Seminar report

Future business models for universities in the UK: issues and challenges

Universities UK
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Seminar report

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1-2 May 2008

Speakers

Agarwal, Pawan, Secretary, Department of Science and Technology, Government of West Bengal, Kolkata, India

Ball, Gill, Acting Registrar and Secretary and Director of Finance, University of Birmingham

Broadfoot, Professor Patricia, Vice-Chancellor, University of Gloucestershire

Creagh, Ian, Head of Administration and College Secretary, King's College London

Crossick, Professor Geoffrey, Warden, Goldsmiths, University of London

Davies, Sir Graeme, Vice-Chancellor, University of London

Finch, Professor Janet, Vice-Chancellor, Keele University

Friend, Professor Clifford, Deputy Vice-Chancellor, Cranfield University

Freedman, Gordon, Vice-President Education Strategy, Blackboard Inc.

Gillies, Professor Malcolm, Vice-Chancellor and President, City University London

Gourley, Professor Brenda, Vice-Chancellor, the Open University

King, Professor Roger, Visiting Research Professor, Centre for Higher Education Research and Information, the Open University

Muscatelli, Professor Anton, Principal and Vice-Chancellor, Heriot-Watt University

O'Brien, Tim, Managing Director, INTO University Partnerships

O'Shea, Sir Timothy, Principal and Vice-Chancellor, University of Edinburgh

Packshaw, Charles, Head of UK Corporate Finance, HSBC

Porreca, Richard, Senior Vice-Chancellor and Chief Financial Officer, University of Colorado at Boulder, USA

Russell, Sir Muir, Principal and Vice-Chancellor, University of Glasgow

Wild, Alison, Pro-Vice Chancellor (Administration) and University Secretary, Liverpool John Moores University

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The traditional view of the university as being primarily focused on providing teaching and research, largely to the exclusion of other activities, is increasingly being questioned in a period when growing diversity of mission is one of the main features of the higher education sector in the UK. As institutions become increasingly differentiated it is appropriate to consider what the balance of a university's activities might be in the future, as it sought to secure both financial viability and reputation.

At its annual seminar Universities UK's Longer Term Strategy Group examined the challenges that would face the sector over the next 20 years. Professor Geoffrey Crossick, Warden, Goldsmiths, University of London, and chair of the Longer Term Strategy Group introduced the seminar. It assessed the possibility that for-profit providers would take an increased market share. The potential for increased collaboration and partnerships between universities and for-profit providers was also discussed. The seminar considered how these developments might affect universities' future business models, including their changing functions and the diversity of their income sources. The discussion included consideration of the possibility that institutions might provide an increasingly diverse range of activities, in addition to their core teaching and research functions, with consequential changes in their income streams. The seminar explored the possible impact of such a change in direction on the running of universities that their senior managers would need to consider.

This report highlights the issues emerging from the presentations and discussions during the seminar (a list of speakers is provided on the inside front cover of this report). It is hoped that the report will provide an input to the development of universities' strategic planning as well as to the wider debate on the future direction of higher education in the UK. The seminar was organised around four main elements:

- international perspectives on future university business models;
- emerging commercial provision;
- options for UK universities; and
- perspectives on what makes a university successful.

International perspectives

Three international speakers provided a commentary on relevant developments in Australia, New Zealand, India and the United States at sector level, and from the perspective of individual universities. Professor Malcolm Gillies, Vice-Chancellor, City University, London, examined developments in higher education in Australia and New Zealand. In Australia, the student loan system, which provided up to seven years' funding for fees and maintenance (mainly at undergraduate level) had proved to be generally successful, largely because Australia had a reliable system of personal taxation to support repayment arrangements. Problems with loans included their failure to match the rising cost of living, and the difficulty of ensuring that the significant number of graduates who went overseas repaid their loans.

The new Australian endowment fund (with a value of £2.5 billion), which was established in 2007, offered new opportunities for capital investment in higher education. The review of Australian higher education, which was initiated by the new Labour government in 2008, had set a goal of securing 'quality, responsive institutions, following clear distinctive missions'. In New Zealand the 'compact model' involved linking public investment in higher education to a government-approved plan for each institution, which could be viewed as handing control over the sector to government.

The operation of a voucher system in New Zealand as a means of providing 'citizen entitlement in the age of investment', and of enhancing the 'demand side of the system' was considered. The question was raised as to whether government had a privileged role in a demand-led system, or should be considered as no more than one investor amongst others.

