

FROM PANDEMIC TO TRANSFORMATION: HIGHER EDUCATION LEADERSHIP DURING COVID-19

Several weeks ago, most would have found unfathomable the realities now facing American higher education from an unprecedented generational threat referred to as the novel coronavirus, a term previously unknown to all but a limited number of research scientists and clinicians. Beginning in the province of Wuhan, China, the World Health Organization (WHO) declared COVID-19, the disease that results from the virus, a pandemic on March 11.

In response, U.S. higher education institutions have transitioned to an almost-universal distance learning model, shifted to remote work for most employees and cancelled collegiate athletics events. Other remarkable developments include the suspension of clinical rotations, the transition to “pass/fail” grading, the waiver of standardized testing for admission requirements, the systematic closure of residence halls (including the repurposing of some for COVID-19 convalescents), the euthanasia of animals due to halted research, quickly emerging liquidity crises for universities and financial uncertainty for students. And many seniors and their families find themselves shocked at the postponement or cancellation of one of the primary rites of spring: annual commencement ceremonies.

Recently, public health experts have encouraged social distancing to “flatten the curve” of disease spread and provide relief for healthcare facilities that will need to treat the most ill. These mandates, combined with lack of clarity about duration and infection and mortality rates, provide an uncertain forecast for colleges and universities.¹ Even if infection rates significantly decline over the summer, COVID-19 could resurge later this year.² And some experts predict that additional rounds of social distancing could continue well into or beyond the fall semester, particularly in light of concerns that the development of a vaccine may require 12 to 18 months.³

In this unfamiliar environment, institutional leaders should urgently shift from their current focus on crisis management to a future-oriented process that results in transformational change, both for their existing core missions and future capabilities. These realities require the immediate and sustained attention of senior leadership and boards and will force American higher education — including the complex marketplace in which it engages — to undergo a three-phase process:

- A **triage period**, in which leaders react promptly, thoughtfully and with clear communications to a rapidly changing landscape to ensure the safety of their constituents — students, faculty and staff — and the continuation of critical mission-focused activities (education, research and clinical).
- A temporary, midterm **stabilization period**, in which leaders assess the financial and cultural realities of COVID-19 and shift resources to prepare their institutions for the coming fall term, with an emphasis on financial stability, academic quality, student support services and overall risk reduction. This work will be more than simply balancing the budget; it will provide the foundation for future success through initial investments in remote education and labor, as well as other priorities.

¹ Ioannidis, John P.A. “A fiasco in the making? As the coronavirus pandemic takes hold, we are making decisions without reliable data.” www.statnews.com, March 17, 2020.

² Emanuel, Ezekiel J., Susan Ellenberg and Michael Levy. “The Coronavirus Is Here to Stay, So What Happens Next?” *New York Times*, March 17, 2020.

³ Ferguson, Neil M., et al., “Impact of non-pharmaceutical interventions (NPIs) to reduce COVID-19 mortality and healthcare demand,” Imperial College London, March 16, 2020.

- A **transformation period**, in which leaders use a more informed lens as to how the environment has unfolded to develop and implement their visions for mission-driven institutional change that will ensure the long-term success, and in some cases survival, of their institutions. Strategic planning, margin improvement and mergers and acquisitions (M&A) will be the hallmark activities of this period.



Rather than distinct stages, however, most institutions — particularly those that will emerge stronger and more resilient — will engage in overlapping efforts across the three phrases. Specific areas of concentration will vary by institutional type; academic health centers will have different needs across the educational, research and clinical missions than liberal arts institutions that are primarily focused on teaching and learning. State appropriation-dependent public institutions will differ from private institutions, and research institutions will have experiences that contrast with comprehensive colleges and universities. Yet most will encounter the core challenges, opportunities and needs within this paradigm — to triage, stabilize and transform their institutions.

Triage Period

For the last several weeks, senior leaders at hundreds of institutions have been mired in the triage phase, faced with a crescendo of questions that require immediate resolution. A high percentage of executive time has shifted from common strategic and operational activities to these pandemic-related issues and the associated communications. The activation of emergency operations centers, frequent meetings and after-hours conference calls, and the careful generation and transmission of related communications has become the daily norm. Given the novel challenges COVID-19 is creating, as well as the potential substantive impacts on institutions, executives have primarily focused on agile decision making to support two broad goals: the health and safety of campus populations and the continuation, as much as practical, of core mission activities.

