

2. The Market for Higher Education

2.1 Segmenting the Market

Looking at the economic success of the world's most popular institutions of higher education yields the observation that certain segments of the higher education industry are highly competitive. When considering the size of the market, it is worth noting that the higher education sector has an annual market of \$1,000 billion worldwide. The industry employs 50 million people and, perhaps most importantly, it has over one billion potential customers. As the higher education industry is highly diverse, it can be argued that it is not merely its size that gives the sector its considerable amount of management challenges.¹⁹

When attempting to analyze the market for higher education, it is necessary to take into account the overall structure, complexity and size of the market. According to Ancil (2008), it is important to consider that the postsecondary education sector, particularly in English-speaking countries, includes many different educational branches such as vocational schools, community and technical colleges, liberal arts colleges, regional and state colleges and well-established online institutions for higher education or research universities. Each has a different purpose and may serve a different target group while pursuing a different mission. Nevertheless, the term *higher education* is often used interchangeably for various segments of the market.²⁰ Although it can be argued that all institutions of higher education generally market and advertise themselves while competing for the same consumers' attention on the very same market, it may be imprudent to use the term too generally. According to Ancil (2008), institutional needs of colleges and universities offering qualified bachelor's and master's business degrees are vastly different from institutions offering degrees in fields such as medicine. In writing about general educational developments or the standardization or quality of programs, this difference may not seem considerable, since most of the literature applies to various different types of institutions.²¹ However, when writing about goals, strategic approaches and performance indicators of all of *higher education*, a generalization would clearly neglect the need "to address the individual needs of each institutional type or even just to address the categorical differences that exist among the same type of institutions".²²

Looking at the higher education sector as a whole, it can be argued that the business school sector is the largest single field within the western higher education industry. Degrees conferred in business education have broken all records in the last few decades.²³ Currently, there

¹⁹ Cf. Hirt (2000), n.p. / Cf. Ancil (2008), 25.

²⁰ Cf. Ancil (2008), 6 / Cf. van der Wende (2008), 50.

²¹ Cf. Ancil (2008), 7 / See also Kreikebaum (2011), 73-74.

²² Ancil (2008), 7 / See also Kreikebaum (2011), 73-74.

²³ Cf. Thomas and Li (2009), 1422 / Cf. van der Wende (2008), 50.

are about 13.000 business schools worldwide.²⁴ The continuously increasing number of institutions offering qualified bachelor's and/or master's business degrees has led to fierce competition within the market.²⁵ The present study will, therefore, particularly focus on institutions offering postsecondary business education. The terms 'university', 'institution of higher education' and 'college' are here used interchangeably to refer to institutions offering postsecondary bachelor's and/or master's business degrees.

2.2 Strategic Management Challenges

As Kotler and Fox (1995) have noted, most institutions do not acknowledge the importance of strategic management until they encounter serious enrollment and revenue declines.²⁶ In fact, many public affairs and marketing officers within colleges and universities worldwide still admit that they do not have articulated strategic goals. One observes that many colleges and universities make decisions on an array of crucial initiatives such as tuition increases, new student facilities and costly curricular changes based on little more than internal assumptions about the potential effects of those initiatives.²⁷ According to Hesel (2004), "[t]he fact that so many public (and private) universities are stumbling from one major tuition increase to the next with no reliable measure of possible enrollment consequences is as powerful an argument as can be made for the importance of having an empirical foundation for making critical decisions."²⁸

In particular, since the rise of New Public Management (NPM) during the 1980s, issues of strategic management in the higher education sector became popular.²⁹ Though the characteristics of NPM vary from country to country, it can generally be stated that NPM involves the application of private sector management styles and instruments in the public sector.³⁰ However, there are many obstacles to the successful application of business principles for the higher education industry. These include general problems with the understanding of *institutional performance* as well as measurement problems with the complex and intangible nature

²⁴ AACSB (n.d.b), n.p.

²⁵ Cf. Thomas and Li (2009), 1422 / Cf. van der Wende (2008), 50 / See also Friga et al. (2003) for a more detailed description of challenges in the business school market.

²⁶ Cf. Brassington and Pettitt (2007), 189 / Cf. Kotler and Fox (1995), 93.

²⁷ Cf. Hesel (2004), B9.

²⁸ Hesel (2004), B9.

²⁹ „Roughly from the 1980's onwards some shifts were noticeable in the managerial approach in the public sector in western countries [...]. These shifts included a focus on results or achievements and personal responsibility of the public manager rather than a focus on procedures and processes. Performance indicators and the evaluation of programmes became important." Van den Dool (2005), 24. See Becker (2009) for critique on this approach.

³⁰ Cf. van den Dool (2005), 24.

of products.³¹ It is a well-known fact that the higher education sector differs in many ways from the business sector. According to Lindsay (1981) major differences in the management of regular business and institutions of higher education can be summarized as follows: In the business sector...”