According to Pawan Agarwal, Secretary, Department of Science and Technology, the Government of West Bengal, the higher education system in India had taken a very different route to that of Australia and New Zealand. Recent expansion in undergraduate provision had been led by the private sector, with deregulated tuition fees, and low levels of public funding through student loans. The Indian higher education sector was growing rapidly, though it was noted that its postgraduate provision was currently in a weak position and that this was likely to remain the case for the foreseeable future. Postgraduate provision for Indian students was therefore identified as an area of potential growth for UK universities. Private providers had been producing considerable surpluses, mostly generated by tuition fees. A new, corporate-backed, and more aggressive element of the private sector had emerged recently, further complicating the Indian government's problems in regulating a wide range of private higher education providers.

Recent developments in the United States, as described by Richard Porreca, Senior Vice-Chancellor and Chief Financial Officer, the University of Colorado at Boulder, included a substantial and growing reliance on gifts and high tuition fee levels, with declining levels of state funding, and decreasing public accountability. However, it was possible that such funding pressures would mean that existing models might not be sustainable in the future. It was argued that UK universities should not 'aspire to successful models of today, but to those of tomorrow'.

The American higher education sector consisted of three main elements:

- public higher education providers, created by government and funded at state level, although this source of income had declined significantly over the last 30 years: (in 1996, state funding was the primary source of income for 44 per cent of institutions but by 2006 this had reduced to 14 per cent);
- private higher education providers, organisations with no public funding support, and a high reliance on gifts and high tuition fees;
- the for-profit sector, which had grown, although student expectations had changed markedly, for example, through a demand for online tuition.

Attention was drawn to the fact that private and public universities had similar cost structures. Institutions were advised to consider their revenue sources, the budget impact of these revenue sources, and identify their level of influence over each revenue source. Universities should focus on developing the revenue sources over which they had a significant degree of control (for example, endowments) in comparison with those over which they could exercise relatively little influence (for example, public funding). Management flexibility was suggested to be key if institutions were to be successful in an increasingly competitive market.

Emerging commercial provision

In this session Professor Roger King, the Centre for Higher Education Research and Information, the Open University, reflected on the trends, differences and similarities between the public and private sectors of higher education. It was clear that both public and private providers produced a mix of public and private benefits. Policy-makers had focused on the 'privatisation of public higher education', but had largely ignored the complementary trend on the 'publicisation of private education'. The latter development could occur through either the 'insistence of public interest in contracts with private providers or government agencies' or 'insistence on the regulatory modality in privately provided higher education'. Whereas public higher education institutions were becoming privatised, because of incentives or regulatory pressures, private institutions were increasingly serving the public interest, and often the two could not be distinguished in terms of outcomes. Consequently, there was an argument that the private and public sectors should be treated more equally in policy terms.

One in three students worldwide was now studying in a private institution and this increase in 'for-profit' provision had been partly driven by regulatory changes adopted by governments, rather than being market-led. In the United States, 'super-conglomerates' had grown enormously, and had met changing student needs through a consumerist route fuelled by public funds. Since the 1980s, changes in student financial aid had provided the public funding (channelled through the student) that had allowed private higher education to grow. It was a myth that the viability of 'for-profit' higher education was dependant on the private contributions of students and their families.

The University of Phoenix was an example of a business focused American institution that used to admit mature students funded by employers, but now also admitted 18-year-olds. Third-party money, whether from the state or employer, was funding private education, and was 'the key for the growth of for-profit higher education institutions'. If there were global growth in the for-profit sector, and wider moves towards a voucher system as in the United States, it would be based on stakeholder pressure for equality between private and public goods.

Gordon Freedman, Vice-President Education Strategy, Blackboard Inc., described higher education as being in a 'reactive stage', fuelled by technological advances that are not yet integrated into the overall mission of institution. He identified three levels of institutional change:

- traditional (adapting);
- transitional (bridging/hybrid); and
- transformational (re-inventing). For-profit institutions in the United States were using sophisticated, integrated technology successfully to exploit market niches, they are transformational, but exist outside the traditional state-funded model.

'Public/private' funded higher education institutions were focused on quality, whereas for-profit institutions were driven by efficiency. As the sector responded to these competitive pressures, Gordon Freedman could envisage the development of different business models within a single university, with expertise developed in managing mixed models of nationally funded research (perhaps for genetics research) and for-profit, market-driven education in standardised fields (perhaps the preparation of nurses).

The changing expectations of students and employers demanded new levels of commitment and experience of universities as a further factor alongside league tables and the quality of the 'international brand' in determining student choice. Students were actively sharing experiences online, and this could impact on their choice. UK institutions, to maintain their status abroad, should invest in more sophisticated web presences and in student (or customer) management. Further, the notions of leadership and innovation at the institutional level should be worked on in common by UK leaders.

Tim O'Brien, managing director, INTO University Partnerships, argued that the private sector should be viewed as an 'enabler', as it could help a university brand to compete internationally by providing access to sales networks, marketing expertise and capital. During the last three years the higher education sector in the UK had experienced a growth in pathways between private providers and universities. However, there were risks that overseas collaborations could lead to universities losing control of their brand, with very serious reputational consequences. He added that the key point was that partnerships were about the effective control of management of a university's brand, and that academic control must rest with the university.

