

Higher Education: Creating a New Business-Oriented Paradigm:

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Benefits (Building an expertise network for efficient innovation training systems) is a European Project, funded by InterReg Manche [2011-2015], designed to create sustainable co-operation between Regions in Northern Europe. This paper is aimed at sharing knowledge between UK and French Universities, with a view to influencing new curriculum models that encourage and support the creation of sustainable enterprising, innovative and entrepreneurial mindsets in our students, through our Higher Education Institutions, and to increase economic opportunities that help to retain this talent regionally.

Abstract:

This paper outlines the challenges that face most Higher Education Institutions (HEIs) as the world around them changes rapidly, and sometimes unpredictably. There are opportunities for those that are able to adapt quickly. Taking a Darwinian perspective, arguably only the fittest are likely to thrive, perhaps even survive, in what will be an increasingly competitive and difficult operating environment. The essence of the argument, illustrated in figure 1, is that HEIs need to re-think the commitment, capacity, capabilities and culture upon which they have traditionally been built. This situation will necessitate a fundamental review of what resources are invested (or divested), how they are used and how to respond in a global world where the learner will



Figure 1

become sovereign, as higher education becomes a consumerised market. This paper traces the changes taking place in British HEIs with the intention of creating debate around the theme of higher education business models for 21st century.

Keywords

Higher education; business models; knowledge economy; consumerism; pedagogy



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Introduction

Traditionally, much of Europe continues to maintain a relatively low-cost higher education system compared with the U.S., but many European higher education institutions (HEIs - for the purpose of this paper, HEIs refer to all institutions of higher education that deliver education at UK level 4 and above - post bacculaureate) are currently struggling as cash-strapped governments across the continent have made significant cuts to public service budgets and are now charging end-users for services that were once free at the point of delivery. As discussed by Pitman (2000) and Eagle and Brennan (2007), the net result is a change in the relationship between provider and user, redefining the *modus operandi* of HEIs with greater emphasis on learner (or customer) satisfaction. This relationship is being re-enforced through published league tables, in which student satisfaction is measured and heavily weighted, thereby materially influencing final ranking. Eagle and Brennan (2007) emphasise that this situation, to many in academia, represents the antithesis of the core values of the purpose of higher education, and is leading to conflict, confusion and discontent. The introduction of quasi-market economics into the system creates a new dynamic with many repercussions. In the mid-nineteenth century, John Henry Newman (1858) in a volume of lectures entitled 'The Idea of a University' challenged the then orthodox role of the university in the context of the political, economic, social and technological change that was being driven by rapid and pervasive industrialisation and urbanisation, and argued that places of higher learning needed to adapt to new conditions in order to maintain their standing and relevance in an emergent society. The same may be argued now. The global information and communications revolution that has occurred over the past twenty years, and continues, has redefined where, what and how we now do things, and HEIs perhaps need to reflect upon this in terms of their societal role, in the way that Newman did.



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Cuthbert (2010) found that the push-pull impact of market change manifests itself in many ways and the consequences can create many tensions, often unintended, that lead to organisational dissonance. For example, significant budgets are now allocated to marketing, regulation, compliance, complaints, litigation and employment-related services, all of which absorb resources that could be otherwise be spent on other academic activities, including research and scholarship, which many academics might prefer. In terms of teaching and learning, Higher Education Statistics Agency (HESA) data (www.hesa.ac.uk) and other research, such as that by Court (2012) indicate that staff student ratios have increased over the past two decades. This has perhaps encouraged a more mechanistic approach to assessment, the provision of less personalised support and less frequent feedback, the sum of which does not necessarily enhance deep and reflective learning. These issues are borne out annually in the National Student Survey (NSS, <http://www.thestudentsurvey.com/>) in which most HEI learners participate, as required by the funding council (www.hefce.ac.uk). Walker (2012) identified that now, for many students, doing a degree involves an investment decision whereby the cost of study is weighed against potential future earnings. This new dynamic influences subject choice, the perceived added value of the brand of the university and the individual focus on gaining a well classified degree – often at the expense of a more rounded education and experience. In the light of these ongoing changes, the primary purpose and *raison d'être* of HEIs is called into question; the challenge is to find an innovative business model that fits the new market conditions. This paper traces the changes taking place in UK HEIs with the intention of creating debate around the theme of higher education business models for the 21st century. It is not intended to provide answers, as in reality, it is unlikely that there will be a *one-size fits all* solution. If so, the paper will argue that this environment could provide the opportunity for organisational creativity and innovation in new product development and service provision.