Leaders have had an appropriate, even if tacit, ethical mandate to focus their initial energy on the health and safety of students, faculty and staff. Since late February, campus communications have increased in volume and frequency. From international and domestic travel restrictions to the online delivery of course content, cancellation of campus activities, the domestic return of students studying abroad, and development and enactment of human resources policies to support telework and flexible leave, most institutions have acted decisively and in general alignment with other institutions. The particular emphasis has been on the well-being of campus populations, as well as the responsibility that universities have to support public health needs. These needs will continue — and perhaps adjust from a corporate to individual approach — as the realities of infected relatives and friends, along with the economics of students' lost jobs, intensify in the coming weeks.

Even as institutions have focused on triaging and managing these critical needs, few have shuttered their operations entirely. Most have remained focused on sustaining the delivery of core missions, albeit in altered forms. The majority have rather immediately shifted to remote instruction often with an extension of spring break to help instructors and support staff — functional and technical — prepare for remote delivery of their education mission. Many have also shifted courses to a “pass/fail” grading scheme, with some also eliminating final examinations. Universities with substantial research portfolios have begun to halt some research projects, particularly those that are not essential for the health of humans and research subjects. Lab access has been restricted, and institutional review boards are continuously reviewing modifications. Given that the current issues are health-related, academic health centers have also begun to triage their operations. Reducing

ambulatory clinic sessions, discouraging elective procedures and determining how to increase hospital bed capacity — particularly in the ICU — in the context of supply and equipment shortages have been their primary focus, though some institutions have also reported a reluctance of some faculty physicians to interact with patients who might be infected with COVID-19.

Stabilization Period

The rapidly evolving situation has required agile decision making, often without time to validate relevant data or appropriately forecast campus impacts. Yet the outcomes of these decisions will stretch far beyond the spring 2020 semester.

Even as social distancing and, in some cases, stay-at-home mandates continue, some institutions might be tempted to envision a return to their former status quo. But the evolving higher education marketplace — across educational, research and clinical missions — will demand a substantive, fundamental transformation, and university leadership will be held accountable for identifying and assessing the consequences of their choices during the stabilization period.

Not only will they need to understand these impacts, but many will also need to make adjustments to stabilize their institutions to prepare for and initiate the fall semester, a term that could once again be characterized by social distancing and remote learning/working environments. During this stabilization period, boards and executive leadership should largely focus on financial stability, academic quality, student support services and overall reduction of risk in preparation for a successful start to the fall semester.

Maintaining Financial Health

Quantifying and addressing the fiscal impacts of COVID-19 response measures will be a primary focus for leaders during this phase. While Moody's and Fitch Ratings both characterized the industry as "stable" as recently as December 2019, that optimistic perspective has quickly eroded; as of March 20, Moody's, Fitch and S&P Global have assigned a negative outlook to the sector. As qualification for their outlooks, the agencies specifically note likely COVID-19 impacts that will exacerbate existing challenges (i.e., enrollment shortfalls) and introduce new stressors to institutions, including increased expenses due to emergency management and online pedagogy investments, potential reductions in state appropriations, negative endowment performance trends, loss of athletics revenue, tuition losses from decreased domestic international student enrollments, the potential for privatized housing debt default and reductions in auxiliary revenue (which comprise approximately 10% of total revenues at many universities).

Though the Office of Budget and Management has released guidance for proposal submission and post-award management flexibility, the longer-term impact on federal research funding is difficult to predict. Institutions with substantive clinical missions also face challenges (despite hospital beds likely being filled to capacity) with reduced ambulatory clinic and elective procedure revenues, increased supply expenses due to scarcity and rising labor costs attributed to healthcare worker quarantine and illness. Liquidity will be a key focus, and institutions with existing weak operating margins and minimal cash flow will face particular operational challenges. These challenges are not, of course, unique to higher education: S&P Global has declared that the global economy has already entered a recession.

For many institutions, improving liquidity will be a prime driver of their stabilization responses. Ratings agencies have already begun to collect data from campuses, and erosion of credit quality might follow. Many colleges and universities will need to revisit and potentially revise liquidity and reserves policies and pursue additional lines of credit. Others will need to immediately reduce operating expenses by continuing recent travel, procurement and hiring prohibitions, or by exploring more cost-effective procurement vehicles for specific goods and services.

