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Excerpt
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1 Introduction

Challenges in Managing Today's Universities

On April 14, 2025, President Donald Trump froze government research funds for Harvard. Earlier, on March 7, 2025, he had done something similar to Columbia University, arguing that, among other malfeasances by university leadership, these two universities had allowed antisemitism to flourish on campus, along with pro-Palestinian demonstrations, many of which called for physical violence against Zionists or Jews, and which were accompanied by acts of violence. The president positioned his actions as an attack on "woke" college campuses, where a professed commitment to free speech appeared to have given way to "cancellation" of those holding disfavored points of view.

The initial reaction of university leadership and the university community was criticism of President Trump and a spirited defense of the righteousness of on-campus behavior. At the same time, Emma Pettit wrote an article on May 21, 2025 in the *Chronicle of Higher Education* with the title "At UC Berkeley, the Faculty Asks Itself, Do Our Critics Have a Point?"[1] Reporting on a survey conducted of current and emeritus faculty, the article made it clear that many were of the view that diversity, equity, and inclusion (DEI) and wokeism had gone too far. Of the 290 respondents (out of the 2,560 who were mailed questions), only 16 percent were of the view that criticism of US campus culture was completely invalid, and no action was required. While not statistically valid, these results suggest that campus leadership (administrators and faculty alike) allowed the culture of free inquiry to deteriorate into a progressive monoculture.

The *Chronicle* quotes one respondent saying that the university

> decided some time ago to use the accumulated authority and prestige of our institutions and disciplines to advance ideologically driven political agendas, and we told the lie to others (and often to ourselves) that that wasn't what we were doing … and that it would be a shame to let defensiveness, self-righteousness, and justifiable antipathy toward the current presidential administration prevent us from seeing that our own excuses have degraded the situation of the university and left us with less public sympathy and support than we have ever had.

Indeed, a declining number of Americans, particularly Republicans, see higher education as having a positive impact on the country, even if they may not agree with President Trump's blunt and arguably destructive way of trying to effectuate changes.[2] It is in this environment that a formerly fringe term, Cultural Marxism, has begun to gain traction in conservative circles and beyond. It is the belief that an intentional academic effort aims to subvert Western society and undermine Judeo-Christian values in favor of revolutionary leftist ideas.

The Trump administration's fierce attacks on progressive orthodoxy on campus, dressed up in part as it may be as a war on antisemitism, is just one of several recent examples where university leadership has been tested, and some would say found wanting. The attacks were preceded by the COVID-19 pandemic, an earlier sudden disruption that campus leadership had to grapple with.

On March 6, 2020, a week after the first US death attributed to the novel coronavirus later named COVID-19, the University of Washington in Seattle announced it would cancel all in-person classes, sending students online to complete their coursework and take finals. The University of Washington's closure was the first in what quickly turned into a flood. By the following week, the World Health Organization had declared a pandemic, and campuses across the US – including Harvard, Stanford, and the University of California, Berkeley (UC Berkeley) – had suspended or canceled in-person classes.

Within weeks, more than 1,100 colleges and universities in the US alone had shuttered classrooms and moved instruction online. Some universities, in the UK and elsewhere, maintained in-person instruction but adopted strict social-distancing rules.

Enrollments, already on a downward path, fell 3 percent between 2019 and 2020. The nineteen million students enrolled in US postsecondary institutions in 2020 were the fewest since 2008 and two million fewer than the all-time peak in 2010. The decline continued the next year, dropping to 18.7 million.[3] While two-year community colleges bore the brunt of enrollment losses, public four-year colleges also experienced sharp declines.