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Questioning the traditional model

Higher education has traditionally fulfilled individual, organisational and societal needs, wants and desires to generate, disseminate and apply knowledge; the hunger and need to find out more; to discover, create or re-interpret knowledge which leads to deeper understanding of our universe, sometimes resulting in the emergence of new ideas and technologies which positively impact on everyday lives. Arguably, the current *modus operandi* has provided a structural framework and some continuity between generations, ensuring that traditional, often tacit knowledge is systemically captured, codified, made explicit and further developed, creating an ongoing cycle of improvement. In HEIs, this process is underpinned by the principle of academic freedom, a fundamental tenet to ensure that existing knowledge, and its interpretation, can be challenged without fear of retribution on the individual or their host institution.

A number of fundamental points need to be made. The first relates to the principle of the creation and ownership of knowledge. The original university model assumed that it was within and through HEIs and their academics that substantial new knowledge was created – in terms of both quantum and importance. Whilst this may still be the case, more recently, other non-HEI supported research organisations, nationally and internationally based, including large corporations, invest in large, dedicated research and development budgets which position them to compete with traditional HEI knowledge creation activity. With modern information infrastructure, access to knowledge is no longer dependent on libraries or other place-based repositories. The complexity and sophistication of today's knowledge-base increasingly necessitates inter-, intra- and cross-disciplinary working, beyond geographic borders, through newly constructed and often commercially oriented collaborations and partnerships. These may be the antithesis of the rigid domain-based organisational structures that characterise many HEIs, and larger organisations, today. As organisational agility, and speed to market become ever-more important, smaller knowledge-based businesses are emerging and playing an important part in the creation and application of useful knowledge.



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It is also important to consider the cost and funding of the legacy system. It could be argued that where the state pays for the significant costs of running HEIs, albeit indirectly, there has to be a political *quid pro quo*. Future HEI business models will need to take into consideration ever-changing and sometimes unpredictable government agendas, compounded by the speed of change and fuelled by 24/7 media coverage. Political responses can become expedient, resulting in decisions that lack coherence, consistency and continuity.

In the current turbulence, it is increasingly difficult to grasp the real purpose of higher education. Institutions are trying to make sense from the ensuing chaos which perhaps further exacerbates the situation. In the UK, for example, the position of HEIs is made worse by virtue of the fact that on the one hand, they are fiscally and legally autonomous institutions. On the other hand, most are dependent on funding sources which, irrespective of the quasi-market that has been created, the state regulates because they ultimately underwrite the liabilities. Some HEIs have become more opportunistic and agile, often seeking competitive advantage by responding to incentivised initiatives, such as the Higher Education Funding Council England's (HEFCE) Strategic Development Fund (SDF), 2007-2012, designed to stimulate and sustain 'employer-engagement' with HEIs. In this period, £150m was distributed to influence participant HEIs culture and responsiveness. Such a commitment is not without organisational risk, but one where future benefits can be substantial. What is becoming clear is that HEIs are increasingly characterised by difference, and to talk homogeneously of a singular business model might be conceptually flawed.

The end of the baby-boomer generation

One of the biggest challenges of our time relates to a rapidly ageing population; HEIs could become a long term, sustainable part of the solution. According to the Office for National Statistics, the demographic structure of the UK is rapidly changing. The post second world war baby boomer generation is gradually retiring; medical and health care advances have led



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to average life expectancy increasing by over twenty years in a fifty year period, from ages 67 to 87. When added to other factors such as accelerated migration and the ability of families to choose when - and indeed whether - to have children, and with birth rates falling to less than 1.4 from nearly 3 in 1945, it is easy to anticipate multifarious economic and social consequences. In the UK, the population is projected to grow to 67 million by 2020. Those aged over 65, a traditional proxy for retirement, will increase by 33% in this period, taking this sector of traditionally economically inactive groups to 21% of the total population. If life expectancy continues to rise as predicted, then this percentage will further increase.

