating now.”

An engineering program would be a feather in the university’s cap, the provost says. But because the start-up costs are exorbitant and the accreditation schedule relatively long, Concordia won’t go for it until a donor or partner comes forward.

The challenge
To raise the profile and prospects of a lesser-known college in a competitive market facing demographic decline.

The approach
Expand programs and increase enrollment.
The third guiding principle is potential net revenue. “We won’t start a new program if it isn’t projected to have a cash-positive operational model,” LaMott says. The university prepares detailed estimates of the costs associated with new programs, the market saturation of their majors, and enrollment and graduation trend lines. It’s the same test administrators use for athletics: “Some schools are adding sports just for headcount,” says the provost, “but we won’t add a sport if it doesn’t actually generate net-positive revenues.”

To limit additional labor costs, Concordia uses software to automate, as much as possible, registration, scheduling, and program administration. “There’s really no reason a student should ever have to meet with the registrar’s office at any university,” LaMott says.

Concordia is trying to marry the ethos of a nonprofit, Lutheran college with the attention to efficiency of a corporation. “We’re kind of in that synthesis between the two,” he says.

**The result**
From approximately 2,000 students in 2003, Concordia is now more than halfway to its goal of 7,000 by 2025. Its annual budget has more than doubled, from $25 million in 2003 to $60 million today.
See more students through to graduation can be a relatively low-cost route to increase enrollment and maintain a steady flow of tuition dollars. But it’s hardly easy. Undergraduates bring a range of individual strengths and struggles to college, and many get lost on the path to a degree.

Florida International University, with an undergraduate population of about 45,000, set its sights several years ago on its lagging graduation rate. Raising it would pay off not just financially but in terms of mission. FIU, a public institution in Miami, has long served many Hispanic students, Pell Grant recipients, and adult learners, all groups that are less likely to complete college. Dropouts sacrifice considerable opportunity.

“The upward social mobility of our students comes with graduation,” says Elizabeth Béjar, senior vice president for academic and student affairs, “not just attendance at a higher-ed institution.”

Florida International attacked the problem with a range of efforts aimed at both faculty and students. It hired dozens of professional advisers to help students navigate course schedules, academic requirements, and other “administrivia” that professors did not have the time or expertise to handle. “We wanted faculty to focus on their discipline and career mentoring,” Béjar says. “We didn’t want a chemistry professor to be bogged down with trying to figure out if a student’s financial-aid loan application has been approved.” Admitted students are assigned an adviser and required to attend regular appointments to discuss their progress.

While lightening the burden on its faculty, the university also transitioned some of its adjunct instructors to full-time positions. That paved the way for professional development in pedagogy and teaching technology, in part through a new center on teaching and learning. The center runs workshops on course design and classroom tools to improve students’ engagement and performance.

Data revealed courses with high failure rates — those with intensive writing requirements, general biology, and math — and the university set up tutoring programs accordingly. Algebra in particular had been a “weed out” course that waylaid many students. So FIU set up a math-mastery lab, which showed
a return on investment all its own. “Every time a student had to retake a course, it cost the institution money,” Béjar says. When the pass rate in math went up, that allowed for fewer sections of the course and fewer instructors.

The university has also expanded support for student success. It revamped a freshman course to emphasize time management in college, career possibilities for various majors, and financial literacy. Students who start with academic challenges or don’t perform well in their first semester can get additional coaching.

The result

By 2018, the graduation rate had climbed 15 points, to 58 percent, roughly the national average for two- and four-year institutions. That improved the university’s performance ranking in the state, unlocking an additional $12.5 million.
When Stephen Jordan took the helm of Metropolitan State University, in 2005, he recognized that the underresourced urban institution faced a new reality. Colorado was experiencing a significant demographic shift, with a growing Hispanic population. About one-third of Denver County’s residents and a fifth of Colorado’s are Hispanic. But a decade ago the share of Metro State’s student body was only 13 percent. To proportionally serve the county and state — and to fortify its own pipeline — the university set a goal to double its enrollment of Hispanic students within 10 years and become a federally recognized Hispanic-serving institution.

That would require overcoming some statistical obstacles. The college-going rate among Colorado’s high-school graduates is below the national average, and has declined in recent years, to 56 percent. Among Hispanics in the state, that rate is 44 percent, compared with 53 percent of black, 60 percent of white, and 75 percent of Asian high-school graduates. More than a quarter of Hispanic children there grow up in poverty.

Angela Marquez, who joined Metro State as an associate director for equal opportunity, says that outreach is key — not just to prospective students, but the whole family.

The university has sent bilingual admissions counselors to predominantly Hispanic high schools in the Denver area to help students apply, provide information on financial aid, and put on workshops for parents, discussing the value and outcomes of college. The use of Spanish is consistent, from information online about admissions and enrollment to campus tours and student orientations.

A familiar language can help parents and grandparents feel comfortable with the idea of college and included in the matriculation process. “Family is very important in the Latino-Hispanic community,” says Marquez. “Attending college is a family decision. We need to be able to meet the parents where they
are and provide them with information, so they’re not getting it secondhand through a translation from their child.”

Some students come from schools that offer little in the way of college preparation. Often the first in their families to pursue a degree, they may lack role models and advice. Advising at Metro State outlines the culture and expectations at the university. Skipping a course to attend a family event, for example, is not always the right choice. Paid peer mentors help connect classmates with campus and community resources.

