

Understanding the higher education market and drivers of efficiency

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What do we mean by a market?

1. There has been increasing interest in the concept of a market in higher education over recent years following the introduction of variable fees; whether from those who believe that “dividing up our limited resource through a market mechanism is wrong”¹; or those who promote it as a route to driving up standards and “forcing institutions to think hard about what they [are] offering”².
2. The higher education sector is, however, much broader and more complicated than this would suggest. Universities operate in a long-established, complex, semi-regulated market that not only pre-dates the introduction of fees for home, undergraduate students but was only marginally affected by their introduction.
3. As largely autonomous institutions in receipt of public funding, universities operate within an eco-system of regulation, funding and market incentives from a wide range of sources (public and private) and well-established hierarchies.
4. Universities do not undertake a single function but instead operate a set of interdependent and mutually reinforcing activities. This is not just about the inseparability of teaching and research but also about the close partnership working through knowledge exchange, business engagement and private enterprise. If you take the delivery of high-level skills for economic growth as one example, universities are working to balance supply and demand of applications against a number of funding streams and the needs of business. Universities are then working in partnership with the students within a research-informed learning environment that aims to equip them for change in the 21st century. All of this has to take place within a regulatory framework for standards and an accountability framework for the use of public funds.

¹ See <http://www.nus.org.uk/PageFiles/350/Brokeandbroken.pdf>

² See http://www.policyexchange.org.uk/images/publications/pdfs/PX_More_Fees_Please_WEB.pdf

The relationship between quality and reputation

5. The international and domestic market for UK higher education and research is based on quality. Evidence demonstrates that the UK remains the second most popular destination for study behind the US on the basis of quality and, similarly, is the second in the world for research behind the US – also on the basis of quality. The ‘quality’ of a particular course does not have a single, simple definition and, therefore, other market signals are often used as a proxy. As a result, the relationship between quality and reputation is a complex one.
6. Historically, the reputation or market position of a university has been determined by two predominant measures: research quality / funding; and the qualifications on entry of students. League table positions are also strongly influenced by these measures and therefore reflect well-established hierarchies of institutions. This hierarchy of institutions is also well-established with most graduate employers, delivering an additional ‘premium’ to graduates from the traditional elite institutions.
7. However, despite these deeply embedded views about the hierarchy of universities there are many examples across the sector which demonstrate that the market operates best when it recognises and rewards high quality activity and provision. This suggests that excellence remains a stronger determinant of success than reputation. Research is one area where the principle of funding excellence, wherever it exists, has ensured that quality remains the primary driver of success. As a result, there are a significant number of world-leading research departments that operate outside the major research-intensive universities that have long established reputations for high-quality research – often delivering excellence in near-market research or new combined disciplines.
8. There are also numerous degree courses outside the traditional elite institutions providing high-quality provision in high-demand areas – again, often in areas of new growth in the economy which require new or responsive high-level skills provision – where demand is high, qualifications on entry are high and graduate-level outcomes are some of the best in the sector. Many of the Sutton Trust’s ‘missing 3,000’³ are likely to be on these courses – arguably not ‘missing’ but making a positive choice to study outside the traditional elite. This in itself is an interesting reflection of the relationship between reputation and quality where the market is being driven by the latter but public comment and perceptions by the former. Professionally accredited courses are another example of courses that have a tangible market value and externally-accredited standards that mean that

³ The Sutton Trust have identified 3,000 high achieving A-level students that are not studying at an ‘elite’ institution. These students are described as the ‘missing 3,000’. See <http://www.suttontrust.com/reports/Missing-3000-Report-2.pdf>

