

Public & Social Sector Practice

Reimagining higher education in the United States

As education leaders consider their options in the age of the COVID-19 crisis, they must rethink the conventional wisdom.

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Higher education in the United States is at an inflection point. The core mission of the university—instruction, research, and service—has not changed. Nor has the need for advanced education to prepare individuals for a fulfilling life and to drive the knowledge economy. For individuals, the economic benefit of earning a college degree remains clear. College graduates are on average wealthier, healthier, and happier over a lifetime.¹

Even before the COVID-19 crisis, however, the higher-education sector faced significant challenges. Consider student completion: only 60 percent of all those who started college actually earned a degree within six years in 2017 (the latest year for which data is available). The figures are even worse for Black (39.9 percent) and Hispanic (54.4 percent) students. Other troubling disparities persist. In student enrollment, for example, 69 percent of white high-school graduates enroll in college, compared with 59 percent of Black high-schoolers and 61 percent of Hispanics. Furthermore, the level of student debt is rising, while repayment rates plummet, creating a potentially unsustainable burden for many students.

The pandemic is intensifying these challenges and creating new ones. Students and their families are struggling with the impact of campus shutdowns and questioning whether it is worth it to pay for an on-campus experience when much of the instruction is being done remotely. Under these circumstances, the risk of outcome inequities—from completion to employment to lifetime earnings—could worsen. For example, evidence suggests that lower-income students are 55 percent more likely than their higher-income peers to delay graduation² due to the COVID-19 crisis. Underpinning all of these challenges is a business model at its breaking point, as institutions face falling revenues and rising health-and-safety costs.

In short, the coronavirus has confirmed the case for fast and fundamental change. It has also demonstrated that change is possible. When the pandemic hit, many US colleges and universities

moved quickly to remote learning and other delivery models, launched affordability initiatives, and found creative ways to support their students. Now is the time to build on these lessons to reimagine the next five to ten years and beyond.

With that in mind, we pose five questions for US higher-education leaders to address as they look to the future. For each question, we describe the current conventional wisdom and then make the case for challenging it—to the benefit of students, faculty, staff, institutions, and society.

What makes our university distinctive?

The conventional wisdom: *To successfully attract students and maintain competitive national rankings, colleges and universities must be well rounded.*

National-ranking systems emphasize admissions selectivity, small class sizes, per-student spending, and standardized test scores. Focusing on this narrow set of variables can incentivize institutions to make strategic and operational choices that may boost their rankings without necessarily improving their core educational missions. It may also lead to greater homogenization in the higher-education landscape.

Instead, there may be more benefit to creating thoughtful differentiation, building on the institution's existing strengths, resources, and local context. The question to ask is: "What should my institution be known for?" There are many ways to differentiate, including student mix and outcomes, faculty development, research capabilities, facilities, and community impact. Doing so may serve institutions and their students better than the conventional wisdom for three reasons.

First, identifying and prioritizing what makes an institution distinctive can be a competitive advantage that attracts committed students and faculty. Second, specializing—doing fewer things better—could improve outcomes. And third, creating

¹ William R. Emmons, Ana H. Kent, and Lowell R. Ricketts, "Is college still worth it? The new calculus of falling returns," *Federal Reserve Bank of St. Louis Review*, 2019, Volume 101, Number 4, pp. 297–329, stlouisfed.org.

² Esteban Aucejo et al., "The impact of COVID-19 on student experiences and expectations: Evidence from a survey," *Journal of Public Economics*, August 2020, sciencedirect.com.

a distinctive profile can be a source of resilience, enabling institutions to survive after a crisis.

Such differentiation will be critical given the trends that are challenging the higher-education sector. One trend is the coming “demographic cliff”—the number of high-school graduates in the United States will peak at around 3.6 million students in 2026 and then decline to 3.3 million students by 2030. Another is the drop, since 2016, in international-student enrollment, an important source of revenues for many colleges. The COVID-19 crisis could well accelerate this decline. A third trend is the competition for research funding. In terms of the percentage of GDP and of budget allocation, federal investment in R&D has fallen steadily since the 1960s (although it has risen in absolute terms, and in the past two decades, nonfederal investment has grown, too). Moreover, about 35 percent of federal funding went to just 22 schools in 2018. Given these constraints, leaders need to ask how research can serve their institutions and identify where they stand the best chance of attracting faculty and funding.

By defining their areas of distinction and then directing resources to support them, higher-education institutions can set themselves apart—making them stronger and enabling them to deliver high-quality programs and outcomes.

