

WHITE PAPER

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Value in postsecondary education

Over the last several years, SkyBridge Associates leaders have engaged with diverse stakeholders to better understand the evolution of postsecondary education in the United States. The sector faces considerable challenges, but there are also opportunities for stakeholders to collaborate in new ways. We have prepared this short paper to stimulate discussion on these issues and define next steps.

A national investment

At a fundamental level, Americans believe in the value of postsecondary education. The number of Americans who believe that higher education is necessary for a decent job and place in American society jumped from 31% in 2000 to 50% in 2007.¹ Moreover, a Pew Research Center survey found that more than 90% of parents expected their children to attend college, and 86% of American college graduates consider their postsecondary education to have been a good investment.² A recent study suggests they're right, as college graduates are recorded to earn an additional \$1.3 million in lifetime earnings.³ However, there is growing evidence that the traditional model for delivering and financing postsecondary education may not be sustainable going forward.

Increasingly difficult for government to support rising cost of postsecondary education

In 2010, expenditures by American postsecondary institutions exceeded \$461 billion, or 3.1% of the gross domestic product.⁴ Many of these costs were recovered through student tuition and fees, which increased a staggering 326% from 1987 to 2009 (an increase of 6.8% annually), exceeding not only inflation but also medical costs (4.9% annually) and house prices (4.0% annually) over the same time period.⁵ Americans have great faith in the merits of a college education and are willing to shoulder much of the financial burden.

Federal and state governments are deeply involved as well. Federal programs provide grant, loan, and work-study assistance to more than 15 million postsecondary students each year. During the 2007–2008 academic year, government and the private sector spent \$162.5 billion on student aid, much of it need-based.⁶ The government contributed more than \$30 billion to the Pell Grant program and over \$100 billion in new federal student lending in 2010.⁷ The federal government also provides subsidized and unsubsidized Stafford loans, Perkins loans, and PLUS loans,⁸ along with 14 tax benefits for students and

their families that will cost the government an estimated \$95.3 billion from 2010–2014. The government also offers other forms of indirect financial support for higher education, including deductions for interest on student loans, exclusion of scholarship income, and tax credits for tuition paid.⁹

Unfortunately, government support is at risk. Over the last decade, increases in federal aid have failed to keep pace with rising tuition costs.¹⁰ Government funding of higher education is at its lowest point in 25 years.¹¹ While Title IV's Pell Grant Program initially covered 77% of the cost of attending a four-year public college, the maximum Pell Grant today covers just 35%.¹² At least 28 states have implemented cuts to public colleges and universities and/or large increases in college tuition in response to budget shortfalls.¹³

Many questions about whether benefits of college justify the costs

In a report by the Pew Research Center, 57% of Americans surveyed claimed that the nation's higher education system does not offer adequate value in return for increasingly high costs, and 75% feel it is unaffordable for the average citizen.¹⁴ While financial aid (e.g., scholarships, public and private grants) can defray some costs, students and their families are still paying between 75% and 85% of the full cost of their education at private universities.¹⁵

National Public Radio, the *New York Times*, *20/20*, and others have run stories challenging the value of a college education.¹⁶ A recent survey found that the median starting salary for students graduating from four-year colleges in 2009 and 2010 was \$27,000, down from \$30,000 for those entering the work force from 2006 to 2008.¹⁷ Moreover, nearly a year after graduation, only 56% had held at least one job, compared with 90% of graduates from the classes of 2006 and 2007.¹⁸ As one recent report noted, “where you study, and what you study, matter a lot.”¹⁹ Faced with declining earnings and fewer jobs, college graduates are struggling to manage student loan obligations. Outstanding student loan debt in the US exceeded one trillion dollars this year, surpassing aggregate credit card debt.²⁰ In fact, during a three-year period in which most forms of consumer debt declined, student financial aid debt increased 25%.²¹ Data from the National Center for Education revealed that the Class of 2011 was the most indebted in history.²²