Students were not the only ones who abandoned campuses; many faculty also joined the pandemic-era's Great Resignation. Faculty departures are nothing new – burnout and the lure of the private sector have long led researchers and instructors to leave academia. While there is no good direct measure of COVID-19-related faculty departures, there is plenty of anecdotal evidence that the pandemic and universities' response to it led many professors and instructors to call it quits, citing stress, family demands, expanding duties, and campus budget cuts for their departures. Senior professors retired early in part because they did not want to make the change to online instruction, while others complained about receiving terrible course evaluations for their Zoom classes. "The pandemic made teaching horrible," wrote an associate professor at a regional liberal arts college in 2022.[4]

The pandemic also hit university finances hard. Closed campuses meant the loss of auxiliary revenues from dining halls, housing, and sports events. Schools that remained open were forced to invest heavily in protective equipment and technology for remote classes. International students returned to their home countries. Many families withheld tuition or demanded steep discounts, unwilling to pay for the full campus experience when their students were taking classes online. State governments, facing their own funding crisis, cut state support. After New Jersey's Montclair State University, with more than 21,000 students and a $437 million operating budget, was warned it would lose the $12.3 million it had expected from the state, it froze hiring, cut temporary positions, and delayed capital projects.[5] Even prestigious private universities were unable to escape the damage. Princeton University, with one of the wealthiest endowments in the US, instituted a salary and hiring freeze and cut back on nonessential spending.[6] Johns Hopkins University projected a $375 million loss for the 2021 fiscal year, in part because its health system had to halt most elective medical procedures due to the pandemic.[7] A 2021 review of university financial statements by the *Chronicle of Higher Education* found a 14 percent average decline in revenues for the top 400 universities and the top 100 liberal arts colleges in the 2020 and 2021 fiscal years, and estimated that the costs – from lost revenues, COVID-19-related expenses, and anticipated decreases in state spending – could total $183 billion.[8] As a result of pandemic-related shocks, the Standard & Poor's (S&P) rating service lowered its outlook for more than a quarter of the colleges and universities it rates. With this action, 38 percent of the 436 colleges and universities reviewed by S&P had negative outlooks.[9] "If one were to invent a crisis uniquely and diabolically designed to undermine the foundations of traditional colleges and universities, it might look very much like the current global pandemic," wrote Brian Rosenberg, former president of Macalester College, a liberal arts school in Saint Paul, Minnesota.[10]

The damage from the pandemic was severe, but it was not as bad as many originally feared. A quick transition to online instruction kept enrollments from falling even further, and many schools that lost students in 2020 had fully recovered by 2023. In most places, universities reopened more quickly than other parts of the economy. Campus leaders' aggressive response to revenue shortfalls limited the damage to budgets, while $76 billion in federal pandemic aid eased the pain.[11]

The pandemic also enabled universities to demonstrate the essential role they play in society and the economy. Researchers at scores of universities, including Rice, UC Berkeley, and Washington University in St. Louis, turned their attention to understanding the novel coronavirus and identifying potential treatments for the disease. Johns Hopkins in early 2020 formed the Coronavirus Research Center to track its spread, quickly becoming a critical resource for policymakers, the medical community, and the public. Research by scientists at the University of Pennsylvania laid the groundwork for the rapid development and distribution of the first COVID-19 vaccines.[12]

The pandemic underscored both the vital importance of great research universities *and* the many challenges facing many leaders in higher education today. Universities are unique in pushing the frontiers of knowledge through their research, and they pass that knowledge on to successive generations through their teaching. They graduate the educated adults required by an advanced knowledge economy and increasingly are the spawning ground for new businesses, the source of problem-solving for industry, agriculture, and the service sector, and the wellspring for innovation in society.

At the same time, higher education has entered a turbulent time of profound change and uncertainty. Rising expenses and tight budgets have led to unsustainable increases in costs for students and a resulting rise in debt. The steep drop in student numbers during the pandemic was only an amplification of existing trends, and the expectation of future enrollment declines has implications for budgets and for campus building programs. Technology has dramatically changed the instructional and research landscape, and although online learning proved a savior during campus shutdowns, artificial intelligence (AI), virtual reality, and other developments promise further disruption. Going forward, university leaders will have to address the growing loss in public confidence and doubts about the value of a college degree. All these forces combine to raise questions about the continuing management, operations, and societal role of universities.