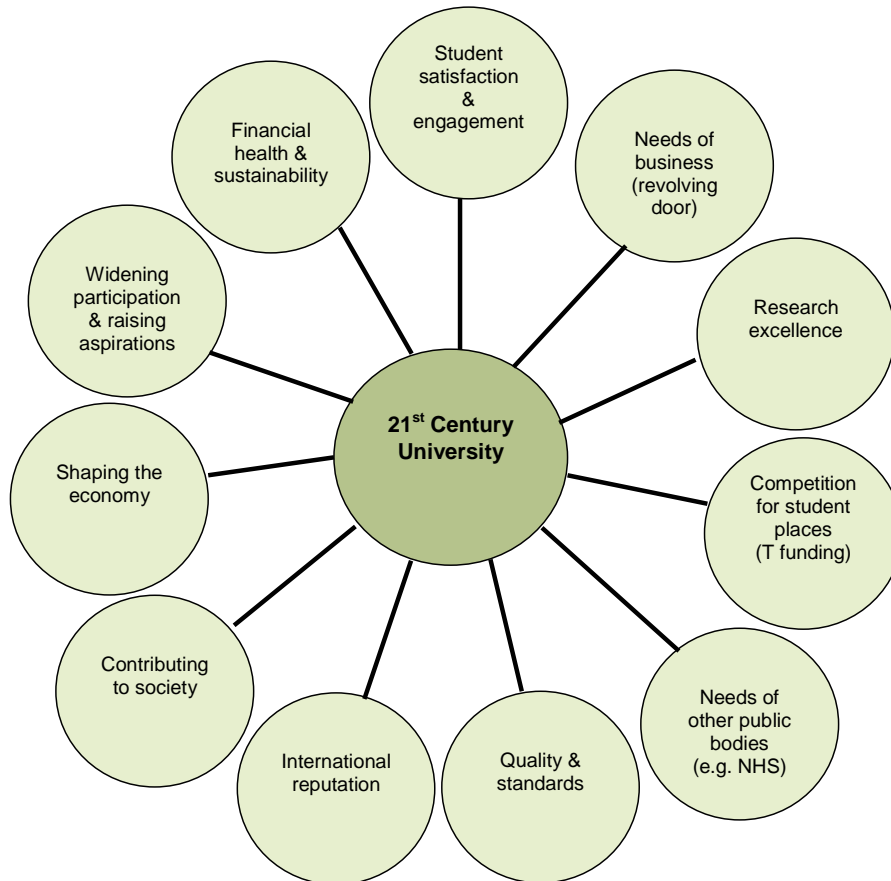
they attract high numbers of highly-qualified applicants to courses, again often outside the traditional elite institutions.

9. Because universities operate a merit-based system of entry over and above a profit-making system, the way in which fees sit alongside the dominant currency of qualification on entry is quite complex. Research (mostly, but not exclusively, in the US) has shown that higher education has a low price elasticity of demand – i.e. price or cost is not the main determining factor in terms of entry to higher education, academic attainment is. The introduction of top-up fees in England had a limited effect on the market not just because there was no variation in price but also because price is not the main determining factor for entry. Even where price does vary – e.g. at the postgraduate level or for international students - a merit-based system of entry means that prior qualifications are still the main currency.
10. The higher education market is much more complex than is sometimes projected and does not have a single filter for quality on the basis of institution alone. Patterns of student behaviour reflect this. The fact that in de-regulated areas of provision (postgraduate and international for example), fee levels vary as much by programme of study as they do by institution also reflects this.

Drivers and aspirations

11. Within this environment there are many drivers of efficiency as universities seek to focus on their strengths and achieve significant impact across society and the economy. Universities are at the heart of both an innovative economy and a society that aspires to be socially mobile ensuring that all citizens have equal access to the opportunity which higher education provides. As these institutions plan their strategies and core focus there are a number of factors they must take into account.
12. Figure 2 summarises these factors as both drivers and aspirations – this is the path that a 21st century university must weave its way through. Each one of these factors drives improvement and efficiency through different means, demonstrating the interconnectedness and complexity of the overall market for higher education.

Figure 2: Drivers and aspirations of the 21st Century University



Student satisfaction & engagement

13. It has always been in the mutual interest of students and universities to foster a high quality, research-informed student learning experience. This is at the heart of a successful academic community in any university.
14. Student engagement in the development and delivery of this experience has received increasing emphasis over recent years and rightly so. The nature of the university experience means that they are active participants in their learning experience as part of the wider academic community.⁴ As we will go on to outline, student engagement is an important part of the approach at Alliance universities to ensure that the institution is responsive to student needs and that the student voice is at the centre of the university experience.

⁴ See Wes Streeting and Graeme Wise, NUS, 'Rethinking the values of higher education – consumption, partnership, community?', <http://www.qaa.ac.uk/students/studentEngagement/Rethinking.pdf>

15. More explicitly, the National Student Survey (NSS) has become a significant driver for universities since its establishment in 2005. Universities are committed to learning from the results of both the NSS and additional surveys conducted at an institutional level and have worked with their students' unions to implement change as a result of lessons learnt. Other drivers in this area include responding to the expectations of students who have come through a reformed school system, keeping up with technological advances and ensuring that the knowledge gained through cutting edge research and engagement with business is successfully applied in the learning environment.

Needs of business – a revolving door

16. Engagement and partnership with business is a significant driver for Alliance institutions. As Professor Tim Wilson has highlighted “a business facing university has a revolving door with business – not an interface or a portal but true interaction.”⁵

17. Success is based on the quality of well established relationships with national and international businesses. This interaction and partnership forms a core part of the ethos and approach at Alliance universities and drives:

- high levels of professionally accredited courses
- a student experience which benefits from employer engagement in curriculum design and a clear focus on employability skills
- expertise in near market research based on knowledge exchange with cutting edge industries
- high numbers of graduate start-ups and successful spin-outs
- these institutions being managed as business-like organisations

Quality and standards

18. UK universities operate a non-standardised system of degree classifications and are largely self-regulating through the Quality Assurance Agency (QAA) with HEFCE operating as a financial regulator in relation to use of public funding. In addition to the assurance which these processes provide, the external examiner system means that universities have an added element of scrutiny and means of comparison across the sector. This approach is internationally recognised and respected, with other countries such as Australia keen to incorporate elements into their own systems.

