The new world order for higher education
Lessons from the UK
Higher education in Australia – the challenges in 2010

A number of new forces are changing the landscape for the Australian higher education sector. With the impending implementation of compacts, outcomes for teaching, learning and research will play a greater role in securing funding. Institutions will receive that funding based on factors including the cost of courses they deliver rather than just their student numbers.

In addition, the Federal Government wants to see an increase in young adults with bachelor degrees, with a much higher proportion from indigenous and low socio economic backgrounds. Increased international competition is also testing our reliance on international students. Meanwhile, student expectations of accommodation and teaching infrastructure are on the increase.

A secure future will depend on greater efficiency, smart brand positioning and an increased focus on student satisfaction. The Australian Higher Education sector cannot ignore these challenges.

The UK higher education sector has faced similar pressures for some time. In September 2006, English ‘home students’ top-up fees were introduced, releasing a wave of competitive forces. As a result, many institutions needed to re-think their approach to the education market. In 2007, Ernst & Young UK, published this report examining the changed landscape and the ways institutions were responding.

From creating a differentiated brand position and supporting marketing strategy, to understanding customer needs, exploring collaboration, amalgamation and divestment to implementing effective governance - the challenges for the Australian higher education sector are similar. While the Australian experience is slightly different, current reviews of strategies and operating models echo the issues explored in this publication.

Ernst & Young Australia’s Education team draws on our national and international expertise and can support you as you determine your approach to the current reform agenda. Please contact a member of our team to discuss any of the issues raised here.

Ernst & Young Australia's education team

Sydney
Meredith Scott
Tel: +61 2 9248 4533
meredith.scott@au.ey.com

Chris Grant
Tel: +61 2 8295 6970
chris.grant@au.ey.com

Melbourne
Peter Rohan
Tel: +61 3 9655 2668
peter.rohan@au.ey.com

Anthony King
Tel: +61 3 9288 8832
anthony.king@au.ey.com

Canberra
Maria Storti
Tel: +61 2 6246 1525
maria.storti@au.ey.com

Catherine Friday
Tel: +61 2 6267 3955
catherine.friday@au.ey.com

Brisbane
Gareth Long
Tel: +61 7 3011 3207
gareth.long@au.ey.com

Adelaide
Peter Byrnes
Tel: +61 8 8417 1647
peter.byrnes@au.ey.com

Perth
Heidi Riddell
Tel: +61 8 9429 2136
heidi.riddell@au.ey.com
The new world order for higher education in the UK

UK universities today face serious financial pressures that, in some cases, could even threaten their very existence. Three key trends are having huge ramifications for the sector:

- The advent of market forces and competition
- Increasing globalisation
- The government’s own agenda in higher education

To respond effectively to these challenges, higher education institutions need to review their strategies and operating models. Many in the sector speak of the need to be ‘business-like without being a business’. An effective university of the future will have four key features:

- A well-differentiated brand position and marketing strategy
- A customer-focused delivery model
- A proactive approach to collaboration and amalgamations
- Effective governance, supported by robust financial management
The advent of market forces and competition

The cost of attending university has become a serious consideration for many, with debts of £20,000 - £30,000 upon graduation being typical – this is making them more demanding consumers.

The transformation of the sector into a genuine market with increasing competition and new entrants was hastened by the introduction of variable ‘top-up’ tuition fees for home students in England in September 2006. Since the Government increased the cap from £1,175 to £3,070 per year the cost of attending university has become a serious consideration for many, with debts of £20,000 - £30,000 upon graduation being typical. This could move a step further forwards when the arrangements are reviewed in 2009, and the cap could well be lifted. Lord Dearing, whose report ten years ago led to the introduction of fees for higher education, said recently to the annual Universities UK conference: “The advantage of a complete lift [of the cap on fees] is that it would in fact lead to differential fees and to institutions consciously seeking different missions to respond to different opportunities.”

Wales has also adopted the top-up fee system, but subsidizes Welsh and EU (non-UK) students at the level of £1,825 pa, with UK students paying the full £3,070. In Scotland, Scottish and EU (non-UK) students pay no tuition fees, and UK students pay fees at the full-rate. The funding regime in Scotland is in a state of flux with the recently-elected Scottish National Party administration announcing plans to abolish the student endowment (a type of graduate tax), write off existing student loans and reintroduce maintenance grants. Interestingly, the higher education (HE) sector in Scotland is beginning to question the sustainability of this approach and a number of academics have publicly stated the need to introduce tuition charges. As Lord Sutherland, formerly principal of Edinburgh University, has put it: “Scottish universities have to be able to pay competitive salaries and have competitive facilities... . The only remaining funding source is the students. I am deeply concerned that English universities are gaining an advantage that Scottish universities are not.”

This direct cost to students is making them more demanding consumers of education. In addition, it is estimated that by 2017 there will be approximately 10% fewer UK school leavers annually – a decrease in demand which will further increase competition in the sector.

The expansion of the market has also seen new entrants in the form of overseas-based organisations, from both the profit and not-for-profit sectors, with examples ranging from foreign universities to education companies such as Kaplan, Apollo and Laureate Education.

For-profit education companies are experiencing substantial growth by offering bespoke learning programmes, principally career-oriented curricula, to the post-secondary education market. For example, Apollo Group Inc provides higher education to working adults and runs the top private university in the US, the University of Phoenix. With over 300,000 degree students enrolled globally it has a presence in the USA, Canada, Mexico and the Netherlands, and plans to expand into Latin America and Asia – principally China and India.

Turnover for the year to October 2006 was $2.5bn, at almost 18% margin. Laureate Education Inc provides career-oriented undergraduate and graduate degree programmes through an international network of accredited campus-based and online universities and higher education institutions. With 240,000 students and a presence in 16 countries, it had a $1.4bn turnover at over 10% margin for the year to March 2007.

It is not only students who must be viewed as customers, but also the entities that fund research. Over £14bn is spent each year in the UK on research and development, with funding sources ranging from government and public bodies, to not-for-profit organisations, international entities and the private sector. The public sector invests £4.5bn through its various research councils, higher education funding councils and government departments. Multinational companies like BP are running competition for major research contracts (see Case Study opposite).