How can we build a diverse and inclusive institution?

The conventional wisdom: *Current efforts are likely to fulfill diversity and inclusion (D&I) goals in a reasonable time frame.*

Higher-education institutions have been at the forefront of recognizing, and taking steps to foster, D&I. Many feature chief diversity officers, D&I curriculum requirements, and training sessions on implicit bias, as part of the growing diversity infrastructure.

Even so, there are sizeable gaps. College enrollment and completion rates for Black and Hispanic

students are much lower than for their white or Asian counterparts. Another area to address is the student experience itself. According to a 2019 study, Black, Hispanic, and first-generation students report a lower sense of belonging at four-year schools (but not at two-year schools).³

Faculty composition is even less representative. In 2017, only 6 percent of full-time faculty in degree-granting postsecondary institutions were Black and 6 percent were Hispanic, compared with 14 percent and 18 percent of the US population, respectively. Women make up only 33 percent of full-time professors.

Doing more of the same, then, is not enough, and time is of the essence because of changing student demographics. Between the 2012–13 and the 2031–32 academic years, the proportion of high-school graduates who identify as Asian and Hispanic will grow to 31 percent, from 24 percent, of all students.

There is evidence from the business sector that prioritizing D&I as a core value is sound management. McKinsey research has consistently found that businesses with top-quartile diversity on executive teams were likelier to have superior results; in the latest results from the 2019 study, companies with top-quartile ethnic and gender diversity were 36 percent and 25 percent, respectively, more likely to have above-average profitability. While the analogy between executive teams and higher education administrations is not precise, it is likely that campuses, like the C-suite, would benefit from a more diverse leadership composition.

Current higher-education D&I efforts are necessary yet insufficient, particularly given how the COVID-19 crisis is disproportionately impacting the lives, livelihoods, and education of Black and Hispanic Americans. Leaders must, therefore, act with a sense of urgency, seeking opportunities to strengthen D&I across their institutions—from redesigning student recruitment to updating faculty-performance measurement to account for the significant roles that under-represented faculty

³ Shannon T. Brady et al., “College students’ sense of belonging: A national perspective,” *Educational Researcher*, 2020, Volume 49, Number 2, pp. 134–37, [sagepub.com](https://doi.org/10.31826/0732-3330.49.2.134).

often play in mentoring to the social and academic experiences to postgraduate success. To do so may require new strategic initiatives and accountability measures, such as sharing the breakdown of tenure appointments by ethnicity and creating programs to encourage opportunities for intergroup dialogue and promote cross-race understanding.⁴

What services are necessary to create a high-quality student experience? And what aren't?

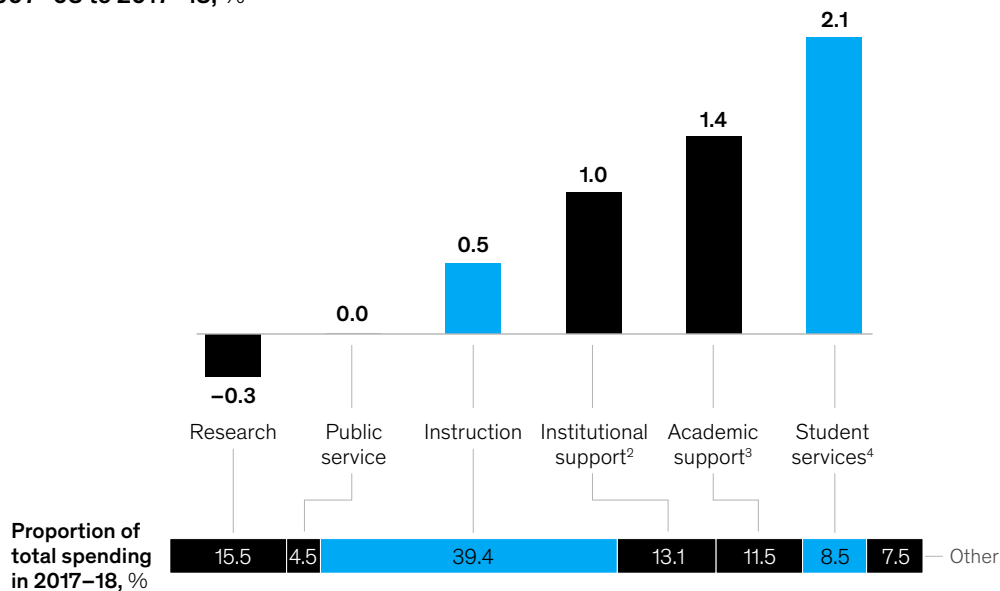
The conventional wisdom: *In addition to learning, higher-education institutions must be responsive to a wide range of student wants and needs.*

The core mission of colleges and universities is instruction, research, and service. In recent decades, though, many have engaged in the so-called student-amenities arms race, with expansive offerings in areas such as entertainment, gourmet dining, and wellness. Higher-education institutions want to deliver an enjoyable experience, and of course some student services are essential, especially those related to physical and mental health. But it is notable that since at least 2010, the costs for student services have risen much faster than costs for instruction and research (Exhibit 1). While this spending does include some core services, this trend may no longer be sustainable for many institutions.