Metropolitan State also set up a scholarship program for the children of migrant and seasonal farm workers. Fact sheets solicit donations to scholarship funds including named annual grants. “As state funding for higher education continues to diminish,” one says, “private support is increasingly vital.”

A Hispanic student population of at least 25 percent is required for certification by the U.S. Department of Education as a Hispanic-serving institution. While the designation may prove valuable to Metro State in raising its profile in Colorado, it also promises a financial boost: access to federal money reserved for HSIs under Title V of the Higher Education Act.

**The result**
The share of Hispanic students at Metro State grew from 13 percent in 2007 to 26 percent last fall. The university is now working through the process to become a Hispanic-serving institution.
Streamline Operations

Pressured institutions have to find efficiencies. That means looking for any waste in how the college operates, including unnecessarily cumbersome processes, obsolete or superfluous programs, or sprawling services that should be offered under one roof. The decentralized nature of many campuses can easily hide duplicative functions.

The euphemism “right-sizing” refers to cuts and layoffs. It can be hard to avoid the latter when personnel costs represent two-thirds of the average college’s budget. Painful though the prospect may be, any institution that needs to reduce expenses has to consider shrinking its work force and its footprint.

But streamlining goes beyond cutting departments, offices, and people. It’s improving services and reassigning staff members to better align priorities and resources. It’s making academic programs and services easier for students to navigate. Some campus leaders have decided that tuition pricing, too, is harder than it needs to be. Converse College, Drew University, and Utica College, among others, have announced “tuition resets” in recent years, reducing the sticker price and the tuition-discount rate.

Facilities demand attention, too. Take the University of Maine system, with a deferred-maintenance backlog of $1 billion. More than half the buildings on the flagship campus are at least 50 years old, a critical age for repair or renewal. Because of a downturn in enrollment and reductions in state support over several years, the Maine system hasn’t been able to hit a target of $80 million annually for capital improvements. And so the system has come up with a $10-million plan to demolish buildings and reduce square footage by 3 percent.

The institutions profiled below have relied on careful accounting and a business mind-set to drive but not determine their decisions. They recognize that they cannot serve their missions without controlling costs. And to advance their plans, campus leaders have solicited ideas and cultivated buy-in from key stakeholders.

TAKEAWAYS

Inefficiencies hide in decentralized processes and programs; leaders should look for any waste in how the college operates.

Financial data at the granular level will guide decisions about which academic programs to invest in or diminish.

Sprawling departments and courses may offer more options than a college can sustain and be out of sync with student demand.

Lean management can gain traction on a campus and generate considerable savings to reinvest.
If your institution had an online nursing program, you might think it was a big moneymaker. Everyone at Robert Morris University did.

Administrators at the university, in Allegheny County, Pa., had conducted a strategic review of all academic and administrative programs in 2013. While they gathered a lot of information about the programs’ scope, enrollment, and market position, they realized they had little financial data. So they resolved to allocate costs down to the student...
**The challenge**
To track expenses and revenue across the institution to identify where it loses and makes money.

**The approach**
Perform a detailed accounting of all programs.

for each campus program.

Just beginning that process is treacherous. Finance officers held a series of meetings with deans and department heads to set the rules for the allocation model — beyond the obvious salaries in each department, how to count benefits, overhead, space, and so on. Once those rules were set, the university ran the numbers through software to break them down.

“We have data in detail down to the most granular level,” says Jeffrey A. Listwak, senior vice president for business affairs. “If we wanted to, we could pick a student and say, Here’s what the profitability of that student is. Or calculate the profitability of a department or a school or a program.”

He is quick to note that Robert Morris doesn’t make decisions based on money alone. “We’re a mission-driven organization,” he says. “Finances are important, but it’s not the only criteria.” Some important programs might run a deficit, and administrators need to figure out how to bring in enough revenue elsewhere to subsidize them. After all, Listwak says, “no money, no mission.”

The financial analysis prompted the university to close a master’s program in higher education and an online psychology program. “Some of those decisions might have been made anyway,” Listwak says. “When we have data to back up decisions like that, it helps the process.”

Close accounting has also allowed Robert Morris to create solid new offerings: a doctoral program in instructional management, a master’s program in counseling psychology, and a dual master’s program in nursing and business. After running multiple scenarios for enrollment, facilities costs, and so on, administrators were able to determine whether to charge flat-rate or per-credit tuition, what level of scholarships to offer, whether to create a lavish executive-style program or a bare-bones one.

“We’re not done,” says Michael Baughman, director of financial planning and analysis. Robert Morris will continue monitoring its programs and market to guide its decision making.

As for the nursing program, it was, in fact, a money loser — $1.5 million in the red. University finance officers met with the dean of the nursing school to ask if they needed to maintain it. Definitely, the dean said. The online program was a “loss leader” that brought attention and enrollment to other programs in the school. So Robert Morris set out to minimize those losses.

The program had been set up years before and priced aggressively to compete with established competitors. Over time, it had become far underpriced. Before the audit, Baughman says, “we had no idea what it was costing us.” Afterward, administrators opted to lock in current students at the existing rate but raise tuition for incoming classes.

**The result**
Since 2015, Robert Morris has closed two academic programs and opened five. The new price of the online nursing program is projected to halve its financial losses in the next two to three years.
Overhaul Academic Offerings

In May of 2017, the board at Mills College declared a financial emergency. The college, in Oakland, Calif., was running a $9-million structural deficit on a $60-million annual budget. Those are dangerous numbers for any institution, but especially so for Mills. The 150-year-old women’s college had declined to go coed 25 years before, and so depended on tuition from a small subset of the female college-going population.