---

2 Quoted in Boris Johnson “Are we all British? Not if Brown has his way.”, In The Guardian, Tuesday, 12 June 2007.
3 For more information visit www.apollogrp.edu
4 The 16 countries are: the USA, Mexico, Honduras, Panama, Costa Rica, Brazil, Ecuador, Peru, Chile, France, Spain, The Netherlands, Switzerland, Cyprus, Turkey, and China. For more information visit www.laureate-inc.com
5 For more information visit www.heo.ac.uk, the website for Higher Education and Research Opportunities in the UK.
Increasing globalisation

Case study

Global competition for research mega deals requires strong commercial skills

During 2006, BP conducted a world-wide search for potential hosts for a new Energy Biosciences Institute and assessed their capabilities against specific criteria that included:

- World-class research capability in the relevant domains
- Access to the broader for-profit biotechnology industry
- A location to which new candidates can be readily recruited and relocated
- A demonstrated track record of working with industry on mission-oriented multidisciplinary research programme

Five institutions globally were shortlisted to bid for $500m over ten years – Cambridge, Imperial, Berkeley, Stanford and MIT, with an express condition that bidders could not form consortia among themselves. This compares to a recent estimate by the Department of Innovation, Universities and Schools (DIUS) that formal, collaborative research for the entire sector is valued at £600m – an increase of 12% from the previous year.

To improve the bid from the California universities, Governor Arnold Schwarzenegger’s proposed budget for fiscal year 2008 includes $40m in lease revenue to support the research centre if either of the two California institutions won. The state also plans to contribute $70m to build a headquarters for the institute, which will temporarily be housed within existing buildings on campus. BP has entered into a partnership with the University of California Berkeley and its strategic partners – the University of Illinois, Urbana-Champaign and the Lawrence Berkeley National Laboratory – to establish the Energy Biosciences Institute (EBI).

Imperial, who were felt to be initial favourites on the basis of previous work with BP, provided a fully-costed bid with no public subsidy, but were told it was ‘not economical’. As Richard Sykes, Principal of Imperial put it: “We thought that was interesting.”

Bidding to corporates for projects of such magnitude clearly requires commercial skills and capability – solution architecture, sales techniques and project management – more normally associated with large-scale IT and outsourcing ventures. Indeed at the time, commentators remarked that this deal was akin to BP outsourcing its entire R&D activity.

Globalisation of the market presents both threats and opportunities to the UK sector. On the positive side, there is not only the opportunity to attract more lucrative foreign students to UK campuses but also a number of UK institutions are looking to expand their physical footprint into overseas territories, especially the Far East. However, over-reliance on overseas students is risky – the foreign-student base could begin to dry up as their domestic capacity expands or price sensitivity could increase. A recent study by HEPI suggests that if the 20 universities most dependent on fees from overseas students were to suffer a 25% reduction in those fees, 16 of them would move from surplus to deficit. In addition it appears that most of the overseas students studying at these 20 institutions now pay only slightly more than domestic students and revenue per overseas student appears to be in decline.

6 Nature.com
7 How exposed are English universities to reductions in demand from international students?, Tom Sastry, HEPI, London, 2006, p7.
Another, perhaps greater, risk is that UK domestic students will be poached by other countries such as the US, Australia and New Zealand (see Case Study below). In the modern era of the internet, low cost telecommunications and affordable international travel, UK students are increasingly aware of the wide range of options to study both within and outside the UK. As the cost of studying at home increases year on year, both in terms of fees and living costs, overseas opportunities will become increasingly attractive. Tomorrow’s best and brightest students will likely travel globally to acquire what they want; global league tables will become more reliable and widely publicised; and the total cost of studying will reflect this global competition for talent.

Case Study

Head for the sun and study ‘down under’ at similar cost to UK universities

Seven Australian and New Zealand universities began offering a series of scholarships to UK students for undergraduate programmes from the beginning of their academic year in February 2006 in an attempt to attract more students from the UK following the introduction of tuition fees of up to £3,000 per year here. Whilst fees are higher in Australia and New Zealand than in the UK, cheaper living costs – and better weather – make them a serious alternative to studying in the UK. For example, official government figures in Australia put the average cost of study for international students at $A30,670 (£12,740), and official UK government figures put the average cost of study for international students at £A30,670 (£12,740), and official UK government figures put the average cost of study for UK students in the UK at £12,130. Additionally, Australian law permits full-time degree students to work up to a maximum of 20 hours a week on their student visas to help them pay their way. Australia currently has the highest percentage of overseas students attending its universities of all OECD countries.

Figure 1 — Proportion of enrolments that are foreign students

This chart shows the percentage of international students in university enrolments in specific OECD territories. Significantly, 13.5% of all UK enrolments are from overseas students. This poses a substantial risk to the UK if these students begin migrating to other countries for their university education.

8 The UK figure is provided by the British Council in Australia as a guide for Australians wishing to study in the UK. The Australian figure has been calculated by Ernst and Young using data provided by the Australian Government’s “Study in Australia” website and converted to sterling at the exchange rate £1.00 = A$2.40716, a live rate at 15 August 2008.
The government’s own agenda in higher education

The current government has invested substantially in higher education and has a target of increasing the percentage of GDP spent on the sector from 1.1% to somewhere closer to the US level of 2.6% (albeit not all of this will be expected to come from the public purse). Figure 2 below shows the level of investment in higher education institutions as a percentage of GDP in OECD countries. The UK ranks 25th out of 30 overall, and 24th on public expenditure alone.

The government aims to increase access to higher education so that by 2010 half of all 18 – 30 year-olds will have participated in higher education. Greater participation will increase total demand for higher education, it will also change the nature of that demand with an increasing emphasis on life-long learning and vocational programmes.