The university brand was of increasing importance to students as delivering a return on their investment in terms of enhanced employment prospects. In discussion it was commented that a 'great brand could still deliver a bad experience' and be valued by a student, but it was increasingly likely that the electronic word-of-mouth would work against this.

For the future, the question was raised in the discussion as to whether the sector could significantly diversify into 'non-taxpayer funded' income streams over the next 20 years. If public funding became less influential, would there be less need for regulation through the higher education funding councils or would there be a proliferation of regulators (like the Office for Fair Access)? What were the sector's and the government's views on regulation, if the principal public funder was no longer so relevant?

A growing interaction between the public and private sectors was inevitable. Reflecting on the discussions Ian Creagh, Head of Administration and College Secretary, King's College London, suggested that the 'older-style, publicly funded model was not scalable to the digitisation agenda, and was not available to meet burgeoning demand' and that publicly funded institutions would 'need to be remarkably adaptive'. There was an emerging need to 'balance stability and entrepreneurial goals'.

Alternative business models

Professor Clifford Friend, Deputy Vice-Chancellor, Cranfield University, described Cranfield University's unique 'entrepreneurial', 'business-engaged' model, with a defined mission, market segment, and 'thematic footprint'. Cranfield University had consciously moved to a low dependence on Higher Education Funding Council for England (HEFCE) funding, through a transition from dependence to freedom. The university had faced three challenges. It had had:

- to adopt a 'market view of life';
- to ensure that its activities were relevant (to its mission as a postgraduate only university and to the external environment); and
- to embed a cultural responsibility for generating revenue amongst all staff, by thinking holistically across its whole product of teaching, research, innovation and consultancy activities.

This approach had been successful at Cranfield University because it had a very clearly identified mission and market vision. It had 'mission engaged' people, who understood their market segment and 'thematic footprint'. A key element of the model for Cranfield University was that its provision was only for postgraduates students, and that this linked to its research and knowledge transfer activities.

University business models in 10 years

In this session a panel of vice-chancellors considered how university business models might evolve over the next decade. Professor Janet Finch, Vice-Chancellor, Keele University, commented that there was a need to 'talk about business, not financial models'. She argued that universities should focus not on social classification, but on 'patchwork quilt' diversity, and what made each distinctive in terms of mission and focus, rather than what they shared in common. Professor Finch outlined three alternative ways to develop this approach:

- reluctant income diversification in the light of threats;
- enthusiastic income diversification in the light of opportunities; or
- a unique approach that built on opportunities and the capacity of an institution to create a business model that had a distinctive business mission and focus. This was not separate from core teaching and research activities, but should feed back into the core. The projected increase in the population aged 60 and over could, for example, offer opportunities for new business for some institutions.

Sir Tim O'Shea, Principal and Vice-Chancellor, University of Edinburgh identified eight aspects of the emerging global model and described them as a menu of opportunity for universities to transmit knowledge. Universities should:

- transcend nation states and address global issues;
- apply scientific models outside science;
- create interdisciplinary teams between institutions;
- diversify funding;
- create a 'triple helix' partnership between universities, government and industry;
- recruit staff world-wide;
- enhance their technological infrastructure to support research and education; and
- work with international non-governmental organisations across collaborative research and staff development projects.

Professor Patricia Broadfoot, Vice-Chancellor, University of Gloucestershire, suggested that modernisation was no longer the correct term to describe the challenges that universities faced. Instead, we were now in a period of post-modernisation, as the grand narrative of what an institution truly is for had begun to fracture. There were three types of competitors, or collaborators, facing traditional universities:

- private global conglomerates delivering private education for-profit;
- corporate universities that were international in scope but business rooted – specific examples included McDonalds delivering foundation degrees;
- individuals crafting private universities in their own image, usually with a religious foundation but not necessarily; they were typically focused on a narrow range of subjects.

Professor Broadfoot noted the failure of the UK to create elite, private universities in the mould of its elite private schools.

Universities in the UK were currently being pushed in bi-polar directions. The core work of institutions in terms of students' experience was one force, as there was a move away from a random experience towards a more holistic and integrated university community. At the same time the more distinctive aspects of universities were also exerting pressure. These could include international franchising, leisure learning (for example, over-50s keen to learn with a high proportion of disposable income), knowledge transfer particularly through employer engagement and consulting, and finally e-learning.

One way to deal with this issue would be to create a different but connected arm of the university to deal with the distinctive aspects. A successful university in the future would be very clear about its values, what it was and what it did.

