May 2015

Governors' briefing notes

23. Competitive pressures

Introduction and aim

This briefing note reviews the competitive pressures facing institutions. Actions to secure research funding and to recruit students are discussed. The emergence of alternative providers is noted, and the role of digital technology briefly examined.

Topics covered

- The higher education environment
- Uncertainty and public policies
- Strategic groupings
- Core activity
- Research funding
- Undergraduate numbers
- Post-graduate numbers
- Growth in higher education
- Attracting students
- Student recruitment and retention
- Alternative providers
- Digital technology
- Concluding remarks
- Questions to consider

1. The higher education environment

The environment for higher education is complex and dynamic. The operating context is influenced by political, economic, social-demographic and technological factors, while institutional rivalry depends upon the competitive actions and reactions of providers.

The amount of research funding available for distribution and the numbers of students wishing to enter higher education set the backdrop to the sector, and institutional strategies. Institutional rivalry is often focused on seeking to ensure the institution's offer is as good as, or better than, the one offered by competitors.

2. Uncertainty and public policies

An assessment of competitive pressures and the identification of opportunities and threats are made difficult by uncertainties (risks which are difficult or impossible to calculate) as to the future operating environment for higher education. A key area of uncertainty is future public policy.

Faced with such uncertainties, governors need to ensure their institution has a high degree of resilience and can respond to, and accommodate, policy changes, which might otherwise cause difficulties to their institution. For this to be the case, governors and the institution's executive must be able to look into the future, however uncertain, and anticipate, and prepare, for possible policy changes. As independent and autonomous institutions, and the increasing disinclination of national governments to intervene and support 'public' organisations, if they get into difficulties, institutions need to give attention to the matter of sustainability.

3. Strategic groupings

While there are common strands between institutions, across the higher education sector there is also a wide range of institutional missions, cultures and constitutional forms. Institutions can be grouped into 'mission groups', each forming a sub-group of institutions with similar missions. While there is competition between mission groups, and occasionally institutions move between one group and another, institutions generally compete most keenly and directly with competitors in their mission group.

Changes in the operating environment can have a differential effect on specific mission groups, while within a mission group institutional-specific factors influence the impact on any one institution.

4. Core activity

While universities are increasingly expected to fulfill many different public objectives, their core activities remain teaching and research. The relative importance of teaching students and undertaking research varies between institutions. As a general statement pre-92 institutions tend to have higher levels of research activity relative to post-92 institutions. As a consequence pre-92 institutions often have a greater dependency on research funding, and, in particular, achieving high grades in the periodic Research Excellence Framework (REF). Based on the REF outcomes, Quality Research (QR) funding is allocated to institutions by national funding bodies.[1]

e david.williams@lfhe.ac.uk
w www.lfhe.ac.uk/governance
@LFHEgovernance
LFFacebook

5. Research funding

Improving outcomes from the REF are important for any institution seeking to strengthen its research base. A growing reputation and additional resources attract research active staff, and offer evidence to students as to the quality of institution's work. Competition between institutions in pursuit of good outcomes from a national research assessment is intense, and an important aspect of competitive rivalry between institutions with a strong research mission or objectives.

Irrespective of the institution's level of research activity and funding, governing bodies should seek assurance that there is a clear institutional strategy for research, which links to the institution's strategic plan. The research strategy should include a set of performance indicators, which are reviewed regularly.

6. Undergraduate students

Recruitment of undergraduate taught students is a significant part of the business of most institutions. Against a backdrop of the significant growth in UK student numbers overs the last four decades, many institutions have increased the number of students they enroll. Student growth in the UK mirrors what has happened internationally.[2]

The number of students entering UK higher education for the first time largely depends on the number of young people aged18/19, and the age participation rate (the proportion of the population age group entering higher education). Across the UK, with some intra-regional variation, numbers in the18/19 age cohort have declined, with further declines anticipated to 2021.[3] Reductions in size of the age cohort have been offset by an increase in the initial participation rate in higher education for students aged 17 to 30. The participation rate rose to 49% 2011/12, before falling back to 43% 2012/13.[4] However, the long-term trend has been strongly upwards.

An increasing number of new entrants to higher education are female. At the same time the student population is increasingly more diverse with participation increasingly coming from lower socio-economic groups. While numbers in full-time study have grown, the numbers of undergraduate part-time taught students have fallen.

7. Post-graduate numbers

Full-time post-graduate taught student numbers have declined. This has been attributed to the introduction of the variable tuition fee regime in England and associated levels of student debt. Government action to extend the student loan system to include post-graduate courses is attempting to reverse this decline.

8. Growth in higher education

As a result of the growth of taught student numbers, the higher education system has in a relatively short period of time moved from being a largely 'elite' system servicing the needs of a small proportion of the population, to a mass education system. This together with the removal of a 'cap' on student numbers in England has encouraged a number of institutions, but by not means all, to make plans to expand their student intakes.