Exhibit 1

Spending on student services has been growing four times as fast as spending on instruction.

Growth of expenses¹ per full-time student at four-year public and private nonprofit universities, 2007–08 to 2017–18, %



¹Adjusted for inflation.

²Includes expenses for the day-to-day operational support of the institution. Includes expenses for general administrative services, central executive-level activities concerned with management and long-range planning, legal and fiscal operations, space management, employee personnel and records, logistical services such as purchasing and printing, and public relations and development.

³Includes expenses for activities and services that support the institution's primary missions of instruction, research, and public service.

⁴Includes expenses for admissions, registrar activities, and activities whose primary purpose is to contribute to students' emotional and physical well-being and to their intellectual, cultural, and social development outside the context of the formal instructional program. Examples include student activities, cultural events, student newspapers, intramural athletics, student organizations, supplemental instruction outside the normal administration, and student records.

Source: College Scorecard; Federal Reserve Bank of Minneapolis (CPI); National Center for Education Statistics Trend Generator

⁴ This constitutes McKinsey's view on best practices and optimized environments. Legal restrictions, however, could affect universities' ability to adopt them; they should consult their legal counsel to understand any implications created by the recent "Executive Order on Combating Race and Sex Stereotyping," September 22, 2020, [whitehouse.gov](https://www.whitehouse.gov/presidential-action/combating-race-and-sex-stereotyping/).

One of the most difficult things to do on a college campus is to stop doing something. That said, some institutions have shown how to make such tradeoffs. Spelman College, for example, announced in 2012 that it would drop competitive intercollegiate sports in favor of expanding campus-wide health and fitness programs. This exact tradeoff is being faced again, and some institutions are making the difficult choice to trim athletics; most notably, in July 2020, Stanford announced it will permanently cut 11 athletics programs.

While students surely appreciate things like luxury gyms and other services, there is a need to distinguish between what students like and what is necessary to serve the core education mission. Given the budget stresses of the COVID-19 crisis, higher-education institutions may want to consider providing fewer, better ancillary services, while keeping the broader well being of their students in mind.

What delivery channels and models should we use to fulfill our core educational mission?

The conventional wisdom: *The best college experiences and educational outcomes are delivered in person, on a residential campus.*

The quad, the ivy, the lecture hall, the dorm, the tailgate parties: these are some of the well-known totems of the quintessential college experience. These images are ingrained; they are also part of the reason why many (and maybe most) traditional four-year higher-education institutions were slow to adopt new methods and technologies, such as remote instruction and competency-based learning that have the potential to advance student success while also lowering costs.

Global private investment in learning-technology companies has been growing fast, from \$2 billion in 2012 to \$19 billion in 2019. Areas such as online-learning management systems and innovations such as virtual-lab applications and immersive story learning are beginning to spread. And the COVID-19 crisis hustled even reluctant students and institutions into action. In 2018, only about 35 percent of undergraduates took a distance-education course. This year, that figure is close to 100 percent, as the pandemic forced the adoption of remote learning.

Institutional acceptance of the online delivery model also may be increasing. According to a poll of 2,000 US faculty members by Inside Higher Ed and Gallup in October 2019⁵—that is, well before the COVID-19

In 2018, only about 35 percent of undergraduates took a distance-education course. This year, that figure is close to 100 percent.

⁵ Doug Lederman, "Professors' slow, steady acceptance of online learning: A survey," Inside Higher Education, October 30, 2019, insidehighered.com.

crisis—39 percent fully supported the increased use of education technologies, up from 29 percent in 2017. And a national survey of more than 4,000 faculty members earlier this year⁶ found that 45 percent had a better opinion of remote learning since the pandemic began; fewer than one in five (17 percent) had a more negative perception.

