COVID-19: What the pandemic might mean for mergers in higher education

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The COVID-19 global pandemic has presented enormous medical, economic, and sociologic challenges for higher education leaders. To better understand *what the pandemic might mean for mergers in higher education*, we need to first recognize the macro-impacts of the crisis on the industry as a whole.

First, for many institutions the pandemic will result in decreased funding. For public institutions, support will be challenged as public and tax-payer dollars are diverted to other areas of the economy, including unemployment benefits, financial stimulus, and enhanced healthcare support. For private institutions, the declining financial ability of students and their families to pay higher tuition, and the decrease in external (both private and public) support will strain operations. Financial stressors may be worsened in the pandemic environment by the need to rapidly expand online offerings, absorb housing and other costs usually paid by students, and provide required health-related services.

Second, institutional enrollment will be impacted by two competing concerns. The financial strain affecting many families will reduce enrollment, at least at higher-cost institutions, a trend that will be offset by the need of many under-employed individuals to improve their prospects in the workforce by furthering their education. In general, enrollment will tend to decline for smaller, higher-cost institutions, and increase or remain stable at lower-cost, generally public, institutions. Furthermore, demand will increase for programs offering certificates, badges, and accreditations that will quickly enhance students' marketability.

Forty percent of higher education institutions in the United States have less than 1,000 students—a key risk factor for institutional closure.

Third, the pandemic will accelerate the drive towards institutional differentiation, as some schools attempt to expand their digital learning environments, pursue new markets, restructure business models, monetize assets, or share administrative services. This strategy requires both pre-existing resources and leadership that is willing to embrace change.

Fourth, the pandemic will further magnify the risks for institutional closure identified in the 2017 TIAA Institute paper that I co-authored, *Mergers in Higher Education: A Proactive Strategy to a Better Future?* Those risks include weaknesses in: institutional strength (i.e. enrollment <1,000 and no complete online program developed); revenue generation (i.e. annual tuition increases >8%, tuition discount rates >35%, and tuition dependency >85%); and finances (i.e. ratio of endowment to annual expenses <3:1, debt service >10% of expenses, and expenses greater than revenues). In 2013, small schools had the highest risk: 70% of 4-year, private nonprofit and public institutions with enrollments less than 1,000 exhibited at least three risk factors for closure, compared to just 9% of schools with more than 10,000 students. Note that 40% of higher education institutions in the United States have less than 1,000 students.

Taken together, these observations suggest that the pandemic will impact most schools negatively, although not uniformly, and will accelerate disruptive tendencies already present—a challenge made worse by the pervasive excess capacity inherent in higher education as a whole. (See accompanying commentary focused on higher education's excess capacity and its effects.) Larger schools—

particularly those offering lower cost, online, and readily marketable programs—will fare better than smaller schools that may be more dependent on higher tuitions, have limited resources to invest in new competitive strategies, or already carry significant debt.

Which brings us back to our question: *"What the pandemic might mean for mergers in higher education."* Essentially, as a result of hastening existing trends, the pandemic will tend to accelerate industry consolidation. For institutions at highest risk for closure, identifying a merger partner well in advance, before their condition deteriorates to the point that they become a uniformly-unattractive merger partner, will be critical. Alternatively, the pandemic also represents an important growth opportunity for many institutions looking to rapidly expand their reach, acquire competitors, diversify their programming, and/or increase their enrollment.

Finally, the response of any individual institution will depend greatly on the innovative spirit and willingness to effect change on the part of its executive leaders and governing boards. Successful mergers, rather than closures, will occur only if institutional leadership acts strategically, proactively, and decisively today. Given the preexisting structural defects in the sector, responding effectively to the global pandemic will require more than incremental action. Leaders also will need to keep in mind that mergers and institutional survival should *always* be about what is best for students and their educational environment.

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Read more:

Azziz, Ricardo, et al. (2017). *Mergers in Higher Education: A Proactive Strategy to a Better Future?* TIAA Institute: New York.

Azziz, Ricardo, et al. (2019). *Strategic Mergers in Higher Education.* Johns Hopkins University Press: Baltimore.

Azziz, Ricardo (2020). *COVID-19: Will the pandemic worsen the excess capacity of U.S. higher education?* TIAA Institute: New York.

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