

GALLOWAY STUDY OF AMERICAN HIGHER EDUCATION

REPORT OVERVIEW

METHODOLOGY

- ▶ **Scott Galloway** posted a study on American higher education on July 17, 2020, under the blog title "[USS University](#)." We downloaded his dataset and studied his methodology.
- ▶ It includes **438 colleges and universities** classified by *U.S. News & World Report* as "national."
- ▶ There are **4,000 private and public degree-granting institutions** in America; 2,500 award the bachelor's degree or higher; 1,740 are Carnegie-classified as baccalaureate colleges or master's or doctoral universities (i.e., not specialized).
- ▶ They study uses only **10 data elements** (see page 5) taken from public sources, from which to derive seven percentile rankings and five performance "scores."
- ▶ Based on two calculated "second-order" scores, schools are assigned to **viability quadrants**: Thrive (21%); Survive (29%); Struggle (29%); and Perish (21%).

SIX DESIGN AND RESEARCH FLAWS

Flaw 1. The study presumes a single "classic" business model for higher education.

- ▶ Eight of the ten performance metrics relate to a **business model of traditional residential undergraduate education** (undergrad admit rate, student life "grade," 15- and 30-year NPV following baccalaureate degree, published undergraduate tuition cost, endowment per full-time student, and instructional wages per full-time student).
- ▶ Yet, **many of the included schools use different business models** whose performance cannot be captured entirely or partially by the study and are disadvantaged by the metrics used in it.
- ▶ Case in point: **A professional doctoral university marked as "Perish" is flourishing** under its business model of optimizing a balanced portfolio of in-demand professional undergraduate, graduate and certificate programs (and for which endowment and high instructional costs are of lower importance to success).
- ▶ *Observation:* Performance studies need to account for viability and strength across a range of industry segments, institutional types, and business models, **not approach American higher education as if it has a single, monolithic model.**

Flaw 2. Colleges and universities compete within their own ecosystems, not universally.

- ▶ The study's design **compares all 438 institutions against each other** in order to determine which ones thrive, survive, struggle, or flourish.
- ▶ However, **most of these institutions don't directly compete** because they are in different industry segments and regions, targeting different market segments, so their performance should not be assessed relative to an entire universe of schools.
- ▶ Colleges and universities **compete within their own ecosystems**, according to factors not accounted for in the study.
- ▶ **The study includes only 10% of all private and public degree-granting institutions**, 17% of institutions awarding at least the bachelor's degree, and 25% of "traditional" colleges and universities. In other words, it's not a full analysis of "the US college and university landscape" as Mr. Galloway suggests it is.
- ▶ Hence, it **can't rigorously evaluate relative performance strength** overall, within industry segments (e.g., liberal arts colleges, regional universities, research universities), or within competitive ecosystems.
- ▶ *Additional Observation:* **Colleges compete (and thrive or perish) within segments and competitive ecosystems, not universally.** Performance studies that assign "morbidity" or "mortality" need to be carefully designed to include all relevant competition (not just *U.S. News* "national" institutions), along with competitive factors according to industry segment.

Flaw 3. Financial strength can't be gauged by endowment alone.

- ▶ **Financial strength is a critical factor** for the viability and performance of any college.
- ▶ The study uses **only one measure: endowment** per full-time student. This disadvantages colleges that can perform well with their business models on modest or low endowments.
- ▶ The industry **standard is to use a set of strategic financial ratios** to assess financial health (which are available through public data sources).
- ▶ For instance, *Forbes* **annually publishes a financial health grade** for private universities using financial ratios, which may be a more reliable single measure for performance studies.
- ▶ This study's **Vulnerability Score does not correlate with *Forbes*' financial health grade.**
- ▶ *Additional Observation:* Because financial health is essential for viability, strategic maneuver, and levels of resources to achieve high levels of quality and reputation, performance studies **need to employ industry-standard metrics** and data.

Flaw 4. Some of the study's variables may need to be recalculated, replaced, or contextualized according to industry and research standards. Some examples:

- ▶ *Admit Rate.* Higher education research practitioners know that **schools can influence** their undergraduate admit rates **for better rankings**, and some do. Admit rates should be used and interpreted carefully in studies like this that employ a small number of metrics and data elements.
- ▶ *Undergraduate Tuition and Fees.* The **study uses published tuition and fee rates ("sticker price")** to calculate three "value" measures and to interpret ROI. The **industry standard is to use net cost-to-student** (or what is paid after discounts, scholarships, grants, and other subsidies are applied). It also appears to "blend" in-state and out-of-state tuition rates for public universities.
- ▶ *Average Monthly Search Volume.* This metric is taken from Google Keyword Planner and used in the calculation of a "Credentials" score (to measure reputation). Schools are rank ordered by volume, hence favoring large institutions with major sports programs or other features that generate high search volumes. **Rank orders change substantially when the metric is converted to volume-per-student.** Smaller institutions whose business models emphasize regional recruitment may not require (or need to invest to generate) large search volumes, but only volumes suitable for, say, recruiting appropriately sized incoming classes.
- ▶ *Institutional Wages per Full-Time Student.* This metric is used to calculate an Education Score based upon a school's ranking (from highest to lowest). In reality, **high instructional costs per student may reflect inefficiencies** (poor resource management or high excess capacity) and/or associate with a type of institution (e.g., **research-dominant universities**). Hence, schools managed well or not engaged in substantial research activities may be disadvantaged in the rankings and the derived scores.