Traditionally, universities aimed to secure the majority of their core funding for research through the Research Assessment Exercise (RAE). However, change is in the air on this front also. In June 2006 Higher Education minister Bill Rammell announced that the 2008 RAE would go ahead as planned, but with a shadow ‘metrics’-based exercise running concurrently that would eventually supersede the RAE – which ministers have criticised on the grounds of cost and bureaucracy9.

The HEFCE Strategic Plan 2006 – 2011 states “we will take an increasingly risk-based approach to ensuring that the public funds we distribute are well spent, relying more on well led, governed and managed institutions’ own accountability processes.” 10 Following its consultation exercise, then secretary of state Alan Johnson reasserted the government’s intention to move towards using bibliometric measures of quality across all subjects over time.

All of these changes are contributing to the creation of a more competitive environment. The best institutions are thriving (see the Imperial College Case Study on the next page, for example).

Figure 2 — Percentage of GDP spent on higher education in OECD countries

Data drawn from table C3.1, Education at a Glance 2006, Copyright OECD, 2006

Meanwhile, a series of HEFCE board papers covering the period 1998 to 2003, recently released under the Freedom of Information Act, reveal that several institutions have been ‘at risk’ of financial failure. HEFCE points out that the institutions in question were quickly turned around and are now on a sound financial footing. As of March 2007, six institutions are still classified as being at ‘higher risk’ and between 2004 and 2007 up to half a dozen institutions have been on the ‘at risk’ list at any one time.

Where an institution is deemed to be at risk, HEFCE implements its ‘support strategy’: a support officer is designated, more audit information is collated, and the institution applies for further funding support\(^\text{11}\). Whilst this is a sound response to the immediate financial distress within individual institutions, it points to the need for a more systemic response to the underlying problem to improve financial management and sustainability across the sector – as is also being seen in the health service.

---

**Case study**

**Imperial College – succeeding on the world stage**

Imperial College of Science and Technology is internationally-renowned as a research establishment. It is now working with Hammersmith Hospitals NHS Trust and St Mary’s NHS Trust to establish an Academic Health Science Centre (AHSC) through the merger of the two trusts and the integration of the faculty of Medicine. This will bring together the delivery of healthcare services, teaching and research in a strong partnership. Patients will receive healthcare from the world’s best professionals, equipped with knowledge of the latest advances in treatment, using state of the art equipment and technology. Joint working between academics, researchers and healthcare professionals is expected to lead to the development of innovative treatments, diagnostics and therapies which in turn will have clear benefits to patients. While the proposed merger is not focused on building new hospital facilities it is believed that it will make future investment easier. This merger aims to put London at the cutting edge of medicine: ‘Other countries are competing for limited global research funds. Large centres of excellence that prove they are improving patient care with world-class research will receive the largest funds.’\(^\text{12}\)

Many in the sector speak of the need to be “business-like without being a business.”

---


12 A proposal to create the UK’s first Academic Health Science Centre, Hammersmith Hospitals NHS Trust, Imperial College London and St Mary’s NHS Trust, July 2007, p3.
In addressing these trends, the sector already has a number of other challenges.

- **Better governance:** Historic governance arrangements and the respective roles of academics and administrators have meant that academics generally predominated, running universities as partnerships. More recently, there has been widespread voluntary adoption of HEFCE’s Governance Code of Practice and General Principles by the Committee of University Chairmen.

  However, not every institution agrees with the principle of governance reform. The code states that each University’s governing body shall have a majority of independent members, defined as both external and independent of the institution. Cambridge University recently decided to remain a ‘self governing body of scholars’. At Oxford, fundraising and governance became interwoven following claims that wealthy business people would be unwilling to give to an institution with an unusual corporate structure; but Oxford’s plans to introduce a lay majority enraged many academics and were rejected outright, with the university remaining committed to a ‘process of evolution’.

- **Different demands:** The government’s participation targets will change the nature of demand. Broader participation is likely to lead to changing needs in terms of both curricula and support services. At the same time, OECD has estimated global demand for international higher education will continue to grow reaching more than 7 million by 2025, with around 20% of that demand coming from East Asia.

  - **Fewer UK school leavers:** Data provided by National Statistics estimates there will be a 9% drop in the UK population of 18 year olds by 2017, indicating a reduction in the numbers available to enter university from that cohort. Although this may be partially offset by increased participation rates, universities will face increased competition due to falling demand from this demographic as well as heightened competitive pressure to tailor offerings to life long learners to make up the shortfall.

  - **Over capacity:** An initial response to developing customer focus has been to invest in improving physical infrastructure (eg, teaching and leisure facilities and student accommodation). There is a risk that this increased physical capacity will outstrip student demand resulting in an uneconomic fixed asset base.
So, how should universities respond?

More, bigger amalgamations: Financial pressure will lead inevitably to increased collaboration and/or consolidation within the sector, perhaps even internationally. There have been a few examples of this trend already (e.g., Manchester/UMIST and University of Paisley merging with Bell College to create the University of the West of Scotland). Such combinations are likely to become more commonplace and on a larger scale.

To respond effectively to these challenges, higher education institutions (HEIs) need to review their strategies and operating models. Many in the sector speak of the need to be ‘business-like without being a business’. An effective HEI of the future will have four key features:

- A well-differentiated brand position and marketing strategy
- A customer-focused delivery model, with the capabilities required to provide a differentiated experience at a competitive price
- A proactive approach to collaboration and amalgamations to improve capabilities, generate efficiencies and gain market share
- Effective governance, accountability and financial management

This paper explains how universities can develop into institutions fit to compete for students and academic talent in the 21st century and so make a critical contribution to UK competitiveness and growth.
A well-differentiated brand position and marketing strategy
Why does branding matter in higher education?

In a recent study by Ernst & Young of 16 universities in New York and New Jersey (see Figure 4 on next page), all of them cited development of a strong brand as key to their differentiation strategy. As the UK university sector broadens to include up to 50% of 18 – 30 years olds (incorporating full-time, part-time, school leavers and mature students), in addition to the increasing number of foreign students and distance learners, how will our universities identify where and how to compete? As with any organisation competing in a market, the first priority is to understand the customer – who they are and what they want – then to tailor the service design to meet their needs efficiently and effectively.