A crisis can catalyze reform, giving campus leaders license to make some drastic moves.

Administrators realized that over the years, academic departments had added course after course and requirement upon requirement to some majors. The provost, Chinyere Oparah, compares them to “the proverbial house which has had every generation adding another wing, with different architecture.” Worse, the offerings no longer suited the target market. “There was an imbalance between the resources that we put into academic programs,” she says, “and actually where our students’ interests and needs lay.”

So Mills set about combining and cutting departments. Some legacy programs were no longer popular, but had lots of faculty and staff members, while others attracting more students were thin on personnel. One of the under-resourced programs was public policy: It had a successful master’s program and a popular interdisciplinary undergraduate program in politics, economics, policy, and law, yet only two full-time professors. Mills combined public policy and political science to form a strong new department.

Beyond consolidating, Mills also eliminated academic positions in several depart-

The challenge
To rein in sprawl and fix a structural deficit.

The approach
Combine departments, cut positions, and update academic programs to match demand.
The cuts were hard, the provost says, but Mills “could not continue to support an academic program and a campus out of sync with student demand.”

The faculty and administration are working together to prevent future sprawl. When departments propose new programs, professors meet with colleagues in finance, enrollment, and marketing to evaluate costs, demand, and the corresponding job market. The formerly common practice of faculty members creating courses based on their interests, without such consultation, is quickly becoming outmoded at most institutions.

Consolidation was not Mills’s sole effort to right the ship. The college slashed its sticker price by 36 percent to be competitive with public institutions, and reached an agreement with the University of California at Berkeley to offer courses to Cal students who might thrive in a smaller environment. Mills is also recruiting more Hispanic and black women from its own backyard, through new partnerships with the Oakland Unified School District and the Peralta Community College District. Recently the college began accepting transgender students who identify as female.

The result
In 2017, the college went from 19 academic departments to 13. Enrollment is predicted to be stable this year, which administrators consider a win, given negative publicity about the college’s financial situation. Mills expects to halve its deficit this year and eliminate it in two to three years.
Become a ‘Lean’ Machine

Right after the recession hit, in 2008, enrollment slumped at Miami University of Ohio. The double whammy led to layoffs, mostly among staff members. Administrators mulled over how they could streamline processes to overcome resource constraints. The answer they settled on was lean management.

The concept had originated in the 1980s in Japanese manufacturing companies, notably Toyota. It’s a systems-oriented approach to cost-cutting meant to identify and eliminate waste in processes. In recent decades, managers of hospitals, power plants, hospitals, banks, and restaurants have applied “lean,” as it’s often called, to various products and services.

Administrators at Miami knew that finding efficiencies had to be collaborative, so they formed teams.

One examined how the facilities department assigned work orders, and determined that more could be done if top performers planned and scheduled maintenance centrally, ensuring access to rooms and supplies. The lean-management teams also examined energy, recommending a move from coal to geothermal wells, a renewable technology, and from standard light bulbs to LEDs. Another project reduced the cost of energy in the campus ice rink by 30 percent, a savings of about $300,000 a year.

Applying lean management means scrutinizing everything. “We’d been doing the same thing for 20 years, and nobody ever looked at how to improve it,” says Al Ryan, Miami’s director of lean initiatives, a position created in 2012 based on the success of the approach. “If you’ve never looked at a process, the first time out you’re probably going to get at least a 20-percent improvement.”

Some projects have focused on the student experience. Miami’s financial-aid, bursar’s, and registrar’s offices were all in one building, but perhaps needlessly reported to two different divisions within the university. That could make enrolling in and paying for classes cumbersome for students. “Calls would come in, and they would get routed to different departments,” Ryan says. “You had a lot of dissatisfaction.” Using lean principles, administrators combined the offices into one unit that can now handle most students’ and parents’ questions and requests.

The concept caught on at Miami, and...
efforts to cut costs continue to this day. The facilities staff meets once a month to review lean projects underway and consider new ones, and the finance staff devotes a third of its meetings every two weeks to lean initiatives. About 200 campus employees have gone through a lean certification program. There’s even an annual Lean Fair to spread the gospel of continuous improvement.

Four staff members — some of whom have other responsibilities at the university — now run the Lean Initiatives Office, supported by “lean leaders” across the campus who advocate for the principles in their everyday work. The university tracks and invests its savings. “We’re growing exponentially right now,” Ryan says, “because we are moving into new areas.”

The result
The university’s lean tally stands at 1,350 projects with $68 million in savings and new revenue. The Academic Benchmarking Consortium identifies Miami as the most efficient institution among more than two dozen major universities, and in 2017 U.S. News & World Report named it the nation’s most efficient college.
Institutions that face mounting challenges now or just want to position themselves for the future should explore options for sharing resources. The goal may be cutting costs, slowing expense growth, or expanding in new directions with a valuable partner. Collaboration is uncommon in higher education and need not rob colleges of their unique histories and missions. Even mergers can preserve the strengths of both institutions.

One small private college with limited growth prospects and little leeway for further cuts is investigating possible alliances. Augustana College, in Illinois, is shifting from trimesters to semesters to align its calendar with the majority of colleges, says its president, Steven Bahls. A “3/2 program,” for instance, could offer students three years of liberal arts there and two years of science and engineering elsewhere.

Or Augustana’s strong Islamic-studies program could link up with another institution’s Judaic-studies program. In one partnership already underway, the college provides space to a Chicago filmmaking company, and filmmakers teach courses.