Even though some have committed to paying employees during the coming weeks, others will be required to reduce payroll through staff, and potentially even tenured faculty, furloughs and reductions in force. Some will also need to consider the revenues and expenses associated with each program in their academic portfolio, including potential adjustments to support positive margins.

Others will reevaluate the maturity and value of certain joint ventures, either with other institutions, healthcare organizations or

public-private partnerships. In the face of uncertainty, universities might elect to defer, reduce or cancel construction and other capital projects to shore up liquidity. Some universities will also need to shift planned near-term investments to cover margin losses or to redirect resources to areas of immediate strategic importance.

Ensuring Academic Quality and Student Success

Attentiveness to financial needs will be critical, but enhancing academic quality in this new context will also become a critical element of stabilization. Many institutions' relatively small distance learning and instructional design capabilities have been overwhelmed during this transition, and some students and parents have begun to raise concerns about the quality of the education that universities are capable of delivering remotely. Responding deliberately to these issues through increased support resources, training and strategic hires will be essential to maintain institutional brands, market share and consumer confidence. Online program management companies are also likely to emerge as partners for additional institutions.

Regional accrediting bodies are also likely to intervene to ensure that institutions are satisfying contact hours as well as learning outcome/institutional effectiveness and state authorization requirements. Other important considerations will include restarting select study abroad programs, addressing the likely increased graduate program demand that typically accompanies recessions and ensuring reliable technology platforms are in place.

Translating student support services — including academic advising, student health and counseling, transactional services (registrar, bursar and financial aid), writing centers, tutoring and federal TRIO programs — to a virtual environment will also become an area of focus during this period. Even those institutions that have already provided these functions virtually now have the added challenge of providing student support services via remote workforces. Ensuring these functions are operating reliably and at a high quality will be critical to support timely student progression, academic achievement, remedial skills development and overall student satisfaction. And it is important to recognize that these services are not optional; accreditation requirements mandate the delivery of comparable services, and some of these offerings (including counseling services and TRIO) are critical to ensure the progression and retention of specific student populations.

Mitigating Risk

Reducing institutions' risk profiles will be another core element of stabilization. While many students and parents likely will forgive institutions for not being prepared for the current educational disruption, they may not be as tolerant of other issues in the near future. The coming months will likely uncover various risks, which may include lackluster institutional planning for emergency scenarios, new cybersecurity threats, underfunded technology support for extended periods of distance learning and work, a lack of formal written policies to address specific needs, vague *force majeure* contractual clauses, extramural salary coverage approaches for cancelled or delayed research projects, and other comparable issues.

Initiatives that were paused to address COVID-19, but that have firm deadlines for compliance and other reasons, will need to restart and complete on abridged timelines. Shifting available reserves and planned investments to begin to address these risks will prepare institutions to succeed in the upcoming fall semester.

Stabilization will be a transitional, rather than permanent, phase for institutions. Balancing financial stability with the investments, revenues and expenses tied to academic quality, student support services and risk reduction will support a successful fall semester and provide the foundation for the future. Yet these steps alone will not ensure the long-term viability or success of institutions.

Some institutions will have the financial resources (through reserves, endowments and quasi-endowments) to weather the fiscal storm, and they will be well positioned to explore new growth opportunities in this evolving landscape. Institutions without as much financial flexibility, however, will likely be forced to examine and innovate their core operations in order to remain solvent. The efforts of some institutions will fall short here, leaving them with the option to close or seek M&A opportunities. Inaction, though desirable for some institutions, will not be a feasible option for many during stabilization.