Gabriel Paquette, vice provost for academic affairs at the University of Oregon, argued that universities survived the pandemic in part because of "the enduring attraction of a college education and to the absence of viable alternatives," but mostly due to the capacity of universities to reform themselves. Nonetheless, he wrote, "the question is whether this demonstrated capacity to adapt is sufficiently elastic to overcome the current range, intensity, magnitude, and complexity of the threats."[13]

We contend that universities' ability to adapt and to shape their environment, not just adapt to it, will depend on whether their leaders learn to manage more strategically, using modern management concepts, frameworks, and techniques.

HIGHER EDUCATION IN THE US

As of 2020, there were more than 3,700 degree-granting postsecondary institutions in the US, including roughly 2,200 four-year colleges and universities. Of those, only about 390 public and private universities are counted as research universities that grant doctoral degrees, and an even smaller number – only about 130 – are classified as having a "very high level of research activity."[14]

The American system of higher education has long been the envy of the world. In the twentieth century, its schools gained a reputation for the quality and importance of their research and for their ability to help millions of graduates achieve unprecedented upward social and economic mobility. The golden age was perhaps best exemplified by California, with its three-tier system consisting of the multicampus University of California, twenty-three state universities, and 116 community colleges. Generous state funding subsidized schools so that in-state students paid only nominal tuition, graduates would prosper, and their human capital would carry the entire economy upward. Across the US, graduates would benefit from a substantial "college wage premium," the difference in median hourly wages between those with a bachelor's degree and those who completed only high school. American higher education was "the dynamo of the dream of upward mobility."[15]

Yet universities – like private businesses – operate in a volatile environment subject to sudden and often unpredictable shocks.

Academia might once have seemed "a genteel, slow-paced environment of pondered decisions where conflict is mostly personality-driven and nothing that a leader tempered in the dog-eat-dog battles of corporate life can't handle," wrote Teece and Stefano Falconi: "The reality is different. Universities are no longer sheltered from the realities and constraints of the outside world: affordability, quality control, competition and customer expectations, and, of course, growth and the *bottom line*. There is no avoiding competitive forces."[16]

University leaders today encounter increased uncertainty – about the outlook for government funding, the long-term effects of online instruction, and the rise of global competitors for talent. They operate in a more complex environment than all but the largest global corporations. Their finances depend on a hodgepodge of sources: tuition and fees from students, appropriations and grants from state governments, gifts from alumni and wealthy individuals, the income from private endowments (which in turn are subject to the vagaries of the global financial system), financial surpluses from successful programs such as medical schools or athletic teams, and contracts from federal agencies such as the National Science Foundation and the National Institutes of Health. They are embedded in cities, regions, and states that are sometimes friendly to a campus's needs and goals and sometimes hostile. Internally, the university is a complex system of independent parts. Departments and schools have substantial autonomy, which they jealously guard and which can make them resistant to innovation and change. Individual departments often have their own brand identity, such as the Wharton School at the University of Pennsylvania, which can either enhance or dominate the university's overall image.

In this chapter, we will examine the key challenges facing university leaders, including the long-term decline in state support for public universities, rising student costs, falling enrollment in the traditional student demographic, and the resulting loss of confidence in the value of the higher education institutions. These problems are not felt equally across all colleges and universities, of course. The top institutions, many of them private, have large endowments, provide generous financial aid, and attract more students than they can possibly accept, while some of the hardest hit have been for-profit schools and two-year community colleges. Despite the valuable role they play in providing instruction to millions of students, often the first in their families to attend college, community colleges and for-profit schools are largely outside our focus. Our attention is primarily directed to the large four-year research institutions that now operate in an environment defined by volatility, uncertainty, complexity, and ambiguity – what military planners call VUCA.

FINANCIAL CHALLENGES

Universities can be assessed on a variety of dimensions, but it is financial performance more than any other that is foundational to an institution's long-term survival. A university without sound financial management quickly finds itself unable to maintain its campus and facilities, preserve quality standards, and fulfill its mission.