The institutions which will succeed in this more competitive environment are those which clearly identify their target market and relentlessly focus on delivering value to it. There is a significant difference in the resources, facilities and delivery model required for a global, elite research institution compared with a teaching focused institution serving a primarily local catchment area. The key requirement is for institutions to identify their model and prioritise effort and resources into delivering that model successfully rather than attempting to be all things to all people.

In order to develop their brand, HEI’s will need to understand what their customers value. This is likely to involve a number of dimensions, for example:

- **Content** – how it connects with their interests and impacts career options and affects employability
- **Assessment** – must be credible and achievable (accreditation and validity)
- **Delivery of learning** – previous exposure to new technologies and preferred learning styles will influence decision-making
- **Support** – meeting diversity and special needs is reported and recorded in universities rankings and surveys
- **Facilities and equipment** – from ICT and libraries to sports and recreation
- **Fun** – reviews by other students constitute an ‘alternative’ prospectus
- **Cost** – living costs coupled with top-up fees will change the decision landscape

What does branding higher education mean in practice?

As students become more demanding consumers, they will look for the brands that clearly offer the experience that is relevant to them as individuals. In order to develop brands and propositions that resonate with their target customer base, it is essential for institutions to engage with customers and develop offerings that clearly demonstrate value. For example, a local/regional teaching establishment with increasing participation from under-represented groups may find that its users are more interested in learning support, pastoral care and work experience links with local employers; meanwhile, users of elite research-based institutions will be ever more demanding in wanting to work with the leaders in their field, together with world class facilities, technical support and one-to-one tutoring.

Development of clear brand positioning also allows the leadership of the university to engage internal stakeholders more fully in delivering the institutional vision and provides those stakeholders with a clear message to communicate to students, prospective students and external stakeholders.

Best practice organisations build a ‘customer first’ mentality into their culture. They successfully transform by letting their customers define the measures of success.
### Case study

**Lessons from the US – Branding is key to building a differentiated market position**

US universities operate in a highly competitive market for student enrolments, and they have a long history of securing funding from multiple income streams. Ernst & Young studied the corporate business plans, financial reports and accounts, and web sites of 16 universities in the states of New York and New Jersey, to identify how they aim to differentiated themselves.

All of the US universities stated that developing and strengthening a distinctive brand in the market place is key to their differentiation strategy. Over 80% specified investments aimed at improving the student experience; more than half valued best practice university management (including robust performance improvement, a clearly defined governance framework, making efficiency savings and implementing cost controls) as critical to their success.

#### Figure 4 – US universities view branding as key to success

**Differentiation in the marketplace**

- Cited university brand as key: 100%
- Cited student (customer) experience: 88%
- Valued sound university management: 56%

**Investments required to make plan happen**

- Projects that will improve the student experience: 81%
- Strengthening the brand: 69%
- ERP and/or efficiency programmes: 69%

**Key sources of revenue to fund plan**

- Alumni, partner, private donations: 81%
- More students/increase fees: 56%
- New business/revenue streams: 50%

**Processes and controls to ensure delivery**

- Financial planning: 100%
- Performance management: 69%
- Clearly defined governance frameworks (roles/accountabilities): 63%

---

17 New York and New Jersey were chosen due to their comparable statistics with the UK: geographic size, population density, and the number of universities in competition.
How does a university or department develop a differentiated brand?

For those within a university tasked with building the brand strategy, traditional approaches to customer segmentation (e.g., by product/service, geography, demographics, channel, psychographics) constitute a good starting point, but are inevitably based on assumptions made by the producer of the service. Additional refinement can be gained by using data from large-scale surveys such as the HEFCE National Student Satisfaction Survey, the Sunday Times Good University Guide and any number of external benchmarks combined with input from key community groups such as Regional Development Agencies, Sector Skills Councils, local schools and so on.

However, the most crucial input is from existing and prospective customers. HEIs must develop approaches which engage with students and funders to gain vital feedback which they can then act upon. Means of engagement can include regular customer satisfaction surveys, suggestion boxes, student focus groups, town hall meetings and employer groups. The key is to ensure that the feedback is incorporated as an iterative loop which informs constant reshaping of the service in order to continue to produce demonstrable value for students.

As Buckingham University has shown (see Case Study on next page), it is not only the traditional, elite universities that can establish a strong, distinctive presence in the marketplace.

As students become more demanding consumers, they will look for the brands that clearly offer the experience that is relevant to them as individuals.
Case study

Buckingham University tops the THES student satisfaction survey

In 2006 the Higher Education Funding Council of England (HEFCE) commissioned Ipsos MORI to conduct an independent survey of all final year students in Britain — over 157,000 participated. Questions covered teaching, assessment and feedback, academic support, organisation and management, learning resources, personal development, and overall satisfaction. The results of the survey were published in the Times Higher Education Supplement of 25 August 2006 (see Figure 5 below).

Surprisingly for many, the University of Buckingham, the UK's first and only privately financed HEI, emerged as Britain's top residential university for students. On the THES rating of the data, Buckingham came first across the board, on HEFCE rating of the same data, Buckingham came second to the Open University.

As Buckingham's degrees take only two years to complete (four terms per year), the University views its courses as cost-effective compared to ordinary three year degrees.

Tuition fees in 2007 for full-time UK/EU undergraduate students will be £15,000 for the 2-year fast track Bachelors’ degree programmes, and £26,500 for non-EU students. This is comparable with fees of £9,210 for a 3-year Bachelors’ degree for home students and £25,800 for international students, particularly when, as their website states, “here you will have one year less of living costs, earlier entry into the job market, and a quality of degree you can rely on for the future”. As their VC, Dr Terence Kealey put it, “The money comes from students, so they’re our customers. At other universities the main customer is the government. It’s a different culture. We work hard for them. Other universities don’t.”

