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Trends in Higher Education

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Message from the Publisher

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Welcome to this edition of Trends in Higher Education. This issue provides insights into the economic factors that are impacting higher education during the pandemic. It also focuses on issues concerning student fees, the impact of lockdowns on revenue stream and productivity of employees working from home among other interesting topics. Readers will note that as part of the new economy, work from home is becoming a major development in the job market. Employees' perception of the benefits from this new modality of work is rising. It is shown that work from home will now account for 20 percent of work days moving from 5 percent. This will have implications for economic activities in the nation and also, revenue streams for many businesses which depend on people going to the office to carry out their work. Higher education will also feel the impact from this new method of work. The issue is very timely and provides important information that help assist higher education leaders with their planning and strategizing during this pandemic. Enjoy reading.

Trends in Higher Education - Economic Trends

Growth and risk projections

The ongoing coronavirus pandemic continues to affect global economic activity in 2020 with the World Bank (2021) reporting a 3.5% contraction of global economic activity. The International Monetary Fund (IMF) and the World Bank noted that global growth is set to reach between 5.6% and 6% in 2021 and 4.9% in 2022 (WB 2021, IMF 2021). Growth in Latin America and the Caribbean (LAC) is projected to be 5.2% in 2021 supported by moderate progress in vaccine rollouts, relaxation of mobility restrictions, and improved external economic conditions (WB 2021). For the Caribbean, growth is projected to reach 4.7% this year supported in part by low COVID-19 caseloads in most countries. The institutions, however, caution that surges in COVID-19 caseloads, obstacles to vaccination, changes to fiscal and monetary supportive policies as well as the effects of natural disasters and climate change can be disruptive to economic recovery. While commodity prices have increased due to an improving global outlook and commodity-specific supply factors, it is also contributing to an increase in inflation. This is likely to affect institutional current expenditures and future budgeting. The World Bank (2021) noted that activity in the services sector remain weak and recovery in tourism and travel is subdued amid ongoing pandemic control measures, which further constrain recovery.

The *Global Risks Report 2021* underscored that economic fragility and societal tensions are set to increase and that a polarised industrial landscape may emerge in the post-pandemic economy. Respondents to the 'Global Risks Perception Survey' indicated the following economic risks over the next five years - 38.3% see prolonged stagnation as a clear and present danger, 53.3% see an asset bubble burst, 52.9% expect price instability, 52.7% envisage

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commodity shocks and 52.3% anticipate debt crises as part of a knock-on effect, and 39.7% expect industry collapse as part of an existential threat (WEF 2021).

Economic impact of overseas students

International students bring not only immense social and cultural benefits to a university community, but they also bring financial benefits to university and community and facilitate economic recovery and diversified income stream.

According to a report by London Economics for the Higher Education Policy Institute (HEPI) and Universities UK International, international students bring a net economic benefit to the United Kingdom. The report concluded that the net economic benefit increased by almost a fifth in the three years before the COVID-19 pandemic. For the cohort that started courses in 2018/2019 they brought almost £29 billion in fee income, additional spending, and knock-on benefits for the economy (Baker 2021b). The report also noted that the costs, including public funding to support such students and use of services like healthcare, only amounted to about £3 billion, bringing a net impact of almost £26 billion. According to Baker (2021c), this was a 19% increase on a similar analysis conducted for HEPI in 2018 on the 2015/2016 cohort of international students, when the net economic benefit was estimated to be less than £22 billion. The increase in the net economic benefit relates to the 17% increase in the number of international students (mainly from outside the EU) over the three years and increases in fees.

Baker (2021c) also pointed that while international recruitment increased in 2019/2020, it has since been disrupted by the COVID-19 pandemic, which may have dented the economic impacts. Nevertheless, the latest visa data suggest that the number of non-EU students seeking to study in the UK has recovered, but many of them may have opted to learn online for at least some of their course.

Impact of lockdowns of revenue

The introduction of the COVID lockdowns saw many higher education income streams disrupted. For instance, some universities gave students accommodation refunds or granted waivers and others cancelled academic conferences.

The higher education sector in the United Kingdom faced losses between a quarter and a half of their usual annual income from student and conference accommodation and catering. Drawing on data from the Higher Education Statistics Agency (HESA), Baker (2021d) showed that some institutions lost close to two-thirds of such revenue. Income from residence and catering operations represented a small but significant share of university's overall income, totalling £1.8 billion last year or about four percent of all revenue. Baker (2021d) also noted that there was an overall drop of more than £500 million in residence and catering income for 2019-2020, compared with 2018-2019, when the £2.4 billion in revenue represented about six per cent of total income. The University of Exeter was among those hardest hit last year, seeing its residences, catering, conference, and retail income fell by almost £11 million or 43% in 2019/2020 (Baker 2021d).

Research-intensive universities also saw a disruption in research grants and contracts during the first lockdown. These universities, according to HESA's data, showed a drop in research grant income of more than ten percent, which may partially have reflected the halting of some projects as the pandemic hit. It may also be a sign of how finances are recorded and how research grants won in previous years were spent.