Bahls draws inspiration from his work on the board of a local health system. Hospitals in midsized cities often cannot provide a full array of treatments in fields like oncology or neurology, so they join forces to offer some of those specialties. “For liberal-arts colleges, as we want our students to have access to highly specialized areas, such as advanced data analytics or advanced engineering, there may be possibilities of co-branding those programs,” he says. “I just don’t think that we can be an island.”

Some consortia have long traditions. The Claremont Colleges — seven institutions within a mile of one another in Claremont, Calif. — each have their own leaders and missions,
but they share library services, some academic and student-activity programs, and various administrative functions, like mail services, maintenance, and human resources. Similarly, the College of Saint Benedict and Saint John’s University, both Catholic institutions in central Minnesota, maintain separate campuses and presidents but have long shared courses, library resources, a provost, and a vice president of enrollment and financial aid.

"These programs are hard work to negotiate and administer. When a president leaves or provost leaves, often the relationship is lost."

Despite a few prominent examples, finance experts say such partnerships are not established often enough. And there are reasonable explanations. “These programs are hard work to negotiate and administer,” says Bahls. “When a president leaves or provost leaves, often the relationship is lost.” Others cite as barriers competition, self-defined uniqueness, and a fear of diluting a college’s brand.

Sorting out details, including differences in campus culture and software, can stall progress. In 2016, six Catholic institutions in Iowa announced that they would collaborate on a range of activities, from back-office support to courses. Two years later, after some turnover in leadership, the partnerships are inching off the ground, with interlibrary loan, joint digitization efforts, and an offsite server. Two of the colleges are working out a plan to share internet service.

Mergers are even more fraught with angst and obstacles — but some industry experts argue institutions should consolidate more often. One recent model is large public systems adapting to change since campuses were founded. Last fall the University of Wisconsin system announced a plan to become more efficient and more relevant to the state’s population by merging all of its public two-year colleges with seven of its four-year institutions.

Another model is a strong institution merging with a relatively weak one with valuable assets in programs or location. In recent years, entrepreneurial campus leaders have made deals to expand their portfolios or geographical reach. The University of New Haven acquired the Lyme Academy of Fine Arts in 2014. Philadelphia and Thomas Jefferson Universities merged in 2017 to combine the former’s strengths in design, the arts, and textiles with the latter’s programs in medicine, engineering, and science. Wheelock College, facing financial collapse, sought a partner that would preserve remnants of the college’s name, mission, and programs; Boston University absorbed the institution this year, creating the Wheelock College of Education & Human Development.

Colleges that combine their efforts can get economies of scale, if they figure out how to eliminate positions without reducing quality. Those delicate decisions may threaten to derail a partnership. But the good judgment to cut some positions and reassign others should generate savings to reinvest.

This section outlines two recent mergers with the potential to create efficiencies. Campus leaders there explain, however, that when they announce the plans, the work is just beginning.
The chancellor of the University System of Georgia, Hank Huckaby, laid out a vision in 2011: broader access for students, greater quality and reach of academic programs, improved student services, and streamlined operations—all at a time when state support had fallen 24 percent since the recession.

The grand plan to meet those goals, Huckaby and the Board of Regents announced, was to pair up institutions, initially eight, and then 10 more. A map of the state displayed branch campuses with triangles, research and comprehensive universities and state and two-year colleges each with their own color dot, circles drawn around them. Top officials devised the plans but needed the input of faculty, staff, students, and alumni to pull them off. That work has proceeded steadily since 2012.

The mergers have yielded savings mainly by reducing the administrative footprint, says John Fuchko III, the system’s vice chancellor for organizational effectiveness. “You don’t have two presidents, as a real obvious example.” Also: one provost, one CFO, one CIO, and on down the list of vice presidents. But creating a larger institution, he says, means “more of a need for those front-line people serving students directly.” The Georgia system has invested savings in staff members like academic advisers dedicated to student success.

Still, the primary objective is not financial efficiency, Fuchko insists, but rather offering students more options and more comprehensive programs. At the University of North Georgia, a new, four-campus institution born out of North Georgia College & State University and Gainesville State University, programs in Spanish, French, and German have doubled or tripled in size, and new ones in Chinese, Japanese, and Arabic are in the works.

The mergers have also spread effective practices. Georgia State University gets national attention for its retention efforts, notably through predictive analytics, intrusive advising, and financial aid for those close to graduation. Merged with the two-year Georgia Perimeter College in 2016, the combined institution is now adapting those techniques to a broader student population.

“A consolidation is really a forced re-examination of everything you do.”
amination of everything you do,” Fuchko says. “You have the opportunity to make some of those significant changes that probably would be more difficult to make during normal business as usual.”

Not that mergers are a peppy workshop. The accreditation process can be cumbersome and costly. Academic departments have battled over guidelines for tenure and promotion. And various
constituents, including alumni, fiercely guard markers of identity. The new name Georgia Regents University for Augusta State and Georgia Health Sciences Universities caused such an uproar that the board eventually renamed it Augusta University. Consolidated institutions also had to decide on colors and mascots, and who got to play on the sports teams.

Perhaps the most delicate phase is letting go of people in duplicate positions. Each merger began with the selection of a president, says Fuchko. That person would then build a team from the two institutions, with some oversight to ensure balance. Campus leaders had to eliminate positions while raising others’ salaries to match those from the more-prominent partner.