Figure 5 — Buckingham ranks as the most popular HEI in the UK

---

18 For more information visit www.thes.co.uk
19 For more information visit www.buckingham.ac.uk. Buckingham University's degrees are audited by the Quality Assurance Agency for Higher Education (QAA) and meet the high standards set across the sector.
A customer-focused delivery model, with the capabilities required to provide a differentiated experience at a competitive price
Why does the delivery model matter?

According to the HEFCE strategic plan 2006 - 2011, “the expansion of HE and the reality of lifelong learning mean that students are a diverse group. Nearly 55% of students starting undergraduate studies are 21 or over and 45% study part-time. In addition postgraduates now account for one in six of all entrants.”

The development of a brand outlined in the earlier section needs to be underpinned by the development of a service delivery model which brings to life the values, aspirations and objectives encapsulated in the brand proposition. As Hugh Davidson has put it in Even More Offensive Marketing: “Branding goes well beyond names and symbols. These are just the tip of the Branding Iceberg, the visible one sixth. What really matters is the five sixths below the waterline. Strong branding is the result of successful business strategy.” In service industries such as higher education, that business strategy finds its expression in the service delivery model.

It is important to understand that there are always trade-offs in the design of any service delivery model. Meeting every need of every customer all the time is not feasible from an operational or cost-effectiveness point of view. Effective segmentation helps inform the boundaries that sit around these decisions and understand the true costs and benefits of meeting or failing to meet particular needs at particular points in the process.

In higher education, the business strategy finds its expression in the service delivery model.

What does a customer-focused delivery model look like?

“At the global level our strategy will be to support the HE sector’s reputation for excellence. At the national level we will aim to ensure that the sector retains the capacity to meet national needs, while building on the strengths and diversity of autonomous universities and colleges. There will be significant challenges at the regional level where we will work more closely with partners to address under-provision, skills development needs and economic regeneration.” One view is that the sector may broadly break down into three categories, each of which would require very different delivery models and capabilities (see Figure 6 below).

Figure 6 – Three broad categories of university and their key attributes

<table>
<thead>
<tr>
<th>Regional</th>
<th>National</th>
<th>Global</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strong links to local business and wider community</td>
<td>• Strong links to major blue chip business</td>
<td>• Access to multinational and blue-chip employers</td>
</tr>
<tr>
<td>• More applied and vocational subjects</td>
<td>• Blend of academic and vocational focus</td>
<td>• Traditional academic disciplines</td>
</tr>
<tr>
<td>• Competent teaching staff</td>
<td>• Strong teaching staff</td>
<td>• Internationally renowned researchers and teachers</td>
</tr>
<tr>
<td>• Incentives for local applicants</td>
<td>• Quality research facilities</td>
<td>• Access to leading edge research projects and high quality research facilities</td>
</tr>
<tr>
<td>• Pastoral care and student support</td>
<td>• Quality student accommodation</td>
<td>• Large international postgraduate schools</td>
</tr>
</tbody>
</table>

When you understand what your customers want, you must then determine how you organise the university to deliver value to them. Key elements which will need to be configured in the design of the service delivery model include:

- **People** — students, teachers, researchers, administrators
- **Processes** — curriculum, admissions, student support, teaching methods, scheduling
- **Infrastructure** — technology, libraries, laboratories, leisure facilities and student accommodation

So the key decisions that have to be made include staff-student ratios, the balance and shape of the curriculum, the use of technology in delivering that curriculum, the balance in investing between accommodation, teaching facilities, academic staff and technology to support remote learning. Figure 7 depicts a tried and tested approach to designing a customer-focused service delivery model. The Case Study opposite shows what a university under pressure for resources can achieve through good management.
Case study

Staffordshire University – Succeeding by designing the university around the needs of its customers

Staffordshire University ranks equal 80th in The Good University Guide which states “British student numbers had been scaled back previously, in line with falling applications, and replaced by overseas recruits. The former polytechnic blamed increased competition from traditional universities but has found that foreign markets more than compensate for any financial losses”.

- Staffordshire runs courses for over 1,000 students at colleges of further education with incentives for local applicants. It runs a priority application scheme for under-21s in Staffordshire, Shropshire and Cheshire, whilst mature students will be guaranteed an interview if they apply from a university access course. A new programme run collaboratively with Keele University intends to increase the number. The university has tailored a range of courses to meet the business needs of the region. These policies have ensured that over a third of students are from the region. Staffordshire has a strong teaching assessment score and it meets targets for inclusivity and diversity: 97% of undergraduates are from the state sector, 38% are from a working class background, and there are over 700 disabled students.

- Meanwhile, many foreign students take English language courses before starting an undergraduate programme, so a substantial part of the curriculum is offered with a January commencement date to suit their requirements. Additionally, about 5,000 students take Staffordshire courses outside Britain, almost half of them located around the Pacific Rim.

- The university has clearly segmented its proposition with different offerings to the regional and international market. Staffordshire’s university plan puts students “first by offering them a distinctively high quality, customer-focused experience which adds value” 24. It has a customer first mentality and recognises that its “academic provision will have to be market sensitive.” 25.

As far back as 2001, the QAA Quality Audit Report concluded, “there is evidence of excellent practice in managing a University under pressure for resources” 26. It is against a backdrop of robust management and governance that Staffordshire has developed into the well run university it is today. The 2006 – 2007 business plan articulates actions against core goals and their measurable outcomes, as well as the executive accountable for each action. It has a University strategic planning team responsible for corporate and strategic planning, the University Plan and the Business Plan, competitive intelligence, management of cross-University strategic projects, and external liaison with appropriate agencies and partners.

---

23 For more information visit www.thegooduniversityguide.org.uk
24 Staffordshire University, The University Plan 2003/4 – 2007/8. For more information visit www.staffs.ac.uk
25 ibid.
26 For more information visit www.qaa.ac.uk, the Quality Assurance Agency for Higher Education, and read their November 2001 Quality Audit Report for Staffordshire University.
A proactive approach to collaboration and amalgamations to improve capabilities, generate efficiencies and gain market share.
Why adopt a proactive approach to collaboration and amalgamation?