1. The inputs and outputs can be identified [more easily] and their levels measured. In higher education, the complexity and intangibility of the inputs and especially the outputs means that the available measures do not adequately quantify the concepts.
2. Enterprises operate in a competitive market with market-determined prices for the inputs and outputs. Government intervention and the “public-good” nature of some outputs preclude the operation of a free market and market determined prices in higher education.
3. Managers have [nearly] complete information about the production process. In higher education the technology of converting inputs to outputs is not well understood, and so the properties of an efficient conversion process have not been clearly identified.
4. The incentive and reward structures [can] encourage efficiency. In higher education the funding and coordination mechanisms of governments often have the reverse effect.
5. There is managerial discretion over the acquisition and organization of inputs. Government intervention, staff rigidities due to specialization and tenure, and the number of decisions made by faculty and students, considerably limit managerial control in higher education.”³²

Although numerous authors have criticized the application of business principles for institutions of higher education for the reasons listed above, many institutions have seen themselves increasingly confronted with various institutional pressures that have led to the introduction of new accounting practices, new performance management systems and many business planning models.³³ In many countries, federal grants became bound to the institution’s performance in several categories.³⁴ While institutions of higher education are increasingly confronted with major management challenges such as increased competition, globalization, resource constraints or emerging technology, the necessity to differentiate between value-adding and non-value-adding activity becomes more and more comprehensible.³⁵

³¹ Cf. Lindsay (1981), 687.

³² Lindsay (1981), 688-689 / See also Levin (1974).

³³ See Bennis and O’Toole (2005) / Holstein (2005) / Pfeffer and Fong (2002) / Weathersby and Trueheart (1977).

³⁴ Cf. Ballentine and Eckles (2009), 27 / Cf. Papenhausen & Einstein (2006), 15 / Cf. Johnes (2011), 32 / Cf. Lindsay (1981), 690 / Cf. Sizer et al. (1992), 134.

³⁵ Cf. Beard (2009), 275 / Cf. Stromquist (2007), 81f.

In the main, it can be argued that a differentiation between value-adding and non-value-adding activities involves strategic management. Strategic management involves integrating an organization's mission, goals and strategy into a unified whole.³⁶ Ideally, an institution's strategic management concept begins by studying the environment.³⁷

Figure 1: Ideal Alignment of an Institution's Strategic Management Concept



Source: Figure based on Kotler and Fox (1995), 121.

It then develops a set of goals describing what it wants to accomplish in this environment. In the following step, institutional strategies have to be defined. Afterwards, the organizational structures have to be build-up capable to accomplish set goals. In practice, institutions of higher education find it hard to realize this optimal alignment. As various components change at different rates, a typical institution of higher education may operate in the following way:³⁸

Figure 2: Common Alignment of an Institution's Strategic Management Concept



Source: Figure based on Kotler and Fox (1995), 121.

The institution e.g. operates in a 2015 environment using strategies that were set in 2006. The systems are even older and have not yet been adjusted to the new environment.³⁹ On the whole, all this goes to show the extent to which an alignment of environmental factors, institutional goals and strategy is highly crucial to an institution's long-term success. It can be argued that strategic management aims to achieve such an alignment and has, therefore, become an inherent part of individual school's management approach.⁴⁰

Yet, precise definitions of strategic management are multifaceted. According to Johnson et al. (2009) strategic management generally involves 3 independent elements: *strategic position*, *strategic choice* and *strategy in action*. *Strategic position* involves an analysis of the current

³⁶ Cf. Asan and Tanyas (2007), 1000 / Cf. Yolles (2009), 93-94.

³⁷ Cf. Kotler and Fox (1995), 121-122.

³⁸ Cf. Kotler and Fox (1995), 121-122.

³⁹ Cf. Kotler and Fox (1995), 122.

⁴⁰ Cf. Kotler and Fox (1995), 123.

environment, strategic capabilities, institutional purpose, culture and strategy. One way of looking at this is to consider external threats and opportunities, the individual institutions' strengths and weaknesses, its mission and its cultural as well as historical influences. *Strategic choice* involves a clear selection of preferences among different strategic alternatives. *Strategy in action*, inter alia, involves the structuring of an organization and a definition of measures that will ensure the implementation of the selected strategic approach.⁴¹ Figure 3 shows an overview of the elements of strategic management considered relevant for each element.

Figure 3: Elements of Strategic Management



Source: Own figure based on Johnson et al. (2009), 12-16.

As can be seen in figure 3, the concept of strategic management is highly complex. A manager aspiring a strategic management approach needs to develop the capability to conceive the whole and keep track of a highly dynamic system.⁴² Strategic management research commonly focuses on an analysis of the relationship between the three elements and their components. Yet each of the elements and components mentioned above is multidimensional. As an example, *Environment* can be subdivided into elements that concern a particular task and elements

⁴¹ Cf. Johnson et al. (2009), 13-15 / Cf. Easterby-Smith (1987), 46.

⁴² Cf. Johnson et al. (2009), 12.

that concern more general aspects of the environment.⁴³ Similarly, *Structuring an Organization* encompasses a variety of firm characteristics. According to Ketchen and Shook (1996), “[t]he multidimensionality of these constructs creates a conceptual challenge in that a vast array of specific combinations could be developed along these dimensions to describe organizations”.⁴⁴

The present study aims to set a primary focus on an analysis of institutions’ strategic choices, purpose and implementation of strategies. It intends to form a view on how institutional constraints and resources, both tangible and intangible, influence an institution’s strategic choice and performance.⁴⁵ Moreover, the study intends to elaborate on selected measures used to evaluate performance in higher business education. In that way, the present study does not claim to provide a complete view of challenges in strategic higher education management. It may, however, be able to contribute to the general understanding of selected aspects of strategic management in higher education.

⁴³ Cf. Ketchen and Shook (1996), 441.

⁴⁴ Ketchen and Shook (1996), 441.

⁴⁵ Cf. Johnson et al. (2009), 14.

<http://www.springer.com/978-3-658-14518-7>

Strategy and Success Factors of Business Schools

Adam, A.K.

2016, XIX, 262 p. 22 illus., Softcover

ISBN: 978-3-658-14518-7