Elsewhere and more recently, Thailand and Malaysia have offered fee reductions or refunds to university students as renewed waves of pandemic are expected to keep campuses closed into the new academic year (Lau 2021). In Thailand, universities have reduced tuition fees by up to 50% that is expected to help 1.7 million higher education students from undergraduate to doctoral levels. As such, students at public universities would receive discounts on a graded scale, depending on the cost of their education, while those at private university students would receive a flat fee (Lau 2021). Similarly, the Malaysian government announced a fee reduction initiative, which will cost 185.7 million ringgit (£32 million) that will assist almost 400,000 public university students affected by the pandemic. This would mean a reduction of 10% to 35%, which would compensate for educational and residential costs from the academic years, 2019/2020 and 2020/2021.

Navigating work-from-home rules

The pandemic accelerated the use of technology, digitisation, and new ways of working. Sneader and Singhal (2021) noted that the coronavirus pandemic led many businesses to act "20 to 25 times faster" on things like building supply-chain redundancies, improving data security, and increasing the use of advanced technologies in operations" and "40 times more quickly" in the case of remote working (McKinsey 2020). Pre-pandemic, the article noted, that it would have taken more than a year to implement the level of remote working that took place during the crisis whereas in actuality, it took an average of 11 days to implement a workable solution.

Employees who have been working remotely during the pandemic may want to continue to do so post-pandemic. Institutions, therefore, have a vested interest in considering various modes of working arrangements. The findings from a survey to investigate whether work from home will stick, and why by the Stanford Graduate School of Business and Stanford Institute for Economic Policy Research showed that the new normal will be hybrid arrangements in which about 20% of workdays will be carried out from home compared to 5% prior (Andrews 2021). Moreover, the findings showed that more than 60% said that working remotely had turned out better than they expected, and the average employee said the value of working from home was a perk worth roughly 7% of their total paycheck. Further, nearly 40% of those surveyed said that they have been more efficient working from home with the main source of that efficiency resulting from the reduction in commute time. The survey report noted that remote work resulted in a savings of 60 million commute hours every workday.

The broader acceptance of remote work will redound to the benefit to the employer by way of saving money on office space and making employees more productive (SCUP Fall 2021). More specifically, Barrero, Bloom and Davis (2021) noted that the relative productivity of work from home implies a five percent productivity boost in the post-pandemic economy. Nevertheless, the first-generation rules enabling remote work will have to be managed and honed to encourage innovation, creative collaboration, and brainstorming. Alexander, De Smet, and Mysore (2020) suggested that mixing virtual and on-site working "promises greater access to talent, increased productivity for individuals and small teams, lower costs, more individual flexibility, and improved employee experiences." Thus, organisations will have to determine what factors that want to optimise - real-estate costs, access to talent, employee productivity, or overall employee experience – and rethink productivity metrics shifting from inputs or volume of activity to outputs and outcomes.

While the crisis removed some barriers to change, the concern lies with the cost to institutions of remaining agile and responsive post-pandemic. In the context of HEIs, institutions will thus have to consider work from home expectations balanced with productivity, workplace culture, promotion equity, innovation, and staff satisfaction. Additionally, HEIs will need to consider the effects on enrolment, students' needs, student service delivery, course delivery, student experience and satisfaction in the context of hybrid of on-site and remote staff.

Public investment in higher education

As participation in higher education increases the cost of the degree shifts to students. A 2021 report by the Organisation for Economic Cooperation and Development (OECD) noted that "public investment in higher education as a share of national wealth appears to be declining across developed nations even as participation hits new highs" (Baker 2021a). Public spending on tertiary education as a share of gross domestic product fell eight percent on average across OECD countries between 2012 and 2018. The same report noted that universities receive more funding relative to the size of the higher education sector than primary and secondary schools across developed nations.

Some key findings from the report include:

- on average, OECD countries spend US$17,100 at tertiary level.
- at the tertiary level, 68% of institutional expenditure goes to core services while roughly 32% of total educational expenditure per student is on ancillary and research and development (R&D).
- on average across OECD countries, public funds account for 66% at the tertiary level of education while households account for the largest share of private expenditure devoted to tertiary educational institutions (72% on average across OECD countries).
- on average across OECD countries, staff compensation comprises the largest share of current expenditure at all levels of education (74%), but accounting for 68% in tertiary education (68%). Staff compensation constitutes a higher share of current expenditure in public institutions than in private ones across OECD countries at tertiary level (68% in public institutions and 64% in private ones).
- public institutions account for around 80% of expenditure on compensation of personnel and on R&D and 77% of capital expenditure.
- the share of funds allocated to public institutions is largest for expenditure on research and development (R&D) (80%) than for any other expenditure category. Expenditure on R&D per student in public tertiary institutions (US$6,000), more than twice that in private ones (US$2,500) on average across OECD countries.