The competitive environment for universities is becoming tougher all the time. In our view, an inevitable consequence of this will be amalgamation of existing institutions to bring supply more closely into line with demand and facilitate better use of scarce resources and expertise.

These amalgamations are likely to reach a more positive conclusion where they have been undertaken willingly on the basis of joint agreement on the complementarity of capabilities rather than as a last ditch measure to avoid closure.

What kind of collaboration or amalgamation is likely to work best?

There are several successful models of collaboration including:
- Mergers between universities
- Collaborative partnerships between universities such as shared services
- Partnerships with the private sector
- Collaborative entry into new markets

Mergers between universities

Universities may take a strategic decision to merge either to reduce operating costs or secure more market share or both. Recent examples include the creation of the University of Cumbria (see Case Study below) and the merger of University of Paisley with Bell College to form a new University of the West of Scotland which will have over 17,000 students and act as the local university for 30% of Scotland’s population. There are a number of geographical locations in the UK where mergers could yield substantial savings through rationalisation of facilities and operations.

Case study

A new regional University forms through merger

The University of Cumbria was formed on 1 August 2007, from an amalgamation of St Martin’s College, Cumbria Institute of the Arts, and the Cumbrian campuses of the University of Central Lancashire. The University has campuses in Carlisle, Penrith, Ambleside and Lancaster and a specialist teacher-education centre in London. The University also has strong links and close partnership working with the four FE Colleges in Cumbria (Lakes Colleges, Furness College, Carlisle College and Kendal College) to enable HE delivery locally across the county. In addition, the University is the lead institution of Cumbria Higher Learning, a Distributed Learning Network for Cumbria.

The University is committed to a learning experience which is innovative, flexible and student-centred and which utilises the latest technology. The University also works closely with employers, schools, colleges and agencies in the region to offer research, scholarship and knowledge transfer excellence which shapes and supports social, cultural and economic development in support of the sustainable communities agenda. In so doing, the University of Cumbria recognises that its students are a mix of full and part time, young and mature, vocational and scholastic, who access HE for a variety of reasons, whilst aiming for its graduates to be creative, enterprising and resourceful and equipped to lead in their fields and in their communities.
Collaborative partnerships between universities such as shared services

Prior to its dissolution in June 2007, DfES has focused on developing the shared services agenda across the education sector and was actively seeking pilot projects to help develop this agenda. While clearly no university would want to lose control over key functions which could form part of its differentiation strategy, there are a significant number of transactional processes which lend themselves to being delivered in a shared service environment to increase efficiency and reduce cost per transaction.

NHS Shared Business Services, a 50:50 joint venture between the NHS and Xansa, provides a shared service centre delivering finance and accounting services which on average produces cost savings to its clients of 34%, as well as freeing up their finance professionals to focus on strategic decision-making rather than processing of transactions.

There are already several good examples in the sector of organisations providing a shared service to all or many HEIs, including UCAS, HESA, JISC, HERO and the Student Loans Company27. However, there has been less progress in sharing back office functions such as finance, IT, HR and procurement where substantial cost savings can be made and greater effort is now required. Business cases can often be rendered uneconomical because they attract VAT. To support the development of these initiatives across the sector, the funding councils have a role to play in influencing HM Treasury to exempt the sector from VAT.

Collaboration could also cross international boundaries as is the case with Universitas 21, a group of 20 universities across the world which has established a network to improve mobility for staff, researchers and students and to work together on three research themes of water sustainability, healthcare delivery and culture and heritage. They have also established in partnership with Thomson Corporation an e-university ‘U21Global’, which provides courses in business and management from a combined resource base of over 80,000 academics and researchers with a combined annual operating budget of US$10bn.

Partnerships with the private sector

For-profit education companies are experiencing substantial growth by offering bespoke learning programmes, principally career-oriented curricula, to the post-secondary education market. Leading US companies have a global presence, and entry into the UK market has already begun.

A typical example is Kaplan Inc., which provides education and training to nearly 1 million students across 3,000 classroom locations worldwide. A wholly-owned subsidiary of the Washington Post Company, it had revenue of $1.7bn in 2006. Through its International Colleges division it provides academic preparation programmes specifically designed to meet the needs of international students based on the campus of the partner universities. Kaplan has two such colleges in the UK, at Nottingham Trent and Sheffield Universities. Additionally, in June 2006 Nottingham Trent University and Kaplan Inc announced plans to open a London facility for Nottingham Law School’s Legal Practice Course (LPC) in September 2007.

27 Notable shared services include the Arts and Humanities Data Service (AHDS), the Equality Challenge Unit (ECU), the Higher Education Statistics Agency (HESA), the Higher Education and Research Opportunities (HERO), the Joint Information Systems Committee (JISC), the Quality Assurance Agency (QAA), the Student Loans Company (SLC), the Universities and Colleges Admission Service (UCAS), and the Universities Superannuation Scheme (USS).

28 For more information visit www.kaplan.com
Collaborative entry into new markets

Another way that universities can increase their market share is by expanding outside their own domestic market, working in partnership with foreign universities or governments. As part of their brand development some universities have already established a footprint outside their ‘home’ territory. International expansion of the brand is a defining feature of all the examples below.

The University of Nottingham has campuses overseas, in China and Malaysia. The Malaysia Campus welcomed its first students in September 2000. The University sees this development as “a fundamental part of Nottingham’s vision to become a truly global university for the 21st century and beyond” 29.

The University of New South Wales (UNSW) Asia is Singapore’s first comprehensive private university. Having opened to students in March 2007, it is owned and operated by UNSW, one of Australia’s leading teaching and research universities. Its international reputation was a key reason for the Singapore Government choosing UNSW to establish Singapore’s first foreign university, Cornell University opened Weill Medical College in Qatar in September 2004, the first American medical school outside the United States. It is a joint initiative with the Qatar government. The college is part of Cornell’s programme to increase its international influence.

How should universities adopt a proactive approach to amalgamations?