Flaw 5. Educational value and impact are more than a paycheck.

- ▶ The study uses **15-Year and 30-Year NPVs** (based on earnings) to calculate an Education Score.
- ▶ This may privilege institutions which emphasize undergraduate majors related to higher-income careers or enroll student populations with intrinsic economic advantages, and may **disfavor schools** with larger proportions of career-**"gateway" majors** (e.g., nursing, education, counseling) important to our communities or of **first-generation and/or Pell-eligible students**.
- ▶ *Additional Observation:* Educational value and impact encompass more than lifetime earnings. There are public data sources that can be added to performance studies to capture **alternative dimensions of personal, community, and societal value.**

Flaw 6. The study is designed such that a certain proportion of colleges MUST “Perish.”

- ▶ A school’s final assignment to a quadrant (Thrive, Survive, Struggle, or Perish) is made by calculations on two derived scores: **Value-to-Cost Ratio and Vulnerability Score**.
- ▶ Both calculations use a school’s **relationship to the median** of all institutions’ derived scores.
- ▶ The final assessment of a school’s institutional viability (including expected morbidity and mortality) is **not according to its performance on validated or expected standards** of strategic “health” but **rather according to its relationship to the study’s population of institutions**.
- ▶ Because the study relies heavily on rankings to derive scores, we can expect with almost absolute certainty that **a certain proportion of schools will fall below both medians**.
- ▶ In other words, the study is **designed so that some schools MUST “Perish,”** not because they fail to meet certain critical levels of performance (and are at risk) but because their performance is lower than the two medians of the study’s population.
- ▶ Scatter charts visualizing the Value-to-Cost Ratios and Vulnerability Scores show **a group of institutions close to the intersection of the two medians**. It is likely that **many of these would shift quadrants**, if certain changes were made in the data or metrics (e.g., using net-cost-to-student rather than published price, per-student rather than total searches volume, *Forbes* financial grade, or an instructional cost optimization metric rather than total instructional cost).
- ▶ There is a **weak positive correlation between Value-to-Cost Ratio and Vulnerability Score** ($r=.10$; $p<.033$). If anything, we would **expect a stronger *negative* correlation**, since institutions that perform well on value would be expected to have *less* vulnerability in the marketplace.
- ▶ We **modeled the study’s data sheet**, adding proxy “institutions” with characteristics more like those of regional colleges and universities not included in the study (in order to simulate what the total of American higher education actually looks like). This resulted in most national **colleges and universities that were originally marked to “Perish” moving to different viability quadrants** (some to Thrive).

OTHER OBSERVATIONS

- ▶ Mr. Galloway indicates in his blog explanation of the study that the dataset “should not be taken as peer-reviewed or final” and that the findings are “**directional**.”
- ▶ However, he uses other **language that suggests that the study is predictive and conclusive**. “Who Thrives, Survives, Struggles, or Perishes” is the blog heading to introduce the study. An NPR interview with him has the title, “Some Universities Are About to Be “Walking Dead.””
- ▶ The study is presented as part of a blog post in which Mr. Galloway asks, “Why are administrators putting the lives of faculty, staff, students, and our populace at risk?” in deciding

how to open the fall semester during the COVID19 pandemic. He suggests the answer is out of concern for their financial vulnerability and that this “gruesome calculus has resulted in a tsunami of denial.”

- ▶ Shortly after the blog’s posting, national, regional, and industry **media outlets started to report on the study with dramatic headlines**—“hundreds of universities will shutter,” “colleges are on the brink,” “colleges most likely to perish”—reinforcing the notion that findings are predictive and reliable. Regional and local media outlets published the names of area schools that Mr. Galloway suggests will “Perish.”
- ▶ The administrative leadership of colleges and universities included in the study, particularly those identified in the Perish and Struggle quadrants, **should prepare to respond** to its validity, in order to **protect their schools’ reputations**, since predictions of morbidity or mortality can influence student recruitment, retention, fundraising, brand perceptions, and other critical aspects of performance—especially in these uncertain times.

List of Data Elements, Scores, and Ratios

Data Element	Source	Measurement	Used to Derive
1. U.S. News Rank	U.S. News	Percent rank	Credential Score
2. Undergrad admit rate	IPEDS	Percent rank	Credential Score
3. Average monthly search volume	Google Keyword	Percent rank	Credential Score
4. Student Life Grade	Niche.com	Grade rating (1-5)	Experience Score
5. 15-year NPV	Ctr on Ed & the Workplace	Percent rank	Education Score
6. 30-year NPV	Ctr on Ed & the Workplace	Percent rank	Education Score
7. Instructional wages per full-time student	IPEDS	Percent rank	Education Score
8. Average annual tuition and fees	IPEDS	Percent rank	Tuition & Fees Score
9. Endowment per full-time student	IPEDS	Percent rank	Vulnerability Score
10. Percentage of international students	IPEDS	Percent rank	Vulnerability Score

A Value Score is calculated from the Credential, Experience, and Education scores.

A Value-to-Cost Ratio is calculated from the Value Score and Tuition Score.

An institution is placed on a four-quadrant viability matrix according to 1) the relationship of its Value-to-Cost score to the group median and 2) the relationship of its Vulnerability Score to the group median (relationship=above or below median). Designations are: Thrive, Survive, Struggle, and Perish.

Note: Since the original publication of this Overview, the Galloway study renamed its category of “Perish” to “Challenged.” This version also corrects a typo on the percentage distribution of schools in the “Survive” and “Struggle” quadrants.