Remote and online learning are here to stay. The need is to determine what combination of remote and in-person learning delivers the highest educational quality and equity. As institutions refine this hybrid model, they have a once-in-a-generation chance to reconfigure their use of physical and virtual space. They may be able to reduce the number of large lecture halls, for example, and convert them into flexible working pods or performance spaces. Or they could reimagine the academic calendar, offering instruction into the summer months.

What is our business model?

The conventional wisdom: *The current higher-education business model, which relies heavily on ongoing tuition increases, can be sustained.*

For decades, the financial model of US colleges and universities rested on two revenue streams. Student tuition and fees were the most important; the rest came from a mix of different sources, such as athletics, research grants, endowments, and government appropriations, that varied greatly. Both revenue streams are now under stress. These unprecedented times require a reimagined business model that protects the core educational mission and financial viability of the institution, while limiting economic burdens on students.

As mentioned, athletics, research grants, and other revenue sources are sputtering in the pandemic.

But the bigger stress is on tuition and fees, which comprise at least half of revenues for about 55 percent of four-year private nonprofit institutions in the United States; meanwhile they account for more than a third of revenues for about 30 percent of public institutions. Even before the COVID-19 crisis, administrators realized that they had limited scope to increase tuition; now it has become even more difficult to do so.

Two issues threaten the traditional tuition-reliant financial model. First, there is affordability. To offer financial aid, institutions manage a complicated pricing system in which higher-income and international students effectively subsidize needier ones. This lack of price transparency feeds into the perception of the increasing costs—and unaffordability—of college. In fact, from 2007–17, net costs rose only 4 percent, reversing the trend of previous decades. Yet the perception of unaffordability means that some young people might be discouraged from trying to attend: they see the high sticker prices and assume that they are priced out.

Second, there are also questions around the value of higher education when debt levels and repayment rates are considered. Median student debt levels have climbed by 45 percent since 2006, while repayment rates have dropped by 24 percent since 2009 (Exhibit 2). The situation appears to be worsening; in 2016, only 6 percent of students were at colleges where students left with moderate debt and managed high repayment rates, compared with 54 percent in 2009.⁷ The situation is even worse for students who incur debt but don't graduate and, therefore, don't benefit from the income-raising advantage of a degree.

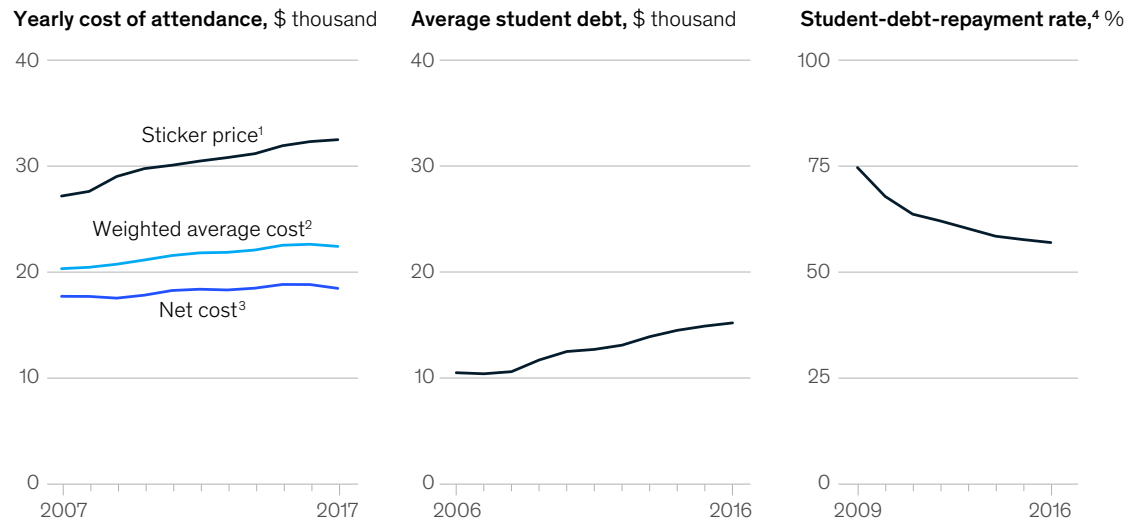
⁶ "Time for class: COVID-19 edition," Tyton Partners, July 2020, [everylearnereverywhere.org](https://www.everylearnereverywhere.org).

⁷ Emma Dorn, Andre Dua, and Jonathan Law, "The rising toll of student debt: More than graduates can sustain," October 12, 2020, [McKinsey.com](https://www.mckinsey.com).

Exhibit 2

Even though net costs have risen moderately of late, the student debt burden has become more onerous.