The process of developing a university branding strategy and designing a service delivery model to underpin it should identify gaps in capability or offering or lack of geographical reach/market presence which in turn should inform a collaboration/amalgamation strategy. Decisions on collaboration and amalgamation are strategic and need to be taken from the top of the university where there is a clear understanding of the institution’s strengths and weaknesses, its current market positioning, the state of the market and suitable targets to approach. Key to any such approach is the conduct of rigorous due diligence followed by unswerving commitment to implementing the collaboration/amalgamation effectively to gain quality, operational and financial benefits.

A tale of two cities

Glasgow is frequently cited in the academic community as a city ripe for merger – it contains 7 HEIs within the broader Strathclyde catchment area of 2 million people (see Figure 8 below). While there has been much talk over the years of amalgamations, there has been little progress until recently with the announcement that the University of Paisley and Bell College will merge to form a new University of the West of Scotland with 17,000 students due to open for the 2007/08 academic year.

The merger “...which comes at a time when the HE sector is under financial pressure, will create an institution that will generate efficiencies to ensure long-term stability and sustainability. In addition, the merged institution, which will provide a local university for 30% of Scotland’s population, will be ideally placed to respond to the demographic challenges currently facing the nation.” 30

<table>
<thead>
<tr>
<th>Undergraduate</th>
<th>Postgraduate</th>
<th>Students</th>
<th>Academic</th>
<th>Total staff</th>
<th>Income (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paisley</td>
<td>6,939</td>
<td>776</td>
<td>7,715</td>
<td>475</td>
<td>1,200</td>
</tr>
<tr>
<td>Glasgow</td>
<td>15,310</td>
<td>3,462</td>
<td>18,772</td>
<td>3,152</td>
<td>5,588</td>
</tr>
<tr>
<td>Strathclyde</td>
<td>6,067</td>
<td>1,097</td>
<td>7,164</td>
<td>1,933</td>
<td>3,574</td>
</tr>
<tr>
<td>Glasgow Caledonian</td>
<td>11,932</td>
<td>2,217</td>
<td>14,149</td>
<td>880</td>
<td>1,885</td>
</tr>
<tr>
<td>Glasgow School of Art</td>
<td>1,247</td>
<td>253</td>
<td>1,500</td>
<td>128</td>
<td>307</td>
</tr>
<tr>
<td>RSA Music/Drama</td>
<td>559</td>
<td>119</td>
<td>678</td>
<td>120</td>
<td>211</td>
</tr>
<tr>
<td>Bell College</td>
<td>3,035</td>
<td>55</td>
<td>3,090</td>
<td>180</td>
<td>407</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>53,068</td>
<td>6,868</td>
<td>13,172</td>
</tr>
</tbody>
</table>

Manchester

<table>
<thead>
<tr>
<th>Undergraduate</th>
<th>Postgraduate</th>
<th>Students</th>
<th>Academic</th>
<th>Total staff</th>
<th>Income (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manchester</td>
<td>24,783</td>
<td>7,500</td>
<td>32,283</td>
<td>2,295</td>
<td>9,452</td>
</tr>
<tr>
<td>Manchester Met</td>
<td>24,290</td>
<td>3,688</td>
<td>27,978</td>
<td>1,776</td>
<td>4,036</td>
</tr>
<tr>
<td>RNCM</td>
<td>440</td>
<td>185</td>
<td>625</td>
<td>88</td>
<td>211</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>60,886</td>
<td>4,159</td>
<td>13,699</td>
</tr>
</tbody>
</table>

29 For more information visit www.nottingham.ac.uk
30 http://www.bell.ac.uk/merger/news.htm

The new world order for higher education 23
It is interesting then to compare Glasgow with Manchester (see Case Study above). Greater Manchester, with a catchment area of 2.2 million, effectively saw the city’s two leading research-focused institutions — University of Manchester and UMIST — merge into a single entity with a strong focus on development of a global brand based on excellence, which derives 25% of its income from research.

At the same time Manchester Metropolitan University is a teaching-focused university with strong links to business and the local community. Both present clearly differentiated and distinct offerings for students wishing to study in Manchester. The approach that Manchester has taken puts down a challenge to universities across the UK.
Case study

Manchester merger exemplifies best practice

In October 2004 the University of Manchester was created through the merger of the University of Manchester Institute of Science and Technology (UMIST) and the Victoria University of Manchester. The merger “presented a unique opportunity to rethink the very idea of a modern university and formulate a blueprint for the future” \(^{31}\). The vision is to become a global top 25 university by 2015. The 2015 plan identifies nine core goals for each of the university’s principal activities that will make the vision reality: for example, Manchester aims to double its £216m portfolio of research funding\(^{32}\) by 2015. It also aims to recruit five Nobel laureates, double the number of Fellows of the Royal Society on its staff, and demonstrate that at least half its research is of international calibre by gaining a 5* (up from a 5) in the next RAE.

The University has implemented a continuous cycle of planning and accountability that embraces a culture of reporting and performance improvement. These formal processes and cycles enable the University to discharge its accountability to the Board of Governors and to its various external stakeholders. The organisation is aligned to achieve the 2015 vision from top to bottom\(^{33}\). The merger represents an exemplar case study of what is possible when universities consolidate through merger and adopt best practice management principles. The effort, focus and engagement displayed in the execution of the merger has been recognised in the award of Sunday Times University of the Year for 2006.

---

\(^{31}\) For more information visit www.manchester.ac.uk

\(^{32}\) Sources of research funding: HEFCE grants £68.9m, UK Research Councils £58m, UK charities £31.5m, Government departments £33.5m, UK industry and commerce £8.2m, Overseas £12.4m, Other sources £3.5m Total £216m (Source: www.manchester.ac.uk).