Transformation Period

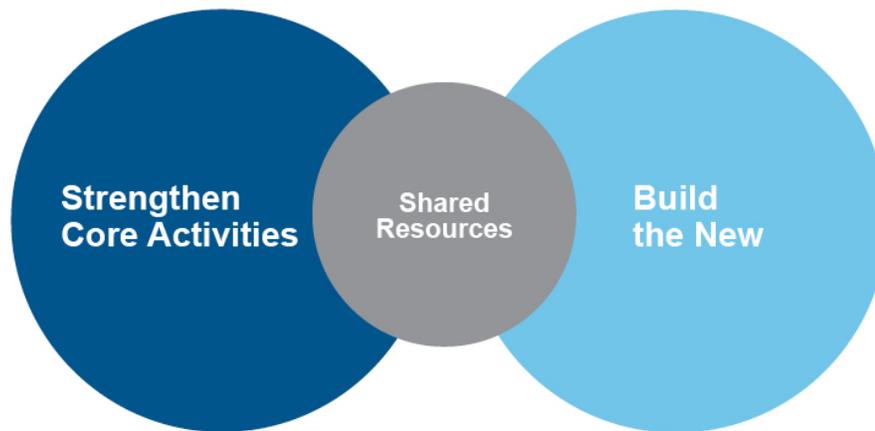
Institutions that successfully stabilize will enter a third phase, a transformation period, as they look to position themselves to survive and thrive in the future. But transformation at both the institutional and industry level will represent fundamental and permanent shifts within American higher education. This period will be characterized by a new wave of strategic planning,

margin improvement activities and substantial M&A activity.

Strategic Planning

Strategic planning can be a challenging exercise, and many universities often encounter a disconnect between strategy and innovation — they assume that their current business model can extend into the future with only incremental improvements, or they remain uncommitted to a variety of visions for the future, many of which are impractical.⁴

To address these potential disconnects, institutions should focus both on the near-term optimization of current services, as well as the long-term development of new business models to expand offerings to current audiences or increase their reach to new audiences. Scott Anthony and Mark Johnson of Innosight, Huron’s strategy and innovation business, have termed this approach dual transformation.⁵ The near-term emphasis focuses on strengthening and repositioning the current core and relevant mission activities of institutions in the face of disruption, including aggressive implementation of innovations to support these goals. The future-oriented strategy emphasizes the identification of novel opportunities for new and constrained markets, as well as the removal of consumption barriers that prevent the successful delivery of new solutions to these markets. Shared skills and resources across the two efforts provide a bridge between the present and the future, though with a bias toward future opportunity.



Many of these initiatives to strengthen the core will originate in the stabilization period, though they may not reach maturity until the transformation period. For example, efforts to enhance remote education could begin with initial investments in instructional designers during stabilization but mature to include the creation of new policies and practices that standardize the quality of remote delivery for all existing courses. Likewise, initiatives to enhance clinical faculty productivity might begin with increased patient appointment expectations to increase revenue generation, but evolve into a strategic, mutually beneficial incentive-based compensation plan.

Efforts to build the new, by contrast, will emerge mostly in the transformation period through dedicated innovation teams. From developing new degree programs that align with strategic areas of focus to marketing existing clinical services to new

⁴ Johnson, Mark W. and Roy N. Davis, “A Future-Back Approach to Creating Your Growth Strategy,” February 2014.

⁵ Anthony, Scott D., Clark G. Gilbert and Mark W. Johnson, “Dual Transformation: How to Reposition Today’s Business While Creating the Future,” April 2017.

geographic areas and populations, the transformation period will encourage innovation for both existing and new audiences.

Margin Improvement

Universities will also focus on larger-scale margin improvement activities, a second element of the transformation period, by generating funds to invest in mission-aligned strategic opportunities that maintain institutional brands.

Some will be aggressive in their attempts to maintain or bolster existing enrollment levels and their associated revenues, including expansion of virtual course delivery. Other institutions likely will react to perceived failures in remote education delivery during the spring semester, and their focus will be on redefining the value of high-touch residential education while also recognizing the need for occasional remote education delivery.

But for many, this work will focus on reducing recurring operating expenses.

- Shared services models for transactional activities will likely gain traction as part of organizational efforts to minimize administrative footprints in favor of investments in education, research and clinical work. Despite well-known failures at several universities, newer models have succeeded on many campuses through an emphasis on business process improvement and service-level enhancement.
- Incremental budget models are likely to be eliminated in favor of incentive-based models that reward schools and departments for margin improvement, either through revenue generation or expense reduction.
- Research institutions will strengthen their emphasis on a limited set of research areas and structure their operations accordingly.
- Universities with clinical missions will closely examine faculty effort expectations, including the creation of compensation plans that transparently incentivize revenue-generating activities.
- Institutions will also find the need to quantitatively and qualitatively evaluate their academic programs in terms of margin, strategy and brand value, highlighting opportunities for portfolio consolidation.
- State governments are likely to require public institutions to perform this analysis and reduce program redundancy in the face of inevitable reductions in appropriations, particularly in the context of recent state-level, performance-based funding trends. Leaders should anticipate calls for legislative testimony to address these types of questions.