“Consolidation is probably more than anything else a leadership process,” Fuchko says. “There’s a lot of decisions that have to be made in higher ed, period, but even more so in a consolidation, where you really are compressing a lot of institutional change, strategy, and vision-setting into this one-year period.”

The result
Eliminating positions and increasing scale has saved the Georgia system an estimated $32 million, a fraction of its $1-billion annual budget.

Jaimie Hebert, president of Georgia Southern U., answered questions last year at Armstrong State, which merged with his institution.
Many people in higher education cheered the recent demise of several for-profit universities when they came under scrutiny for their aggressive recruitment practices, graduation and job-placement rates, and students’ debt levels. When Corinthian Colleges, ITT Technical Institute, and Kaplan University began to struggle, purists and consumer watchdogs saw the industry shedding its bad actors.

Purdue University saw an opportunity. Indiana’s land-grant university had for years tried to expand into online education. “We spent a lot of time talking to our friends at Arizona State University about how they went about it,” says Frank Dooley, Purdue’s senior vice provost for teaching and learning. “We just weren’t able to move very quickly.”

In 2017, Purdue was generating about $20 million in revenue from online courses, not much compared with $800 million from its traditional campus programs.

As the university looked for ways to ramp up its online presence, Kaplan University was confronting mounting regulatory and political pressure. Mitch Daniels, Purdue’s president, a former governor of Indiana and director of the U.S. Office of Management and Budget, tapped his vast contacts in Washington power circles.

“Mitch Daniels probably has the Rolodex that matches all Rolodexes,” Dooley says. The president reached out to Donald Graham, chairman of the Graham Holdings Company, which owns Kaplan. “Don basically suggested to Mitch that we should explore what our opportunities are.”

After five months of private negotiations, Purdue acquired Kaplan University’s campuses, employees, and 30,000 students for $1. Purdue University Global would become a nonprofit benefit corporation, with its own chancellor and provost, taking recommendations on budget, marketing, policy, and performance from a four-member committee drawn equally from Purdue University and Kaplan Higher Education. Purdue and KHE will share revenue from the new institution.

From the beginning, the deal generated controversy at Purdue and also among watchdogs, who worried that Purdue would...
legitimize or adopt the worst practices of the for-profit-college industry. Some faculty members and policy advocates at the Century Foundation tried to block the merger through a petition and appeals to the Higher Learning Commission, the accreditor reviewing the new institution. HLC approved the merger in March 2018, although questions about the governance structure will mean continued monitoring of students’ progress.

The consolidation transforms Purdue’s approach to the online market. For decades, the university ran boutique programs individually marketed to prospective students in specific fields. That required the programs to handle administrative tasks — “not a good use of my faculty members’ time,” Dooley says. Now Purdue will market all online offerings through Purdue University Global to a broad swath of potential students, and use the online arm’s administration to support the courses.

The new institution got up and running in April, and Dooley is optimistic. The acquisition pushes the university, which has enrolled largely traditional-age students, to focus on the needs of adults. “One of the things that higher education in general hasn’t figured out,” Dooley says, “is how to work with those who didn’t succeed the first time.”

**The result**

It’s too soon to tell how the new institution will perform, but inquiries into online learning at Purdue are already up 15 percent. The goal is for online enrollment to grow by 25 percent in the next five years.
FINDING SOLUTIONS
PAUL QUINN COLLEGE • PLYMOUTH STATE UNIVERSITY • GODDARD COLLEGE

SUSTAINING THE COLLEGE BUSINESS MODEL

THE CHRONICLE OF HIGHER EDUCATION
In higher education, what passes for innovation isn’t all that radical. People will cite successes in discrete areas that don’t fundamentally alter what a college does. Maybe campus leaders have increased retention, redesigned courses, or built a presence online. Impressive though results may be, the efforts essentially double down on or incrementally improve existing functions.

You could point to a place like Western Governors University, with its competency-based model, sophisticated technology to track student progress, and aggressive expansion across the country. But WGU is a start-up, unencumbered by decades or centuries of tradition.

Established colleges that revolutionize what they are doing — that take a fixture like academic programs, credentials, the academic calendar, or the pricing model and utterly transform it — are rare beasts in the higher-education ecosystem. Arizona State University has attracted considerable attention for a series of experiments, like a partnership with Starbucks to provide online courses to the company’s employees, but some argue that its main strategy is simply scale. The boldest moves often come in response to an existential crisis, a moment when presidents and boards realize an institution needs to change or die.

Transformative change requires a charismatic leader with vision and courage to take risks and confront opposition. It also demands a strong handle on the fundamentals: costs, revenue, market trends, and communication. Without a basis in accounting, any “innovation” will merely be a gamble on a hunch.

The institutions below faced imminent or looming peril, and leaders found new ways of doing things. How long they’ll carry the operation remains to be seen, but early signs are positive — and better than the alternative.

**TAKEAWAYS**

*Bold moves* may come from an existential crisis, as desperation spurs action.

*The work-college* model attracts students focused on affordability and gaining professional experience.

*An emphasis on interdisciplinary learning* can engage students and distinguish an institution.

*Adult students* represent a growth market if flexible programs accommodate their working lives.
Paul Quinn College was in terrible shape when Michael Sorrell took over in 2007. The college, in Dallas, was buried in debt. Its facilities were a wreck. Enrollment had fallen to fewer than 200 students, and the graduation rate was about 1 percent.

“You know how hard you have to work to graduate only 1 percent of your students?” Sorrell said.