Dewayne Matthews of the Lumina Foundation observed, “We've pretty much reached the end of the road. Students and families in a recession are very hard pressed to pay these tuition increases.” He argues that colleges must address structural fiscal problems, not by increasing tuition, but by finding more efficient ways to educate students.²³

Alternative models are driving innovation

Many students find that the traditional postsecondary model of education delivery doesn't fit the realities of their lives. Classes are held Monday through Friday, during business

hours, and with summers off. Adult learners, working parents, and others could benefit from changes. Conditions are ripe for innovation. According to a recent report:

“Even as the traditional universities’ economic models are showing themselves to be increasingly unviable, there is another group of universities whose financial health is strong and their enrollments are booming. This group is made up predominantly of the for-profit universities, although they are certainly not the only ones in this group. The for-profit universities have increasingly provided capacity for the higher education sector at a time when educating more students is crucial. They have grown three to four times faster than the public and not-for-profit universities over the last decade. And the for-profit sector now serves 9 percent of all postsecondary students in the United States, up from a mere fraction of a percent a decade ago.

The brands of these schools are weak. Other than student loan assistance and federal Pell grants, they receive little subsidy from government. They do not discount their prices and mask the full cost of the education like at most traditional universities, so students bear the full brunt of the costs through tuition – although the relatively low debt repayment rates at these universities does suggest that the government is still seriously subsidizing the costs of the education over a longer time horizon ... The fastest-growing for-profit universities have driven innovation with online learning more aggressively than their not-for-profit and public university counterparts – and their growth has coincided with the explosion in enrollments in online learning, which itself grew 17 percent from 2007 to 2008. Twenty-five percent of students took at least one online course in 2008.”²⁴

Some alternative institutions are rethinking fundamental assumptions in postsecondary education. For example, Western Governors University was the first to base its entire academic system around a competency-based model that relies upon students demonstrating skills and knowledge through rigorous assessments instead of measuring class time and grades.²⁵ Moreover, WGU only charges one-sixth the tuition of a typical private four-year college and half as much as other leading online for-profit universities.²⁶

Also making an entry into the higher education landscape are MOOCs (Massive Open Online Courses), made possible by virtual communities such as Coursera, MITx, Edx, Harvardx, and University of Reddit. The newfound accessibility (and affordability) for students all over the world is changing perceptions of higher education. However, institutions offering online courses are encountering challenges, including accusations of plagiarism and cheating. As a “first line of defense” against plagiarism, Coursera in August 2012, instituted an honor code with reminders as students work their way through lessons and submit coursework.²⁷

Those reluctant to embrace for-profit and alternative postsecondary education cite troubling facts. Several for-profit colleges have faced regulatory scrutiny for their recruiting practices. For-profit colleges enroll 12% of the nation’s college students, but

consume 25% of the federal financial aid budget.²⁸ Fewer than half of all students attending for-profit colleges graduate, and default rates on loans to for-profit college students exceed those for students attending more traditional colleges.²⁹

Last year, *New York Times* columnist Joe Nocera defended for-profit colleges, however, citing their convenience, flexibility, efficiency, innovation, and focus on instruction: “There is nothing inherently wrong with the idea of for-profit education. The for-profits have flaws, but so do the nonprofits, with their bloated infrastructure, sky-high tuition, out-of-control athletic programs and resistance to change. In a country where education matters so much, we need them both.”³⁰

Structural challenges

What is stopping us from realizing a better return on our national investment in postsecondary education? While there is no simple answer, experts have identified several structural barriers.

Teaching continues to receive inadequate time and funding relative to research and other activities

Across all postsecondary institutions, full-time faculty spends only 58% of its time teaching. They spend 20% of their time on research and scholarship and 22% on other activities (e.g., administration, professional growth).³¹ Tuition allocation reveals an even grimmer picture: only 28% of tuition at public institutions – and 38% at private universities – is used for educational instruction.³² However, administrative costs per student soared by 61% in real terms between 1993 and 2007.³³

Despite billions of dollars spent on research (including university library expenditures for scholarly books, journals, and databases), only 41% of articles published in top science and social science journals were cited in the first four years after publication.³⁴ A survey of 476 readers of 130 management journals found that 90% of academic articles are not even read by journal subscribers.³⁵ A tenured MIT faculty member told us, “If the bottom 80% of the [scholarly] literature just vanished, I doubt the scientific enterprise would suffer.” A “publish or perish” culture persists on many campuses, however, and scholarly content is often produced almost exclusively to further the scholar’s career aspirations.