In 2010 the UK government commissioned a review, led by Lord Hutton of Furness, to investigate the impact of the parallel issues of demographic change and pension and benefits support. The remit was to recommend a politically, socially and economically sustainable system that was fair, unbiased and affordable. The Independent Services Commission Report was published in March 2011. The Report made clear that whilst underpinning and long established core values relating to provision in old-age should not change, policy application and delivery would have to, if a sustainable approach was to be achieved. Furthermore, parallel policy development regarding employment law would be required to balance economic and social need. Subsequently, no longer is there a legal requirement 'to retire' in the UK; Statutes have been passed which legally treat ageism in a similar way to discrimination based on race, gender, sexual orientation and disability. This outcome is a positive element *per se*, but it changes the fundamental relationship between the ageing person, the state and the employer, and in its wake it will give rise to new needs and requirements – not least the need to re-skill and up-skill older people for longer. Assuming that developed economies remain dependent on the creation of high value-added goods and services, founded on knowledge-related infrastructure, then there will be a need to educate older people to a much higher level, for much longer than is currently the case. This view infers a philosophical re-adaptation of the rhetoric relating to lifelong education, for the greater good, to the necessity and reality of lifelong learning for lifetime working. What is certain is that HEIs have a key role to play in this – indeed older learners may well become primary markets for them. However, currently, most HEIs are both geared and



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resourced to educating younger people, and have far less expertise in the andragogy needed to deliver to older learners.

Space management

Alongside these challenges are other systemic changes that have a material impact on the affordability and access to our current system, and the medium term sustainability. The UK Universities Space Management Group has collected data over the past ten years to evidence the huge financial investment has been made in university real estate, and which continues to be (www.smg.ac.uk) . The operating cost per square metre is significant, averaging, at full cost in the UK, close to £400 per m². Many universities have hundreds of thousands of square metres of space, and therefore a medium sized university (115,000 m²) can easily spend £45m per annum on the capital, revenue cost and debt servicing of this estate. By any standards, this is a considerable investment and often represents nearly 30% of the turnover of a typical university. With staffing costs running at an average of 55% of turnover, that leaves only 15% to invest in other resources, including investment in the opportunities provided by new technology. At the very least, this huge and inflexible cost base renders the typical British HEI somewhat rigid, cumbersome and potentially unresponsive to new demands that require demand-led engagement. Clearly, costs need to be viewed in relation to utilisation. With high usage, the rationale for the expenditure may be easier to make.

Reliable and robust usage statistics are difficult to ascertain, but given that many HEIs operate only two academic semesters for full time under-graduates, constituting the biggest segment of their learning community, which equates to circa thirty two weeks per calendar year, it follows that for a third of the year, much teaching space will not be well used well or at all. Usage rates of academic staff offices are relatively low (they teach and have other duties that do not require fixed office presence), and 'void' spaces compound the inefficiency. Arguably, this may boil down to a median real annualised usage rate of teaching space of 25% or less (SMG, 2006). At the very least, questions need to be asked about any investment that consumes 30% of turnover and yields a 25% usage rate.



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It is hard to see how the current system is either economical or efficient, even if effective when in use. The concept and reality of learning effectiveness itself raises another question – this time a pedagogic one. Is real estate, and specifically classrooms, lecture theatres, seminar rooms and other learning spaces, designed to meet not only place-based teaching input needs, but also generate creative and effective learning environments? For example, do they have adequate power for students to plug in their laptops, electronic notepads and other digital devices? Do they have ubiquitous, fast and reliable wireless connectivity? Are the lines of desks in most classrooms really conducive to participative learning as opposed to more traditional didactic teaching? If higher education is genuinely moving from ‘sage on the stage’ towards ‘guide on the side’, then it can be argued that what HEIs have historically invested so heavily in is no longer appropriate to the creation of an effective learning environment that develops, nurtures and measures not only knowledge, but a wide variety of skills, competencies, behaviours and mindsets, all of which are increasingly regarded as important employability attributes for graduates. (Pegg et al, 2012)

Efficiency, effectiveness and value for money

As public and private finances become tighter over the coming years, in direct consequence of the impact of the banking crisis and subsequent economic collapse, efficiency, effectiveness and value for money are likely to become more important in all walks of life, not least in HEIs. In the UK and across Europe, learners and beneficiaries, including current and future employers are likely to have to pay a much bigger proportion of the cost of their own education, from which they derive many benefits both directly and indirectly. Despite government-sponsored funding support packages for tuition fees, it is clear that graduate debt levels will increase and this is likely to lead to different consumer behaviour involving brand choices, academic course selection and re-prioritisation of choice criteria. The decision process is likely to be characterised by very high involvement, with families, friends and future funders engaged. Future employment, employability and prospects will be critical to individual investment decisions, irrespective of whether academics like such an instrumental



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approach or not. There is great political and societal concern over the impact of those from families with no history of involvement with higher education who may well be more debt adverse than those who have more income and inclination to invest in HEI education. The Office for Fair Access (OFFA, <http://www.offa.org.uk/>) has the role to monitor this, and make appropriate recommendations as are required. Potentially, this could reduce social mobility still further, which politically remains a very sensitive issue. Given the demographic changes already alluded to, this could have profound and negative impact upon the workforce of the future and the knowledge, skills and competencies that will be needed to sustain a knowledge-based economy.