The new president, a lawyer who had been a board member at the college, started by digging into its finances and making some initial changes. He ended the football program, an especially controversial move in Texas. And he instituted a dress code stipulating business attire: Any students in T-shirts or sweats would be subject to a $200 fine.

But his big plan to transform the institution was to make it a federally recognized work college, an unusual status in an urban setting. Paul Quinn would offer students a chance to gain work experience and earn money to pay tuition while taking courses toward a bachelor’s degree.

A romantic aura surrounds work colleges. At places like Warren Wilson College or Berea College, students toil in fields or barns, summoning a vision of agrarian scholars (they also work routine administrative jobs). At Paul Quinn, which earned the designation in 2015, students work in typical campus jobs and on the college’s organic farm, on the site of the former football field. Businesses like Oncor Electric Delivery and Omni Hotels have also partnered with the college to employ students. In any position, wages go to pay tuition.

The transition hit on multiple levels. It helped with the cost of college, no small thing on a campus where 85 percent of students receive Pell Grants. And amid growing public doubt about higher education’s return on investment, the new model promised real work experience and training in workplace culture.

An affordable work college appealed to Hispanics in the Southwest, and Paul Quinn’s student body is now about 23 percent Hispanic. “The best part about that, honestly, is we don’t have a Hispanic recruiting
“Drive,” says Sorrell, who has advocated to diversify enrollment. If the proportion reaches 25 percent, the college could be designated a Hispanic-serving institution, as well as an HBCU.

Paul Quinn is set to open a satellite campus in the rapidly growing area of Plano, about 30 miles from the main campus and home to firms including Toyota, FedEx, and Liberty Mutual. Students will live and work at companies there, taking hybrid classes in corporate meeting and board rooms. The Plano campus will start to build Sorrell’s urban work-college network, which he hopes to expand to other cities.

The institution still faces a host of challenges. For one, it is underendowed. And its students confront many obstacles, financial and otherwise. Sorrell recalls two students, sisters, losing their two brothers to murder. Administrators know that life’s harsh realities can affect students’ grades, retention, and health, and provide services like counseling and emergency funds to try to help.

Sorrell also points to several triumphs. A recent student went on to an Ivy League institution, a handful of graduates have joined Teach for America, and this year’s valedictorian will work in private equity. “That has never happened before,” the president says.

The college has had a wait list for three of the last four years, because it can’t accept more students until it can house them (a federal rule stipulates that 51 percent of the students at a work college have to live on campus). Paul Quinn plans to hold a groundbreaking in August for its first new building in 40 years.

**The result**

From a nadir of about 150 students, enrollment this fall is projected to be 550. The graduation rate has risen to about 20 percent. And the retention rate holds promise, estimated at 70 percent this year.
The challenge
To sustain and distinguish a regional public institution facing demographic decline.

The approach
Remake the academic structure, converting departments and colleges to interdisciplinary clusters.

Before he became president of Plymouth State University, in New Hampshire, Donald Birx had a reputation for promoting work across disciplines. Strategizing on a larger scale, he planned an interdisciplinary overlay on the university’s 24 academic departments, organized into three colleges.

But when Birx ran financial models in 2015, he found that within a few years, that structure would hit a brick wall. “There were no models that yielded financial stability after four to five years,” he says. “In fact, each year it got worse and worse.”

As with many institutions, academic departments and majors at Plymouth State had sprawled out over time. Ever more programs needed more staff and resources to support them. And nothing made the university distinctive in its region, the president says, while at the same time the number of high-school graduates was projected to plummet. “We didn’t find ourselves creating a unique product that would be really valuable in the 21st century.”

His solution: Blow the place up. Working with the faculty, the administration dismantled the colleges and departments and rebuilt seven integrated clusters: arts and technology; education, democracy, and social change; exploration and discovery; health and human enrichment; innovation and entrepreneurship; justice and security; and tourism, environment, and sustainable development. The university also streamlined operations with layoffs and buyouts for nearly 80 faculty and staff members, more than a tenth of the workforce. There are no deans in Birx’s vision for the future, but rather faculty members on leadership teams that guide the direction of the various clusters.

While the cluster model, adopted in June of 2016, creates efficiencies, Birx cites another primary motivation. In two decades of engineering research and administrative posts in New Mexico, Pennsylvania, and Texas, he saw students whose traditional majors limited their ability to think broadly and creatively.
Professors could sense students’ boredom, he says, and were bored themselves.

Campus leaders hope that interdisciplinary approaches to solving real-world problems will become a selling point for students and parents. Plymouth State designed its clusters around strengths and industries in the region, and the curriculum will promote experiential learning and practical experience. The university will consider stackable credentials to let students earn badges and certificates and get out into the working world sooner than in four years.

Plymouth State is focused on upside potential, the president says. “If we had not started moving to this structure, I honestly believe that the system in this state would have had to make some hard decisions about what they were going to do with the university as a whole.”

The result

Plymouth State’s experiment is still new, but the restructuring reduced expenses by $5 million a year. The transformation has generated buzz that administrators hope will translate into interest from students and families.
**GODDARD COLLEGE**

Pivot Toward Adult Students

Students graduating from one of Goddard’s low-residency programs chat after their commencement ceremony.
Goddard College, outside Montpelier, Vt., has always been an offbeat little place, the alma mater of the playwright David Mamet, the members of the band Phish, and the activist prison inmate Mumia Abu-Jamal. The college embraces the model of progressive education espoused by John Dewey. Incoming students are asked what they want to learn, then how they’ll construct their curriculum and demonstrate their learning. Royce “Tim” Pitkin, an acolyte of Dewey, believed that this self-guided education would be a bulwark against rising fascism when he founded Goddard in 1938.