This emphasis on research has important consequences for students. The percentage of departments valuing research above teaching has more than doubled since 1968 (from 35.4% to 75.7%).³⁶ For many professors, time spent with students is actually an obstacle to career advancement. Politicians are starting to take notice: Texas governor (and former presidential candidate) Rick Perry is pushing to get his state’s universities to devote themselves more to teaching than to research.³⁷

Student preparedness and commitment has declined

Many students arrive at college unprepared: 43% of two-year public college students and 29% of four-year public college students require remedial course work, at an annual cost of more than \$2 billion.³⁸ Thirty-eight percent of first- and second-year undergraduates enrolled in one or more remedial courses in 2011.³⁹

Student commitment to academic preparation is declining as well. The labor economists Philip Babcock and Mindy Marks found that “in the early 1960s, college students spent 40 hours per week on academic work; now they spend only 27 hours per week. In 1961, 67% of students said they studied more than 20 hours per week; now only one in five study that much.”⁴⁰ Moreover, two professors of sociology who surveyed more than 2,300 undergraduates at two dozen universities found that 32% did not take courses with more than 40 pages of reading per week, and 50% “did not take a single course in which they wrote more than 20 pages over the course of the semester.”⁴¹ Clearly many students have mastered “the art of college management,” whereby they succeed at “controlling college by shaping schedules, taming professors and limiting workload.”⁴²

Quality is difficult to define

The Department of Education recognizes 17 accrediting agencies for postsecondary institutions, and each uses a different set of standards. Some have argued that accreditation criteria discourage innovation outside the traditional model and have accused them of failing to ensure that postsecondary institutions provide valid and reliable evidence of student learning outcomes. One report noted, “If accreditors were continuously improving the quality of colleges and universities, then those institutions that have existed for more than a few years would be of very good quality – and many of them are not.”⁴³

Following a two-year investigation of the for-profit college sector, Congress issued a report in July 2012 which criticized some institutions for misuse of tuition dollars, and low graduation and completion rates.⁴⁴ The report blames state oversight, federal laws, and lax accreditation for the rise of for-profit schools delivering weak outcomes. However, the report also notes that “Accrediting agencies have been overwhelmed by the rapid growth of non-traditional education organizations, whose size and methods of education are unfamiliar and demand different protocols of assessment.”⁴⁵ Moreover, “Federal data in areas such as job placement and graduation rates can fail to reflect colleges’ full records by not counting many students who move or attend multiple institutions.”⁴⁶

It is often difficult to obtain reliable data from traditional institutions as well. Earlier this year, Claremont McKenna College and Emory University were found to have released false and/or inaccurate SAT scores and other admissions data to enhance rankings in magazines like *US New World & Report*.⁴⁷ “It’s very unfortunate that leaders at education institutions have to succumb to these kinds of pressures to improve rank,” said Lloyd Thacker,

executive director at the Education Conservancy.⁴⁸ Unfortunately, experts believe these are not isolated offenses because “rankings relay largely depend on self-reported data.”⁴⁹

Because there is no clear quality standard, it is difficult for consumers of postsecondary education (notably students and employers) to assess value. Too often, the value of a college degree is linked to institutional reputation earned decades ago from a set of activities and relationships that bear little resemblance to students’ current experience. Furthermore, graduation requirements for most degree-granting programs are based on inputs, such as completing a prescribed number of class hours without failing, rather than on competency-based outcomes.