Four-year public and private nonprofit colleges and universities



Note: Adjusted for inflation.

¹Total yearly cost of a college education, including tuition, books, room and board, and all other costs.

²Weighted average net price for full-time, first-time degree/certificate-seeking undergraduates paying the in-state/in-district tuition rate; it assumes that students who are not receiving aid are paying the sticker price.

³What a student actually pays to attend college, taking into account all forms of financial aid; this figure refers only to students who receive some form of financial aid.

⁴Percentage of borrowers who, within three years of starting repayment, did not default on their loans and have reduced the amount owed on their loans.

Source: College Scorecard; Federal Reserve Bank of Minneapolis (CPI); National Center for Education Statistics Trend Generator

The COVID-19 crisis could accelerate these trends. In our April 2020 student survey, 45 percent of prospective students cited cost as extremely important in selecting a college, 44 percent of students who switched schools between January and April did so to save money, and 30 percent reported that the COVID-19 crisis was likely to have a strong or extremely strong impact on their ability to afford college.

Another important factor is to ensure students realize an economic return on their investment in higher education; without that assurance, young people will not be willing to enroll in the first place, or finish. Colleges are under pressure to ensure that students don't just graduate with a degree, but with

a pathway to sustainable employment that secures a reasonable standard of living.

Given these financial constraints, it is not surprising to see consolidation. Since 2000, there have been about 100 higher-education mergers in the United States,⁸ and more are likely. The Pennsylvania State University system,⁹ for example, is considering restructuring the different institutions in the system. Properties, buildings, and talent from less-affluent campuses may well become available. An interesting example comes from Connecticut, where three schools are buying the assets of the University of Bridgeport¹⁰; the latter's academic programs will continue for the time being, while other operations, such as the library and security, are shared.

⁸ John Hanc, "For some colleges, the best move is to merge," October 10, 2019, *New York Times*, nytimes.com.

⁹ Jan Murphy, "Pa. state system of higher education exploring costs of combining some universities," July 16, 2020, *Patriot-News*, pennlive.com.

¹⁰ Goldie Blumenstyk, "The edge: As colleges' finances get shakier, what lessons does this 'sorta' merger offer?," July 8, 2020, *Chronicle of Higher Education*, chronicle.com.

The opportunity—indeed, the necessity—is to reimagine higher education financials so that students do not find themselves mired in debt. There is little room to increase tuition, and there are also challenges to other revenue sources, such as athletics and research funding; education leaders must therefore ask how they can reevaluate their spending and/or reallocate existing resources.

Colleges and universities must reimagine their business models and consider new ways to operate—either on a standalone basis or through partnerships that accomplish the same goals, at lower cost.

How do we challenge the conventional wisdom?

Higher-education leaders face a complex situation, negotiating how to manage the COVID-19 crisis in a context of economic, demographic, and technological challenges. At the same time, universities have a reputation for making decisions slowly. “It’s easier to change the course of history,” the saying goes, “than it is to change the history course.” The deliberate, and deliberative, nature of university governance has many benefits, but it can also be a hindrance to decisive action. That said, many university leaders have reacted creatively and swiftly to meet the challenge of protecting their communities’ health while delivering on their educational mission.

Three mechanisms can help universities to sustain this momentum: planning, stakeholder engagement, and board governance:

- **Plan ahead.** Responding to a crisis like the COVID-19 pandemic requires leaders to take decisive short-term actions. But they also need

to dedicate time to develop longer-term strategic thinking. One way to do so is to create plan-ahead teams that include people identified as future leaders. The team should be tasked with developing scenarios, recommending actions, and identifying trigger points for escalation to the university’s board and administrative leadership.

- **Stakeholder engagement.** Universities should engage early and often with important stakeholder groups—including faculty, staff, students, and parents—when making critical strategic decisions. Leaders must be transparent about decision-making processes, establish clear timelines, and meet them. By embedding engagement into decision making, rather than as an afterthought, the shared governance culture of higher education can be respected, while still allowing universities to act quickly.
- **Board governance.** In moments of crisis, boards can play a critical role. But that role must not slip into micro-management. Board members should evaluate their operating model—the board’s size, structure, and decision rights—to ensure they provide the necessary governance without interfering with administrators.

This is not the first time, nor will it be the last, that universities will need to adapt. “The inertia of a massive university is formidable,” noted Harvard President Charles W. Eliot in his inaugural address. “A good past is positively dangerous, if it makes us content with the present, and so unprepared for the future.”

President Eliot made those remarks in 1869. The time to prepare for a new future is now.

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