But over time, the enrollment dwindled to fewer than 200 students. Faced with financial ruin in the early 2000s, Goddard did the unthinkable: It closed its residential undergraduate program. That move allowed it to shift attention and resources to its low-residency programs, in which students, typically adults, meet for a week each semester, then continue their studies from home.

For much of its history, Goddard was like other institutions: It held traditional undergraduate classes during the academic year, then cycled low-residency programs through consecutive sessions over the summer. Now the those programs run throughout the year.

Bachelor’s and master’s programs in education, for example, convene for a week in late January. Professors and students meet for long, intense days of classes and one-on-one meetings in space that’s theirs for the week. Then the cleaning staff comes through, rearranges the rooms, takes the professors’ names off the doors, and prepares for the MFA group. After that, health, arts and sciences, sustainability, creative writing, and so on. The schedule allows Goddard to maximize the use of its campus. And students enrolled at a distance can build networks in their local communities.

But the low-residency program presents inherent challenges. Rolling admissions and varied start times complicate matriculation and financial aid. Some students drift in and out of programs, making it difficult to build a steady cohort.

While enrollment has trended up, it is volatile, and turnover in leadership hasn’t helped. As Goddard pivoted to the low-residency program, in 2002, it had less than 500 students. Within a few years, it was up to more than 800. But then it dropped back down because, administrators say, a former president prioritized fund raising over enrollment management. Another president, with a background in finance and administration, tried to keep the numbers up, and now the college is in the final stages of a new presidential search.

Goddard is marketing aggressively online and building relationships with professional organizations to recruit their members. The college promotes real-world learning through its distance model. And amid concerns about the rise of far-right authoritarian groups, Goddard’s historical identity is resonating again. “This is a moment where we need to really wave our hands and say, This is what we’ve always done,” says Lucinda Garthwaite, chief advancement and strategy officer.

The struggles are not over, but that the college still exists is something of a higher-education miracle. Now it must recapture the momentum it started to build 10 years ago.

The challenge
To rescue a college at risk of closure.

The approach
Shutter the undergraduate program and expand the adult program.

The result
Administrators estimate an enrollment of 500 in the fall of 2018 and hope eventually to double that. Fund raising has increased, and Goddard projects a balanced budget.
CONCLUSION

Higher education is slow to change. Some of the problems and solutions outlined in this report have been bandied about for decades, with plenty of modest efforts but few bold moves to show for it. Experiments sometimes gain traction and spread. It takes years.

In the past two decades, a number of management gurus and ed-tech entrepreneurs have argued that many colleges don’t have that kind of time left. The management theorist Peter Drucker predicted in 1997 that because of the internet, video technology, and spiraling personnel and infrastructure costs, universities would be abandoned relics within 30 years. The academic and consultant Clayton M. Christensen, who coined the term “disruptive innovation,” turned his attention to higher education in 2011 with the book *The Innovative University*. Since then he has repeatedly declared that half of colleges will be bankrupt by 2030. At a conference for ed-tech investors and entrepreneurs in 2013, Andrew S. Rosen, chairman and chief executive of Kaplan, made a daring forecast: Within a few decades, all but 600 colleges would be dead.

With nine years left in Drucker’s timeline, some institutions are shaky, but others are sound, propping up whole communities. Christensen has stuck by his now-unrealistic outlook. Rosen’s deadline is too far off to say if thousands of colleges will expire by the early 2030s, but one thing is certain: His company’s for-profit Kaplan University slumped — and Purdue University snagged it.

Many campus leaders wave off the doom and gloom, perhaps because they have become inured to it. But as unlikely as the bleakest prognostications may seem, the financial pressures of rising expenses and declining revenue are real and urgent. Two factors alone — the decline in the number of traditional-age students and the limited buying power of American families — are enough to break fragile institutions. Many finance experts argue that weak colleges should make a considered decision to close rather than drag out the decline through years of cuts while offering a substandard education.

Still, despite considerable challenges, the industry has enormous untapped potential. Most people must pass through some post-secondary education to land a well-paying job, and scores of workers will need retraining for professions bound to emerge amid the technological and social tumult of the future. Once colleges firm up the fundamentals, campus leaders can pursue new opportunities and ponder transformative moves. It’s worth keeping in mind some emerging trends, and perhaps considering unconventional possibilities.

- **Real-world learning**: The problems the country and the world face are complex and interconnected, defying the structure of academic disciplines. Take climate change: To prepare for work in that field, students need to understand
the role of energy, commerce, and public policy in subjects as diverse as agriculture, engineering, and sociology. The issues of water scarcity, urban renewal, and poverty are just as formidable. A college that offers theoretical discussion in individual disciplines is missing an opportunity. Students want to engage with problems in practical ways to make a difference in their world. Station1, a new institution founded by Christine Ortiz, a former dean at the Massachusetts Institute of Technology, plans to base its curriculum on real-world projects driven by student interest.

• **College for life:** Automation and artificial intelligence threaten to upend workplaces and eliminate whole careers. Campus leaders often talk about “life-long learning,” but most institutions have done little to encourage it. They should consider programs that let alumni come back to their alma mater for further study, retraining, or career support. The University of Michigan’s Ross School of Business, for example, started a scholarship program that would allow graduates to take classes for the rest of their lives. The dean said he considered tuition an “upfront subscription.”