When learning outcomes have been measured, the results are mixed. In *Academically Adrift*, authors Arum & Roska studied 2,300 undergraduates and concluded that 45% “demonstrated no significant gains in critical thinking, analytical reasoning, and written communications during the first two years of college.”⁵⁰ A new study by Dr. Arum reveals that “graduates who scored in the bottom 20% on a test of critical thinking fared far more poorly on measures of employment and lifestyle when compared with those who scored in the top 20%.”⁵¹ Moreover, the Department of Education’s Spellings Report found that “the percentage of college graduates deemed proficient in prose literacy has actually declined from 40% to 31% in the past decade.”⁵²

The European postsecondary education system is notably different from that of the US. However, starting in 1999, European universities made significant progress toward common information and quality standards through the Bologna process, a program designed to coordinate the degree granting processes of 47 countries. While the processes that emerged now allow students to earn a degree across multiple institutions, it is still difficult to track students from college to employment.

In response, on June 5–6, 2012, the European Universities Association (EUA) convened 130 university leaders and senior management, national and European policy makers, companies and other higher education representatives to advance the TrackIt project (led by the EUA in partnership with European Commission’s Lifelong Learning Programme).⁵³ The project will track “access, retention, employability, and entry into the labour market as criteria to measure higher education provision.” Increased coordination and data-sharing among institutions and national systems is expected to yield significant benefits and enable universities to be more responsive to societal demands.

Both the Obama and Bush administrations have advocated the creation of a national database similar to TrackIt. Education Secretary Arne Duncan said, “Hopefully some day we can track children from preschool to high school and from high school to college and college to career.”⁵⁴ However, progress has been impeded by technological challenges, privacy concerns, and the absence of a meaningful mechanism to foster collaboration across sectors.⁵⁵ “The people who are at the table tend to be the technical folks who want to build stuff ... there isn’t time to stop and think of what the stuff ought to look like,” said

Peter T. Ewell, vice president of the National Center for Higher Education Management Systems.⁵⁶ Today, at least 42 states collect some student data on an individualized basis, up from only 12 in 2005. However, it is not clear how useful state-by-state data collection will be to researchers, policy makers, or prospective students seeking more reliable ways to compare schools.⁵⁷

Growing misalignment between workforce needs and capacities developed in college

According to reports, there are approximately 3 million jobs that employers cannot fill because of a lack of qualified candidates. Paradoxically, college graduates are also increasingly underemployed: “17 million Americans with college degrees are doing jobs that the BLS [Bureau of Labor Statistics] says require less than the skill levels associated with a bachelor's degree.”⁵⁸

Many employers believe postsecondary institutions are not adequately preparing students for the workforce. In fact, over half of employers in a recent survey believe finding qualified applicants is difficult, and fewer than 10% thought colleges did an “excellent” job preparing students for work.⁵⁹ According to Rep. Virginia Foxx (R-NC), chair of the U.S. House of Representatives higher education subcommittee, “Colleges and universities are pandering to the students and giving them what they want, instead of what the employers want. I don't think you have to make a distinction between getting skills and getting an education. We need to do both.”⁶⁰

Ninety percent of the fastest growing job categories, 60% of all new jobs, and 40% of manufacturing jobs now require some form of postsecondary education.⁶¹ At current rates, the US will fall 16 million college degrees short of meeting workforce needs in 2025.⁶² At the same time, other countries are increasing their rates of college degree attainment much faster than the United States.⁶³ As many as 60 million Americans will lack the skills and credentials to join the knowledge economy, and our most innovative, entrepreneurial companies – those we count on to keep us competitive in the global economy – will be starved for human capital.⁶⁴

Carl Camden, CEO of Kelly Services, described the situation in unequivocal terms: “When the majority of your customers do not get a degree, it is a broken system. When the majority of your customers cannot find a job, it is a broken system.” Bill Shore of GlaxoSmithKline observed, “The numbers don't bode well for the future – the future of our workforce. It is in our interest to help solve the problem. And business has the capacity to help solve the problem by partnering with education and community leaders to create opportunities for young people to practice the skills they need to be successful.”⁶⁵