Potentially, the current environment could provide new opportunities for HEIs and other private providers that can deliver a recognised and credible higher level award, such as Phoenix, BPP and Kaplan, to think innovatively, be more demand-responsive and offer a better value for money proposition to potential learners. This context is likely to involve more technology-enhanced delivery; less face-to-face interaction; more work-based and work-related learning; less campus-based; greater emphasis on business-related benefits and higher return on investment; shorter payback periods; less on intrinsic educational value; potentially a greater demand for shorter units of higher level learning; less constraints imposed around academic coherence, and full degree programmes of study.

The ability and flexibility to earn and learn may well become a defining trait for the learners of tomorrow. The purpose of this paper is not to debate whether these changes are good or bad, but to indicate that there may well be markets that will pay if such an approach is adopted. Price competitiveness, global competition and comparison will become critical variables in the marketing mix of those providing higher level qualifications (in the UK), and with current pricing constraints being relaxed and removed, the dynamic of the market place is likely to change considerably. How and whether established HEIs will be able to respond to this potential is open to question, and new private providers and indeed companies themselves, are evaluating options that may now be open to them.

Pedagogy, the crucial variable

The marketing mix includes what marketers refer to as the ‘P’ variables, of which there are seven commonly referenced – product, price, place, promotion, people, process, physical resources. Given the complexity of the buyer decision process in choosing a HEI, Birch (2010) suggests that further marketing variables be considered. These can be seen in figure 2 below. It is suggested that pedagogy might be the key variable in influencing eventual choice. Tagg and Barr (1995) discussed the need to focus on learning, and the ways that HEIs might facilitate and nurture better learning outcomes with using creative pedagogy.



Figure 2

The opportunity might be to look at the whole landscape as it now is, gaze ahead and then innovatively re-think how courses are delivered, how learning is distributed, what the role of technology intervention in this and how (and what) is assessed, and learners supported. It could be that this approach will attract those that the system has always missed, or who might start to opt out on a perceived cost/benefit basis. It is hard to ignore that the time is right to challenge our long established academic delivery and quality assurance mechanisms, which originated in a totally different era, where opportunities and constraints were very different. Mobile technology has been widely adopted over the last few years. Cheaper and better laptops and tablet computers and faster and more reliable mobile internet connections are changing consumer behaviour. As the nature of work and employment

changes, people have different learning requirements. Technology provides the flexibility to accommodate these changing patterns. Our lives are less dominated today by the fixed concept of place and space; people multi-task and fit things in around other activities; sometimes they have more time than others and need to be able to accelerate and decelerate as time permits. In 2005, the Joint Information Systems Committee (JISC) discussed the growing importance in the future of flexible mobile learning, focussed on e-distribution of content. They identified that learners need a system or process that is adapted to ‘anytime, anyplace’ and to that could now be added ‘anypace’, as learners need to be able to accelerate or decelerate learning activity according to other pressures on their time. Faced with new learner requirements, HEIs need to start considering how they can present their products and services to meet the needs and expectations of the future. Academics need to embrace the opportunities in order to creatively deploy their expertise to benefit all potential learners, taking into account the current environment and the resources available. Most other service industries have had to adapt their business model, and successful HEIs need to do likewise.

Figure 3 shows a matrix which conceptually captures this new dynamic. It maps time and place against rigidity and flexibility. Modern information and communications technology with better implementation will enable HEIs to develop effective online learning and supporting pedagogy, thus driving the argument in favour of more online course delivery and support, potentially reducing that delivered on-campus.