⁵ See <http://www.timeshighereducation.co.uk/story.asp?storyCode=310799§ioncode=26>

19. But, the sector is not complacent and is committed to ensuring that the system remains effective and responsive to the needs of students and government. As such, the sector is currently involved with a number of reviews to look at the approach to quality assurance and enhancement. This includes a review of the quality assurance system and of external examiner arrangements.
20. The 'UK HE' brand as a whole is based on quality and, therefore, drivers for high quality provision and self-regulation on standards are very strong. This is further enforced by the academic culture of universities, with few exceptions.

International reputation and the global market

21. Higher education is a global enterprise whether it be through the market for high quality staff, attracting international students, work with international business or delivering internationally significant research. The global environment for higher education continues to get more competitive and complex as borders become ever more blurred and countries compete to develop knowledge economies.
22. As a subset of the wider global market for higher education, competition for international students is a significant driver. Since the UK market for international students was de-regulated in the late 1980's universities have developed mature systems for managing international recruitment with many universities also seeking to embed an 'international/intercultural dimension into the teaching, research and service functions of the institution.'⁶ UK universities can be seen to be operating extremely effectively in this market with the UK higher education perceived as being high quality and worth paying for.⁷

Shaping the new economy

23. Through the endeavours of graduates trained in cutting edge science, technology and engineering courses and the direct impact of research and innovation through knowledge exchange and spin outs, universities have a significant role in shaping and driving the new economy. Not only do these universities have long histories of close involvement with and adaptation to new industries but in the future they will be critical for economic recovery and the continued growth of new industries.

⁶ J Knight, Internationalization Remodeled: Definition, Approaches, and Rationales (1994)

⁷ See

<http://www.international.ac.uk/resources/UK%20Universities%20and%20Europe%20Competition%20and%20Internationalisation.pdf>

24. A focus on shaping the new economy drives a number of activities within universities:

- developing innovation hubs with a revolving door to business – supporting knowledge exchange and genuine partnership between the university and business
- expertise in near-market research and successful spin out companies
- collaborative research and development
- embedding creativity and problem solving within the student learning experience
- involving business in the design and development of graduate skills training which is embedded across the university
- a culture of entrepreneurialism

Contributing to society

25. The social role of universities has long been recognised as a key attribute. Research has shown that universities contribute to society in many ways whether through the positive impact their graduates have, the research and innovation that they foster or the many services which business and the community can benefit from. Many Alliance universities are closely involved in, sometimes driving, significant programmes of regeneration.

26. Increasingly universities are responding to the need to demonstrate this contribution more clearly and to ensure that, alongside many other competing pressures, their social role is not diminished.

Widening participation and raising aspirations

27. Universities have long-held commitments to widening participation and fair access that pre-date the relatively recent Government focus in this area. However, this significant government agenda over recent years has driven particular behaviour in this area with higher education funding structured to include pots of money aimed at driving the sector towards achieving the 50% participation target.

28. In a predominantly merit-based system, this drives activity that is aimed at raising aspirations long before the application stage. With help from specific funding streams, universities have been able to increase their activities to both widen participation, raise aspirations – starting from primary school age – and further improve many long-established partnerships with schools and colleges.

Needs of other public bodies

29. In addition to the public money directly invested in higher education, universities have considerable contracts with other public bodies such as the National Health Service (NHS) and Training and Development Agency for Schools (TDA). Through their contracts with these bodies, universities are delivering a service with additional regulation and measures of quality attached. Bidding for contracts or places with these bodies is highly competitive with the ability to demonstrate quality and efficiency key to success.

Financial health & sustainability

30. Financial sustainability has been a much needed focus for the higher education sector since 1997 with welcome government investment and income from fees alongside a commitment to the maintenance of the unit of resource for student places and full economic costing for research.
31. That said, the fact that universities have yet to reach a sustainable funding position has been well documented. For example, in a recent report to HEFCE, the Financial Sustainability Strategy Group concluded that without increased investment there was a real danger that the quality of the student experience and the UK's success in HE could not be sustained⁸. With the funding position of universities likely to become increasingly stretched for the foreseeable future, financial health and sustainability will be core to the ability of universities to continue investing in front line activities such as teaching and research.