An open question is the extent of any further growth in student numbers, and if it occurs, how such growth will be characterised.

9. Attracting students

In an attempt to improve the attractiveness of their institution, higher education providers have invested resources to enhance their facilities and increased their marketing spend. The increase in tuition fees in England of up to £9,000 for Home and EU students has enabled institutions to invest in new, or make improvement to, their existing infrastructure.[5] Across the sector capital expenditure has increased significantly.

The institution's attractiveness is not only dependent on the facilities or the use of effective marketing, but on the perceived quality of its courses and institution's reputation compared with its competitors. The extent to which institutions have used additional fee income to improve the quality of teaching and learning is unclear. Further, the current maximum fee level of £9,000 is capped, so, without action to raise the cap, in time there will be a real term reduction in funding per student.[6]

When considering which factors are likely to affect student recruitment, separate attention needs to be given to International students. International students frequently provide a significant source of funding, helping to diversify the institution's income stream, and making a net contribution to the institution's finances.

10. Student recruitment and retention

Following the introduction of variable tuition fees, the experience of English institutions in recruiting Home and EU students has been mixed. In each mission group there are institutions, which have recruited strongly, and others who have failed to achieve their planned student numbers. The lack of a simple pattern highlights the role of institutional factors in determining student numbers.

Alongside student recruitment the retention, completion and destinations of students are also important. Poor levels of retention will undermine success in recruitment, and adversely impact completion rates. Similarly, destination data is likely to play an increasing role in the choice of institution by students, given the level of personal investment they are now making to complete their programme of study.

11. Alternative providers

The term alternative provider is generally applied to new providers entering the higher education market. Alternative providers are far from homogeneous. Some providers are not-for-profit organisations, while others are for profit organisations. Equally institutions can be distinguished by identifying whether they have been granted a UK University title, hold taught degree awarding powers (TDAP) or deliver externally validated courses. Alternative providers may offer undergraduate or post-graduate provision, with some concentrating on particular subject areas (eg law or leadership or management).

The extent and speed of any future growth of alternative providers is uncertain. Further, as 'public' institutions increasingly depend on private tuition fee income the distinction between the 'private' and 'public' parts of higher education is becoming less clear.

12. Digital technology

Digital technology can have a profound effect on the design, delivery and availability of learning and associated resources. Interactive white boards, computer linked projection systems, the presence of virtual learning environments and the availability of the Internet means that traditional patterns of delivery are increasingly affected. Investment of time and money by institutions in new digital learning environments is responding to a student generation often described as 'digital natives'.

More fundamentally do the emergence of massive on-line courses (MOOCS) bring a major threat or opportunity, and represent a discontinuity? Following an initial burst of enthusiasm for MOOCS, questions have emerged as to whether they do offer a way forward as initially thought. A stalling in demand in the US has raised the question of whether MOOCS are better suited to supporting the growth of higher education in emerging markets. By contrast, recent data shows the continuing growth of FutureLearn, the online university platform, in the UK.[8]

13.Concluding remarks

The preceding analysis illustrates the intensely competitive and dynamic environment of higher education. To survive and remain sustainable institutions need clear positioning strategies and be capable of responding to public policy changes and the actions of competitors. Against this context there are likely to be winners and losers. Governors must be alert to the needs of a more dynamic and less predictable environment: balancing support and challenge when executives bring forward proposals as to the future direction and development of the institution.

14. Questions to consider

- Do you have a good understanding of the higher education environment?
- Does your institution have a high degree of resilience?
- Which mission group is the institution part, and who are its most direct competitors?
- How successful was the institution in the last REF?
- Has the institution been successful in recruiting its planned student numbers?
- Are alternative providers a threat to your institution?
- How is the institution using digital technology?

End notes and further reading

1 For further information see REF 2014 shows UK university research leads the world.

2 Data on international trends and comparisons is published by the Organisation for Economic Development (OECD) is published annually, see 'Education at a Glance'.

3 Office of National Statistics, Z07 - Zipped Population Projections Extra Variant Data Files, UK, 2012-based 10 December 2013.

4 Department of Business Innovation and Skills, Participation rates in higher education: academic years 2006/07-2012/13 (Provisional), 28 August 2014. Numbers are for UK higher education institutions and further education colleges in England, Scotland and Wales.

5 The increase in capital investment is only part funded from additional fee income, the level of borrowings by institutions is also rising. See HEFCE, Financial Health of the higher education sector: 2013-14 to 2016-17 forecasts, October 2014/26 Issues Paper.

6 For a discussion of these factors, see Action E, Underpinning the value of a UK degree, in Hillman N (ed.), What do I get? Higher Education Policy Institute, 2015.

7 See, for example, Karan Khemka, Moocs might matter more in emerging markets, Financial Times, November 4 2013.

8 See http://www.bbc.co.uk/news/education-31533681.