Increased M&A Activity

A third hallmark of the transformation period will likely be a notable increase in higher education M&A activity. Closures that have been avoided in recent years due to active alumni giving in response to financial distress might not be feasible in this environment as the fiscal situation for some institutions will be too dire. Regional accreditors are likely to contribute as well, as they identify financially challenged institutions and begin associated probationary processes.

The resulting M&A transactions may be more plentiful and varied than have occurred previously. Some stressed institutions will look to partner with other similar ones to create larger student populations with less administrative and faculty overhead cost, though recent years have proven these arrangements difficult to finalize. Other universities will look to merge with larger or financially healthier institutions, as illustrated by Wheelock College and Boston University's 2018 merger. Still other universities might attempt to capitalize on the opportunity to be more aggressive, potentially acquiring regional institutions to deliver innovative academic programs or create formal, and virtually guaranteed, joint enrollment pipelines as two-year feeder colleges over larger geographic territories, much the way Oxford College functions with Emory University.

The Path Forward

As institutions soon emerge from the triage period, executive leadership and boards of trustees have a responsibility to engage in an intentional transition of their institutions through stabilization and on to transformation in short order. Enacting change at universities often presents challenges, but COVID-19 can and will act as a catalyst for necessary innovation. The efforts of some institutions will fall short here, leaving them with the option to close or seek M&A opportunities. Inaction, though desirable for some institutions, will not be a feasible option for many.

Time will be of the essence for many universities, and four primary actions will best position them for sustainable success:

- **Move Swiftly to Stabilization and Transformation:** Executive leaders — specifically presidents, provosts, chief financial officers, administrative officers, and other senior staff — should initiate conversations among their institutional peers and

boards to focus more attention on the future and less attention on triage. They should also begin to delegate responsibility to further operationalize their triage period decisions. Many senior leaders will be tempted to overcommit additional time to triage, but they should empower focused, tactical work teams to develop and execute plans for implementation. Delegation of short-term management decisions will free leaders to engage in the important future planning necessary for long-term success.

- **Embrace Data-Driven Decision Making:** As the urgency to make specific announcements wanes, leaders should increasingly rely on data to support additional critical decisions. By necessity, institutions have based many recent decisions on limited or nonexistent information and forecasting. Decisions made in the coming weeks and months will have long-term ramifications, and leaders should weigh those projected impacts — both quantitative and qualitative— during their deliberations about new student recruitment, fall enrollment, revised financial policies and other topics. Appropriate, thoughtful pauses can also ensure that institutions are aligning not only with their peer institutions, but also with leading practice. This approach should not stifle the need for rapid execution, but teams of trusted analysts can and should be involved in the process to help strategically guide deliberations.
- **Fund Strategic Resource and Infrastructure Investment:** The successful execution of stabilization and transformation may require substantive investment. Financial leaders should immediately begin to earmark funds from reserves, redirect currently planned investments or commit to securing funding during stabilization activities to invest in the strengthening of infrastructure, effectiveness of operations and development of innovative strategy during transformation.
- **Engage the Campus Around Change:** As institutions move from triage to stabilization and transformation, the most important focus for senior leaders is to become active sponsors for transformational change. Leaders should now begin interacting with their campus constituents to express the need for change through spoken and written words, model commitment to change by allocating human and financial resources toward future-oriented change efforts, and reinforce desirable behaviors by delivering rewards and consequences. Change readiness efforts must originate with executive sponsors and their ability to embrace persuasive business cases for action, carefully communicate the need for change to various stakeholders, manage resistance, and then cascade the efforts throughout the institution. Genuine engagement with shared governance will be vital, though it will require modification in some settings to effectively foster innovation.

The higher education industry will face once-in-a-generation challenges in the coming months and years. With board support institutional leaders should advocate to realign their focus from triage to stabilization and transformation. The futures of many universities will depend on it.

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