Contestability and existing HEFCE drivers of efficiency

32. Given the many market forces and drivers of efficiency that already exist within the system, the value of a stable funding stream that allows universities to invest against agreed priorities and enables them to manage fluctuations in the market, cannot be overstated. From the Government's perspective, it is equally important that the distribution of the core grant for teaching allows HEFCE to put controls and levers into the system in an extremely efficient manner,
33. Both the levers available within the HEFCE 'T' Grant (for teaching) and the approach to funding research based on quality and comprehensive peer assessment have proven to be highly effective methods for driving quality and efficiency across the higher education sector.

⁸ JM Consulting, The sustainability of learning and teaching in English HE. A report prepared for the Financial Sustainability Strategy Group, 2008. <http://www.hefce.ac.uk/Finance/fundinghe/trac/fssg/FSSGreport.pdf>

Driving efficiency and quality through core funding for teaching

34. In effect, the HEFCE 'T' Grant enables government funding to follow the student directly while ensuring that the system is sufficiently well managed to guard against fluctuations in demand with key skills for the economy continuing to be delivered. This approach to funding higher education enables:
- HEFCE to control the total budget on behalf of Government
 - HEFCE to put efficient levers and controls within the system
 - universities to invest in areas of economic or strategic importance (e.g. STEM) where this runs counter to trends in demand for a period of time
 - a predictable, stable funding stream allowing universities to plan, adapt provision in partnership with employers and make progress against strategic priorities rather than having to respond to fluctuation in patterns of demand
35. The HEFCE 'T' grant ensures that money follows the student through a volume measure for the number of students studying at the institution in any particular subject cost band. The HEFCE 'T' Grant has the additional advantage that it funds on the basis of completion which drives the very high completion rates in the English system in comparison to other OECD countries, which is a major contributing factor to the relative efficiency of the system.
36. In addition, the HEFCE formula-based funding method means that it allocates billions of pounds of public funding against a very small administrative cost, making it one of the most efficient delivery mechanisms across the public sector. The formula-based approach also allows HEFCE to put controls or incentives into the system in an extremely efficient manner (for example, the support for high-cost subjects, SIVS and encouraging new forms of provision such as Foundation Degrees through the allocation of additional student numbers (ASNs)).

Driving research excellence through dual funding

37. The dual funding system is a vital part of the success of the UK's research. Dual funding provides an important balance between:
- stable, unhypothecated Quality Related (QR) funding allowing institutions to make strategic decisions about their research activities; and
 - the means to manage the breadth and direction of the research base where necessary through the Research Councils (for example through 'key strategic research themes' and the allocation of some of their budget to the Technology Strategy Board).
38. HEFCE operates a highly selective system for distributing research funding based on excellence – with four institutions receiving 32 per cent of Quality Related (QR) funding and 25 around 75 per cent in 2009/10.

39. QR funding is highly contestable with universities driven to compete on the quality of their research as judged by an expert peer review process. Since the introduction of the Research Assessment Exercise (RAE) in 1986 and the establishment of a highly selective funding mechanism based on the principle of funding excellence in research, wherever it exists, this approach has ensured that:

- the UK research base has improved its international standing, as demonstrated by the UK's increased share of global citations
- public funding is used efficiently to support research of the highest quality
- centres of excellence can be supported in universities with expertise in areas that are vital to the growth of the new economy
- universities have had a stable funding base enabling them to invest in these areas of expertise and manage the development of a supportive research environment effectively

40. A replacement for the RAE, the Research Excellence Framework (REF) is currently being developed by HEFCE following widespread consultation with the sector. Peer review is to continue as a core feature of the approach with the added emphasis on the impact of research. There has been much debate about this new measure of research excellence and it is still being developed. What is clear, however, is that central to the concerns of both HEFCE and the sector is that the system for measuring research excellence should remain robust to ensure that the benefits of research assessment in the UK are not diminished.

The role of autonomy

41. The autonomy of institutions has been shown to have a direct correlation with the quality of a system with the UK recognised as being distinct in both its level of autonomy and its quality.⁹ A separate funding body for universities, at arms length from Government, has existed since the early 1900s. Successive Governments have sought a balance between directing investment towards particular high-level skills and areas of research, requiring accountability for that public investment whilst allowing universities to be sufficiently autonomous as to collectively achieve the position as one of the best higher education sectors in the world.

42. Autonomy remains key to the approach adopted in Alliance universities allowing them to manage their position within the market, or various markets, operate flexibly in response to drivers and to focus on their key strengths within an increasingly dynamic UK higher education environment.

⁹ See Philippe Aghion et al, Higher aspirations: An agenda for reforming European universities <http://aei.pitt.edu/8714/01/BPJULY2008University.pdf>