Resistance to change

As former Harvard University president Lawrence Lowell once observed, “institutions are rarely murdered; they meet their end by suicide ... They die because they have outlived their usefulness, or fail to do the work that the world wants done.”⁶⁶

Another former Harvard president, Derek Bok, once “compared the difficulty of reforming a curriculum with the difficulty of moving a cemetery.”⁶⁷ His successor, Larry Summers, noted recently in the *New York Times* that “the world is changing very rapidly ... Most companies look nothing like they did 50 years ago. Think General Motors, AT&T, or Goldman Sachs. Yet undergraduate education changes remarkably little over time.”⁶⁸ As one corporate leader told us, “We’re in an economy of mass customization and personalization, and postsecondary education has yet to approach this idea.”

Still, some believe change will be necessary. One academic leader said, “We are at a point of discontinuity. Schools will disappear; there will be mergers and consolidation. You’ll see organizations literally go out of business.” Confirming this hypothesis, *The Chronicle of Higher Education* recently reported that “forced frugality in state budgets is also pushing lawmakers and college leaders to propose what in past years was unthinkable, such as combining campuses.”⁶⁹

New, untraditional entrants also threaten to shake up the postsecondary market. For example, Apple recently launched iTunes U, offering more than 500,000 free lectures, videos, books, and other resources on thousands of subjects from universities like Stanford, MIT, Oxford, UC Berkeley and Yale.⁷⁰

In a perfect world, university boards of trustees would urge their institutions to adapt to changing times. However, trustees too often endorse decisions that reinforce the status quo. As an experienced professor told us, “one thing I’ve found distressing is that successful, independent, hard-thinking business leaders and other figures, when they join boards of university trustees, turn into timid rubber-stampers. What happens to such people when they return to campus? I don’t get it.”

The Association of Governing Boards of Universities and Colleges describes the challenges trustees face:

“While the majority of boards receive some information about student-learning outcomes, they are often unsure of how to respond to or interpret that information. Orientation to the information is relatively rare, and frequently, institutional leaders and board members do not share an understanding of the value boards can bring to discussions on student-learning outcomes and educational quality. Often, boards do not make the link between their financial responsibilities and educational quality.”⁷¹

Moving from analysis to action

The Obama Administration has advocated a world-class education system for all students, at all levels. Yet a significant gap exists between that vision and today's reality. As President Obama has said, "The nation that out-educates us today will out-compete us tomorrow."⁷²

The challenges facing postsecondary education are complex and involve an ecosystem that includes (at a minimum) federal and state government, university leaders, scholars, financial institutions, accreditation agencies, students and their families, and employers. An experienced college trustee told us, "There are so many constituencies impacted by [these trends in higher education], and nobody is talking about it. Are the old disciplines even part of the future?" Recognizing the complex challenge of postsecondary education reform, the CEO of Kelly Services asserted, "No one pillar will be able to do it alone."⁷³

Moreover, the cost-benefit value trade-offs for each stakeholder (including government), over a range of time horizons, are not widely understood. This makes it difficult – in a broader systems sense – to ensure costs are borne by those who derive the greatest value. As one senior college administrator said, "At end of day, it flows back to value – to government, employment, taxpayers, alumni, and faculty. How do we make sure cost and benefits are aligned?" It will be important to create a level playing field for all postsecondary education institutions to encourage best practices and ensure innovation is rewarded.

Change is not easy, but with taxpayers demanding reductions in government expenditures and students rejecting tuition levels that exceed perceived value, the status quo will be an option for fewer and fewer individuals and institutions. Public support for change is strong, as 52% of respondents in a recent survey said colleges focus on their bottom line at the expense of students' education. Nearly half (48%) of respondents said public colleges should be overhauled.⁷⁴

We believe the time is right for an ambitious, multi-stakeholder effort to bring about meaningful change in the US postsecondary education system. By initiating dialogue between select and diverse stakeholders in postsecondary education invested in a broad solution, we hope to initiate fruitful integrative thought and collaborative effort.