For public universities in the US, maintaining sound finances has been made more challenging by the steady erosion over the past forty years in the support they receive from state governments, at one time their most important patron. Even at financially solid campuses, the loss of state funds has made the task of university management much more difficult and complex as leaders struggle to balance swelling budgets amid reduced operating support, falling enrollments, and growing resistance by students and their parents to constantly rising tuition.

American universities cover their operating costs by orchestrating income from a variety of disparate revenue streams: student tuition and fees; grants and contracts from local, state, and federal governments; revenues from auxiliary enterprises such as dormitories, bookstores, and sporting events; medical fees from university hospitals; gifts; gifts from alumni; and income from endowments. For decades, state governments in the US represented the most important and reliable source of operating funds for public universities, but legislatures have grown increasingly stingy. One set of numbers tells the story: In 1980–1981, state appropriations, contracts, and grants accounted for 46 percent on average of the revenues of four-year public colleges and universities.[17] In 2020–2021, that had fallen to about 17 percent.[18]

After World War II, most states spent generously on higher education to serve the growing baby boom generation, to compete in science and technology with the US's Cold War rival, the Soviet Union, and to make sure there was sufficient talent to make the transition from an industrial to a knowledge economy. This largess came to an end in the mid 1970s, a result of tightening state budgets and a backlash against campus disturbances in the late 1960s. As the former president of the University of California once quipped, "I find the three major administrative problems on campus are sex for the students, athletics for the alumni, and parking for the faculty."[19]

Around the same time, there was also a belief among liberals that public financial support for higher education mainly benefited the privileged and that the solution was higher tuition for those who could afford it and financial aid for those who could not. Funding for higher education ceased to be a top priority and became the "balance wheel" of state budgets – something that could be cut in a weak economy in favor of growing spending on public-sector pensions, prisons, and welfare programs. Lawmakers can justify this with the explanation that universities and colleges have independent revenue streams and are better positioned than other state agencies to absorb cuts. Officials are also less likely to hear objections from the general public, who often see universities as inefficient and wasteful spenders.

Over the last twenty years, average state per-student spending has fluctuated depending on economic conditions, falling during recessions and rising again when times improve. Only recently has per-student spending at public colleges and universities surpassed levels last seen in 2001, but solely thanks to a sharp decline in enrollment, recent increases in state spending, and federal stimulus funds.[20]

National averages conceal considerable variation among states. In 2023, thirty-two states were spending less per student on higher education than they did in 2001, and half were spending less than before the 2008 recession. Iowa experienced the biggest decline, as state higher education funding fell nearly 45 percent between 2001 and 2023.[21] In California, the state contributed 50 percent of UC Berkeley's revenue thirty years ago; today it provides only about 14 percent.[22] To many, the paltry share of state support makes UC Berkeley almost like a private university.

Even as state support declined, the cost of operating university campuses to serve a growing and more demanding student population have continued to rise. Altogether, four-year public universities spent a total of $365.9 billion in 2020–2021 on instruction, research, student services, and other operations, 60 percent more than a decade earlier.[23] With smaller total enrollments, four-year private universities spent $222.1 billion.[24]

Many factors contribute to the increased cost of running a university, but one of the most intractable is "Baumol's cost disease," first laid out by economists William Baumol and William Bowen in the 1960s. Baumol and Bowen explained how service industries like higher education will inevitably experience higher costs as they grow since they cannot benefit from the economies of scale that manufacturing and other industries enjoy.[25] Higher education is unavoidably labor-intensive; the more students a university recruits, the more instructors they need. These costs can be somewhat moderated by the use of adjuncts and large lecture courses, but they cannot show meaningful improvements without productivity breakthroughs.

To make up for this mismatch between the increasing expense involved in running a large research university and less generous state support, campus leaders have had to look for other sources of revenues, including an increased emphasis on entrepreneurial activities (more about that in Chapter 2), funding from Washington, DC, and most significantly, students and their families.