\(^{33}\) The University’s annual Planning Cycle, through which the University reviews its strategic plans and develops successive annual operational plans at all levels, is coupled with an annual Accountability Cycle through which performance against planning targets is reported and progress towards the overall Manchester 2015 objectives evaluated. These formal processes and cycles enable the University to discharge its accountability to the Board of Governors and to its various external stakeholders. They also enable the Performance and Development Review process, which focuses on individual objectives and performance, to be conducted within the context of the University’s strategic vision.” Towards Manchester 2015 – University of Manchester Strategy Document, www.manchester.ac.uk
The new world order for higher education

Effective governance, accountability and financial management
What does governance and financial management matter?

"In the Public Sector the quality of financial governance and leadership within an organisation is critical to its success or failure. The principal cause of an organisation failing financially is the absence of adequate financial leadership and vision and the failure of good financial governance." 34

This commentary (which applies to health institutions responding to the emergence of a market for healthcare provision) applies also to universities.

Historic governance arrangements and the respective roles of academics and administrators have meant that academics predominate with administrative functions and their staff perceived to be at their service. An effective relationship between academics and administrators, fulfilling a management function, is critical in exercising good governance, developing the institutional strategy and overseeing its execution.

In order to exercise effective governance, it is important to have access to appropriate financial information. In particular, in an environment of greater choice, it becomes more important to understand the underlying cost base in order to:

• Provide confidence that the organisation can be managed within resource limits
• Analyse costs of delivering specific courses to understand cross subsidies
• Support strategic decision making in assessing which markets to focus on and to evaluate potential collaboration/amalgamation options

Not only is it essential for HEIs to have a clear understanding of the financial position for their own sake, but as financial pressures increase they will need to be able to demonstrate sound financial management to potential funders, including publicly sponsored funding councils and rating agencies.

Achieving robust ratings is important to raise debt cost effectively in the market. For example, Lancaster University has had its credit rating raised to ‘A’ from ‘A-‘ by Standard & Poor’s Ratings Services.35 This change of credit rating enabled the university to improve its balance sheet and reduce its cost of debt.

Why does governance and financial management matter?

"In the Public Sector the quality of financial governance and leadership within an organisation is critical to its success or failure. The principal cause of an organisation failing financially is the absence of adequate financial leadership and vision and the failure of good financial governance." 34

What does good governance and effective financial management look like?

A set of principles should inform governance arrangements, including:

• Accountability which requires transparency in taking decisions underpinned by robust financial reporting and management accounting
• Effectiveness to create governance and management structures which can achieve the agreed objectives
• Efficiency such that the governance structure ensures that decisions are taken in a timely and sufficiently deliberative manner
• The establishment of expertise which requires that those with the authority and responsibility to take decisions within the university, and those with the power to hold them to account, possess the appropriate expertise

34 Audit Commission, Financial Failure in the NHS, 11 July 2006.
35 Standard & Poor’s raised Lancaster’s long-term issuer credit rating on 11 June 2007 following the refinancing and extension of the University’s accommodation project. Lancaster is one of only a few UK universities to have a public credit rating. The new rating reflects the university’s underlying strengths: its reputation for teaching and research, consistent overall student demand, and strong financial performance relative to its peers. Source: Lancaster University (see http://domino.lancs.ac.uk/Info/lunews.nsf/I/D5E1B6C431OCB80280257309002DEB8/).
The new world order for higher education

It is important to understand:

- Fully allocated and marginal costs of each department and student based on activity based costing principles
- The associated revenue for each student and each department and the relationship between research funding and student revenue, together with a clear understanding of future trends and the price elasticity
- The asset base and how that impacts the financial viability of each department; this information can also be used to assess options for asset realisation, liability reduction and enhancement of operational gearing

The financial information should be used to:

- Understand the current financial position and increase accountability
- Develop strategy and improve decision making
- Assess competitive positioning and establish target costs and benchmark

University finance functions need to support the governance structure by providing transparent and understandable reports that can be used for decision making. For most university finance functions, this will require further professionalisation and movement from a traditional score-keeper role to that of a true business partner. As discussed before on page 7 (see Figure 2), there is a long way to go in this regard.

The finance function must continually adapt to changes arising due to new demands and new possibilities arising from the potential offered by technology to automate tasks or empower people. One element of adaptation is the provision of information to understand the cost, asset and revenue base better.
How do universities introduce this?

The key activities to improve governance and enhance financial control include:

- Broadening the role of the Finance Director as the key accountable figure for the running of the HEI as a business enabling him/her to respond to the scrutiny from governors, hold department heads to account and support decision making
- Increasing and strengthening professional capability to create a culture of accountability and responsibility embedded throughout the university led by the finance function
- Developing effective systems, processes and reporting through the combination of controls and information systems to provide genuinely useful management information on which strategic decisions can be based

Finally, HEFCE has introduced a requirement on the institutions it funds to provide costing data under its Transparent Approach to Costing (Teaching) (TRAC(T)) initiative. This follows an earlier initiative to identify the Full Economic Costing of research projects. Compliance with TRAC(T) is the perfect opportunity for universities to develop a more detailed understanding of their costs. Typical decisions that TRAC(T) can support include:

- Assessing the viability of introducing a new subject or course
- Deciding whether to withdraw from a course or programme
- Determining the resources to allocate to a particular area
- Setting the price for overseas students
- Analysing the portfolio of a department and understanding what is needed for sustainability

Universities should take advantage of the benchmarking facilities which TRAC(T) will offer to allow them to compare performance against competitors and provide a solid evidence base for initiatives to improve efficiency and drive out cost.

In the public sector the quality of financial governance is critical to an organisation’s success or failure
Are you match fit for an increasingly competitive environment?
This paper has outlined four key actions that universities should take to position themselves for success in the global higher education market:

- A well-differentiated brand position and marketing strategy
- A customer-focused delivery model
- A proactive approach to collaboration and amalgamations
- Effective governance, supported by robust financial management

The simple self-diagnostic tool (see Figure 9 below) can be used by each HEI to assess its own readiness.

All universities should review their missions, objectives and strategies to differentiate themselves to ensure they are fully aligned, and for funding councils to work with universities to support those strategies and foster amalgamations where appropriate.

Figure 9 — Ernst & Young’s higher education readiness diagnostic tool