While there are many specific problems to be addressed, we propose initially focusing on a set of key "building blocks," questions designed to uncover and define drivers of value for each stakeholder. In defining and measuring key value drivers, participants will begin understanding this highly interconnected system in a more holistic way and enable safe-to-fail experiments that address specific challenges. For example, initial questions might include:

- Who derives the benefits from different types of postsecondary institutions?
- What is the source of those benefits?

- What is the relative value of research, teaching, and other institutional activities to various stakeholders?
- How should costs be allocated?
- How should individual and societal investments in postsecondary education be financed?
- How might technology, globalization, and shifting employer expectations impact the system?
- What are the barriers to systems change, and how might they be overcome?
- How do political and cultural forces influence outcomes?
- How should resource allocation decisions be made in light of stakeholder priorities?
- What are the consequences of misalignment?
- Can evolutionary change overcome institutional inertia, or might revolutionary changes be required to address the fundamental challenges in the postsecondary system?

To be clear, reform will not be easy. However, there is cause for optimism. As Larry Summers wrote in the *New York Times*, “A good rule of thumb for many things in life holds that things take longer to happen than you think they will, and then happen faster than you thought they could. Think, for example, of the widespread use of the e-book, or the coming home to roost of debt problems around the industrialized world. Here is a bet and a hope that the next quarter century will see more change in higher education than the last three combined.”⁷⁵

The challenge is to engage a broad cross section of key stakeholders in systematic discussions of sources of stakeholder value, accountability mechanisms, and areas in which stakeholder interests align – or diverge. This important macro-level effort will provide the foundation for a value-based framework that will make it possible for stakeholders to address more specific problems in the future through innovation, experimentation, and syndication of new models.

Who should participate?

We believe postsecondary education will be reformed through the active engagement of a diverse group of interested, influential stakeholders who seek to impact the outcome. Over the coming months, stakeholders will work closely with SkyBridge Associates as we define and launch this important multi-year project.

This initiative targets the vast majority of US postsecondary institutions as well as key stakeholders who have the potential to improve postsecondary educational outcomes. The United States boasts a number of elite universities that attract top researchers and

students from a global talent pool, and many of the challenges outlined in this paper do not apply to them. Those institutions educate only a small fraction (8.5%) of US college students⁷⁶ and are *not* the primary focus of this effort.

This initiative may include participants such as:

- Leaders and faculty from traditional private and public colleges (e.g., University of California System, University of Maryland System, Notre Dame, The Ohio State University, Rutgers University, Haverford College, and Tulane University)
- Non-traditional institutions such as Apollo Group (University of Phoenix), Coursera, and Western Governors University
- Organizations such as the Association of American Universities, the National Association of Independent Colleges and Universities, and the Association of Public and Land-Grant Universities
- Accreditation agencies such as the New England Association of Schools and Colleges and the Higher Learning Commission
- Federal agencies such as the Department of Education, Department of Defense, and National Institutes of Health
- State agencies such as the California, Massachusetts, and New York Departments of Education
- Employers such as IBM, General Electric, Caterpillar, Google, Lockheed Martin
- Business organizations such as the National Association of Manufacturers, the Business Roundtable and the Business-Higher Education Forum
- Nonprofits such as the Lumina Foundation, the Bill & Melinda Gates Foundation, and the TIAA-CREF Institute

About SkyBridge Associates

SkyBridge helps leaders by convening candid, trust-based discussions where they can learn from and collaborate with other leaders from both inside and outside their organization. We believe that big challenges can only be addressed successfully by asking the right questions, and we are passionate about helping individuals and groups identify and discuss the questions that will take their organizations, their industries, and their careers in new directions.

While we care deeply about education reform, we do not bring the kind of expertise in postsecondary education to the table that we expect each participant will. We bring a complementary set of skills and abilities that will drive the group to challenge orthodoxies and realize new outcomes.

Contact

Please contact us if you have feedback on this paper or if you would like to get involved in this important initiative. We look forward to speaking with you.

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