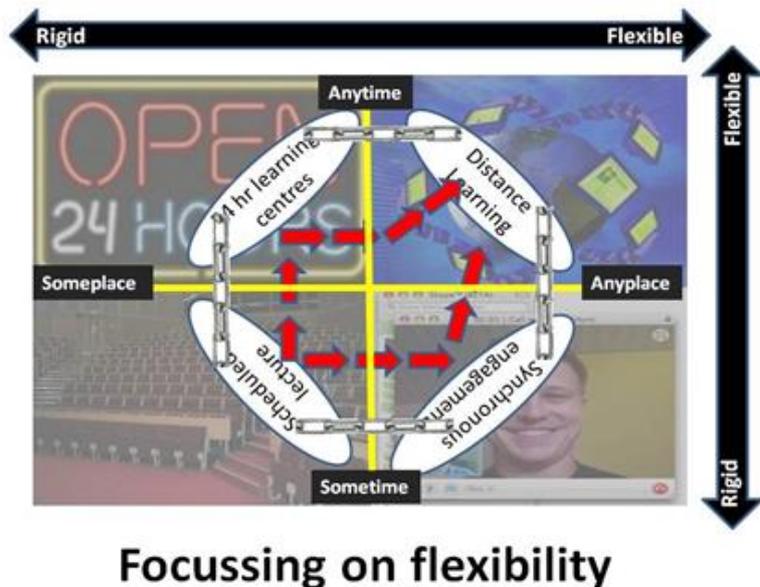
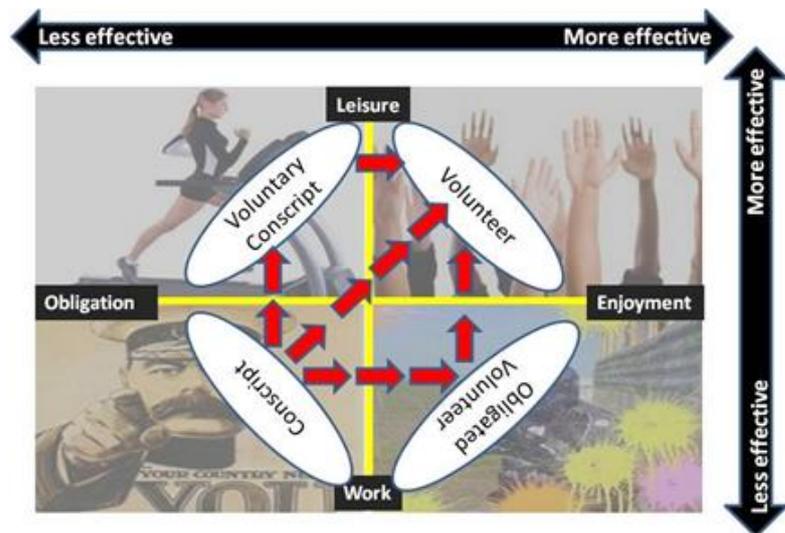


Figure 3

Given the existing high fixed cost structures of a ‘traditional’ HEI, particularly that of space, it would not be surprising if some, indeed many, do not start to invest more in technology and online support, and less in campuses and place-based academic support with a view to gaining competitive advantage in emerging new markets, both home and abroad.

In addition to this, especially with older and non-traditional learners, who may well not have had a good experience of traditional education, either at school, at college or elsewhere, making learning relevant, enjoyable and fun is also vitally important.

The matrix shown in figure 4 plots work and leisure against obligation and fun, and visually illustrates how effective learning needs to be positioned as a leisure pursuit, even if work-relevant, and part of achieving this is allowing flexible access and support at times that they can more easily fit into busy life-



Re-positioning learning

Figure 4

schedules. For too long, learning, especially if related to work, has been seen as a compliance-driven, or needs-obligated activity, done because it has to be. There is scope for a scenario where the pedagogic design, quality and flexibility of the offer makes it both satisfying and enjoyable to participate. One can only think that this makes for a very powerful learning environment, where it has a realistic chance of becoming an up-skilling and re-knowledgeing for life. With the challenges that economies and societies face, those that can achieve this vision are likely to be sustainable and successful.



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Conclusion

It is time to go back to basics and reconsider the role of a HEI. It is likely that individual institutions will become defined as much by difference as similarity, with only a core set of values giving coherence to participation in higher level activity. In many ways, as we lead more sophisticated and complicated lives, as the systemic challenges ahead become more complex, as our life aspirations and expectations evolve and as technology provides new choices, a deeper and more widely educated person needs to be equipped to cope with the emerging tensions, challenges and opportunities that ride in the wake of change. In a knowledge-based world, there is certainly a critical place for HEIs, but this has to be earned on merit and not be based upon past performance and reputation. If existing players cannot rise to this challenge, new players (physically and virtually) will emerge, and quickly.

Innovative providers need not fear the future. They should embrace change and play a leading role in developing and defining the future in a world where the sustainability of developed and developing economies is predicated on creating and commercially exploiting knowledge; where the threshold for skills and competencies rises ever-higher; where creativity and enterprise are key sources of competitive advantage; and where societies and individuals have instant access to vast arrays of data and information, from which they need to build personal understanding. The opportunity for HEIs to engage with so many, for so long, has never been greater. HEIs can, *and should, be* the thought leaders of future generations, but this can only be achieved by thinking differently and producing new business models, looking ahead and focussing outwards. The question then becomes whether this is what they really want to do?



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