• **New certifications:** Hiring managers sometimes doubt what a college degree tells them in terms of candidates’ preparation or skills for a job. And adults may enroll in higher education with markers of experience and expertise not recognized by their degree programs. Different credentials promise to be useful indicators on both counts. The Colorado Community College System issues badges to certify specific skills and demonstrate students’ competency in segments of a degree program. Northeastern University now grants credit toward certificates or degrees for badges issued by IBM.

• **Employer pays:** Apprenticeships, a traditional method of training in the trades, are attracting new attention in fields like computer science and insurance. In some models, companies pay for employees to enroll at a local college while they gain on-the-job experience. A few institutions and for-profit education companies have struck deals to serve employees of major corporations. Through Arizona State University, Starbucks now provides higher education as an employee benefit. Guild Education, a company based in Denver, has partnered with Chipotle and Walmart to offer degrees in business and supply-chain management.

The entrepreneurial and ed-tech realms — long regarded with suspicion by traditional colleges and universities — might suggest some fresh, creative, ambitious
approaches. Paul Freedman, CEO of the Entangled Group, a venture firm focused on education, can rattle off a range of ideas colleges should try. Could they reimagine, he wonders, the typical path to a four-year degree? Students start out with general education, then take more specialized courses. What if that were flipped? Complete courses essential to one’s major, and potentially leave with a credential that could lead to an entry-level job. Then return to apply the credits to a bachelor’s degree, studying subjects like philosophy and literature. More-seasoned students might better appreciate those courses, Freedman says, and the degree would convey a liberal education.

RECOMMENDATIONS

Know the costs

Colleges and universities need to perform a thorough accounting of how money flows through divisions and departments, tracking allocations, spending, and what all activities yield in reputation or revenue. That information will guide many decisions: which programs can carry the institution, which have the greatest potential for growth, which need support, and which might be diminished or cut. A deep knowledge of costs and revenue also highlights how activities are changing over time — perhaps drifting away from a core mission, or adapting it to suit current needs. Transparency in accounting can drive smart innovation.

Control construction and space

New buildings signify success for campus leaders, while space serves as a proxy for power among departments. But every gross square foot costs money to build and even more to maintain. Colleges need space inventories: comprehensive assessments down to each room and its use. Consider central control of space and/or charging departments for their allotment, provided those with fewer resources still get the room they need. Look to “no net growth” plans as an incentive to better use existing space and to retire older buildings.

Develop good stewards

Board members should be able to impart expertise to an institution and weigh decisions with a clear sense of the financial model and culture of higher education. They need to know how to hire a leader before they do it, since that will be among their most important contributions. Presidents, provosts, and business officers should be deeply familiar with institutional accounting and free to speak openly about challenges to budgeting, mission, or market position.
It’s a compelling concept. Perhaps some college will try it.

To thrive in the 21st century will require colleges to be adaptive, their leaders perceptive and collaborative. They will have to learn from other industries. And they will have to engage more with businesses and communities.

Higher education is a big vessel, but it has already navigated vast transitions in the last century. A hundred years ago, it was a segregated system catering to the nation’s elite. After the world wars, it expanded to create a middle class. In the future, it could become a network through which people and society meet the converging challenges of an ever-changing world.

Engage stakeholders

Faculty and staff members can often identify and help eliminate waste — if they are included in the conversation. Tapping personnel could also shape ideas about how an institution should transform to become more relevant to incoming students and the local community. Campus leaders should encourage and reward interdisciplinary activities, including courses and programs, as they can be fertile ground for new directions.

Forge partnerships

Colleges aren’t as unique as they like to think they are, and increasingly, they can’t go it alone. They should look to neighboring or peer institutions to share back-office functions, jointly offer important but under-enrolled courses, or collaborate on student services like career counseling. Partnerships with other colleges, local hospitals, or major companies could advance energy-efficiency projects or purchasing consortia. Community organizations, civic groups, and local employers could help create new pipelines of traditional-age and adult students.

Prize long-term student success

Students are — or should be — the main reason colleges exist. Supporting them to graduation must be a guiding priority for any institution, and retention only helps the bottom line. Demographic changes will bring more prospective first-generation and otherwise underserved students who may need extra help. Each one, regardless of background, will judge his or her experience not only by academics and student services, but by the preparation for work and life. Given economic churn, colleges should consider building lifelong relationships with students.
Further Reading


Moody’s Investors Service, 2018 Outlook for Higher Education - U.S.


Related Publications

*The Chronicle* produces a series of in-depth reports for campus leaders. Here are a few complementary titles.

**The Future of Enrollment**

*Where colleges will find their next students*

The changing pipeline to higher education demands that colleges pursue new directions. They must extend their geographic reach; recruit through digital marketing, as well as school and community networks; and update their methods of evaluating applicants. Examine demographic data, migration patterns, and emerging strategies in enrollment management.

**The Adult Student**

*The population colleges — and the nation — can’t afford to ignore*

In the United States, about 80 million people ages 25 through 65 have graduated from high school but don’t have a college degree. The imperative for colleges to serve them has never been greater — in many cases for the institutions’ own financial health, but also for the sake of the economy. Learn strategies to tailor programs and services to attract and support older students.

**The Future of the Degree**

*How colleges can survive the new credential economy*

What the traditional college degree signals isn’t clear anymore. Will it lose its value? Explore the growing use of alternate measures of skills and competencies — from badges to MicroMasters — and how colleges can better convey what students are learning.

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