Rethinking student amenities

The impact of campus shutdowns drew sharp attention to higher education business model. Previously, HEIs had responded to a wide range of student wants and needs to be competitive and provide a high-quality student experience. SCUP (Spring 2021) highlighted that many institutions are now stuck in "the so-called student-amenities arms race, with expansive offerings in areas such as entertainment, gourmet dining, and wellness." Since 2010 the costs for student services have risen much faster than costs for instruction and research and this not likely to be sustainable (Dua et al 2020). The authors also indicated that:

- although more than half of total spending at four-year universities was invested in research and instruction, growth over ten years since 2007 showed 0.3% less was spent on research and only 0.5% more on instruction.
- meanwhile, 8.5% of the total was invested in student services[1], the largest area of growth in spending per student (2.1%) over ten years (i.e., AY2007/08 to 2017/18).

Given the budget stresses, some institutions are making trade-offs or trimming programmes. For example, Stanford University announced in July 2020, it was cutting 11 athletics programmes. HEIs will thus need to make a distinction between what students like and what is necessary to serve the core mission (Dua et al 2020 and SCUP Spring 2020). This will mean identifying criteria to determine which student services are critical to attract new students,

[1] Includes 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.

maintain or improve college and university ranking systems, or generate auxiliary revenue. This analysis will result in providing fewer, better ancillary services, while keeping the broader well-being of their students in mind.

Reinventing academic financial models

The pandemic threatens to exacerbate the already bleak financial position of the institutions. According to PwC (2021), higher education's recovery may not be so robust or immediate. The auditing and accounting firm noted that typically, a poor economy bodes well for education, as those leaving the workforce opt in to enhance their résumés. However, this does not appear to be case in the current situation. Large universities throughout the country have experienced different impacts on enrolment, with some admissions offices having reported application declines of 20%, while others saw seen increases in applications (PwC 2021). Institutions will also face a drop in government funding, but its costs will increase. Kroger (2020) predicts that enrolment, and thus tuition revenue, will drop by as much as 30%. He also noted that:

- operations costs will skyrocket, given decreased dorm and dining hall density and higher cleaning costs, IT and health services demand, and loss of offsetting ancillary income.
- massive layoffs, salary cuts and programme terminations, already underway, will continue and deepen.
- some schools will declare exigency and use the emergency to drive a major reordering of academic programming, to the detriment on the humanities, arts, and traditional in-residence education.
- online universities, in five years, will whittle down no more than fifty major online universities, many of them powered by partnerships with major Fortune 500 corporations (e.g., University of Texas, powered by Google.") and sports marketing budgets and others having to carve out a specialised niche -- or possess a strong and enduring brand - to survive.

This will require institutions to take specific steps to succeed in the current era of broad, substantive, and potentially disruptive change such as consolidation of some campuses as students migrate to comprehensive and consolidated online systems.

As HEIs seek to make colleges more affordable and accessible, several private colleges have slashed tuition by as much as 50%. For example, Southern New Hampshire University (SNHU) announced that it will price its campus-based degree programmes at either $10,000 or $15,000[2] which would reduce the average debt load a student is saddled with post-graduation. SNHU move reflects action taken to seek budget efficiencies across three dimensions *viz*. learning design, financial model design, and organisational design.

Other tuition fee models have been adopted to keep education affordable for students by pursuing a philanthropy-centred funding model to reduce or sustain decreases in tuition fees. Hope College, a small liberal arts college in Michigan, launched a programme called "Hope Forward," which aims to go tuition-free by

[2] In the fall of 2021, incoming students may choose from more than fifty campus programmes with two **different pricing options**:

(i) **$15k programs** ($15,000/year tuition, billed at $7,500 per semester: Students in the reimagined traditional programs will experience a familiar academic setting with face-to-face instruction set most often in a classroom. Students enrolled in these programs will have ample flexibility to explore electives and may choose to incorporate internships, project-based courses, service learning, study abroad, and other experiential learning elements into their SNHU experience.

(ii) **$10k programs** ($10,000/year tuition, billed at $320 per credit hour): These programs provide students with a structured pathway to their degree, including at least 36 credits earned through required experiential learning components such as studio work, lab work, project-based courses, internships, or industry certifications. Beyond the experiential learning components, the remaining credits in $10K programs will be delivered in a mix of face-to-face classroom settings and online formats. These "Experience More" programs are career-focused and designed to prepare students for the workplace more rapidly.

providing endowed, full-tuition scholarships, in the hope that students will "pay it forward" after graduation (Adedoyin 2021). This approach should be viewed with caution as the shelf-life of a tuition-free model or reduced tuition is dependent on the financial security of the college or university and their ability to raise more scholarship funds.

PwC (2021) listed additional approaches to paying tuition which can assist students with college affordability. These include income share agreements (ISAs) and flexible pricing strategies based on the method of learning (on-campus versus online) as well as the number of credits completed.

Conclusion

Despite international financial institutions positive economic outlook for 2021 and 2022, HEIs are still likely to face grave issues with their financial performance. Issues relating to institutional financial health such as tuition fees, revenue streams, and return on investment for students' amenities will continue to dominate the discussion on economic trends in higher education. Productivity gains relating to work from home as well as customised service delivery will also gain traction. Thus, consideration will have to be given to the business and operation models to manage or grow revenue streams; manage expenditure and mitigate risks. Consideration will also have to be given to the continued effects of public health threats.

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