Professor Brenda Gourley, Vice-Chancellor, the Open University, observed that the new economy had characteristics that favoured universities, namely that it was global and favoured intangible products. She commented that a university business model was driven by four, inter-related elements:

- a vision and insight;
- addressing scarcity through distinctive competences;
- competitive advantages; and
- a feedback loop of resourcing.

It was suggested that universities should seize the competitive opportunities offered by the distributed, digital, networked world, and online learning communities. However, there were risks associated with operating in a differentiated market place. This could limit the scope for a university to diversify. It was suggested that in universities the appetite for taking risks was limited compared to private organisations. It was very easy to become complacent with a model that worked now, but would not work in 10 years' time; universities had to 'try and navigate, rather than steer straight' towards achieving their vision. The goal would be to achieve a mix of portfolio activities that would generate a surplus and be consistent with a university's core business.

There was a need to move away from risk-aversion to risk-management. In fact, the biggest risk to a higher education institution could be reputational, and that needed to be managed within a community which might be less willing to take risks.

Challenges of achieving new business models

In this session Gill Ball, Acting Registrar and Secretary and Director of Finance, University of Birmingham, suggested that in the future universities would position themselves on 'a public/private axis'. Some universities might consider becoming private institutions. She reflected on the implications of operating as a private university. Private institutions would need to generate a considerably higher level of endowments compared to the current income from this source, and would lose their charitable status. A move to market prices would mean a shift in accountability and corporate responsibilities, representing a major cultural change for the sector. Proper delivery schedules and performance management, including the management of under-performance would also be needed, and a private university would also need to attract sufficient private investors.

Alison Wild, Pro-Vice Chancellor and University Secretary, Liverpool John Moores University, emphasised that the cultural impact of business modelling on institutions' staffing profile would need to be considered. The lead-time required to achieve change would need to be assessed. Questions were raised about the sector's capacity to undertake the transition required by a radical new business model; such change would inevitably be 'political, painful, partisan, and require a very strong will'. The management responsibilities of staff and their capabilities would need to change, and effective corporate leadership would be needed if the changes were to be implemented successfully.

Charles Packshaw, Head of UK Corporate Finance, HSBC, reflected on the challenges facing the higher education sector in the UK from an external, market perspective. The question was raised as to whether the sector needed a step change because of emerging pressures, such as the possibility of large, international private equity operations 'skimming off' high-margin business. In a competitive environment, the key to success was to make a distinctive offer, which differentiated an institution from its competitors. In an environment with increasing pressures, including a demographic downturn in full-time undergraduate student numbers, limited public funding, rising costs and expectations from students and government on what higher education should deliver, there were lessons that could be learned from the private sector, where institutions would in parallel situations be combining or co-operating. Institutions should consider their approach to private providers in addressing some of their key high-margin businesses. Would they collaborate, or compete, with private equity providers aiming for high-margin business?

In relation to this, Professor Anton Muscatelli, Principal and Vice-Chancellor, Heriot-Watt University, suggested that institutions would need to 'un-bundle' their activities, and specialise and stratify to position themselves effectively in the future landscape. Public/private partnerships had very different incentive structures, which changed between a higher education institution and its partner. There was a need to recognise how risks affected both parties. In terms of risk-management, risk-aversion was acceptable given limited resources, but it was suggested that higher education was loss averse as a sector compared with other sectors. A 'moral hazard' was that banks were keen to lend to universities as they were considered a secure investment.

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Conclusion

In the concluding session led by Sir Graeme Davies, Vice-Chancellor, University of London, and Sir Muir Russell, Principal and Vice-Chancellor, University of Glasgow, it was suggested that the higher education sector in the UK was heading towards the adoption of a "portfolio" university model. The higher education sector in the UK had moved away from the ivory tower towards partnerships and portfolios. As part of this process conceptual step changes were possible, alongside gradual evolution.

In developing their future business models universities would also need to consider competition from the further education sector, developments in Europe and in the global higher education market. While the discussion had explored new potential activities for universities, it was stressed that research and knowledge transfer would continue to be central to the business models of many universities. In line with their involvement in an increasing range of activities, universities were likely not just to adopt one single business model, but to develop and implement different business models for various activities across the university. In this process of business diversification it was important that universities did not lose sight of their wider public functions, including their role in generating and disseminating knowledge and in providing community access.

Universities in the UK had substantial assets on which to develop their future business models. The autonomy of universities was acknowledged as an immensely powerful asset. The sector had proved to be remarkably stable and to develop, with no major corporate failures. Institutions were characteristically "not for loss" organisations. The key to developing and implementing new business models successfully was to secure the support of staff and the acceptance of the need for change.

About Universities UK

This publication has been produced by Universities UK, which is the representative body for the executive heads of UK universities and is recognised as the umbrella group for the university sector. It works to advance the interests of universities and to spread good practice throughout the higher education sector.

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