

23. Competitive pressures

Introduction and aim

While higher education (HE) providers are independent and autonomous entities, the policy decisions of government exert a major influence on the operating environment of most providers. As part of their stewardship of the provider, governing bodies and the executive team need to sense and assess changes in the operating environment and decide how to respond.

Topics covered

1. The operating environment
2. Demographic drivers
3. A changing demographic
4. Political drivers
5. Private, but public
6. Technology drivers
7. Stability, uncertainty and risk
8. Scanning the horizon
9. Scenario planning
10. Is scenario planning now more important?
11. Responding to uncertainty
12. Resilience
13. Clustering providers
14. A continuous spectrum
15. Differentiating between providers
16. World class universities
17. Strategic groups
18. Alternative providers
19. The impact of changes
20. Core activity
21. Research funding
22. Research activity and the governing body
23. Undergraduate recruitment
24. Post-graduate provision
25. Digital technology
26. Concluding remarks
27. Questions to consider

1. The operating environment

The operating environment for HE providers is both complex and fluid. Changes to political, economic, social-demographic and technological factors all influence and impact the operating environment for HE and competition between providers. Most recently, demographic trends have exerted a significant impact on the operating environment and the intensity of competition between providers.

2. Demographic drivers

Population changes can be predicted with a high degree of accuracy. The size of an age cohort will reflect the past birth rate, and subsequent mortality and migration. For HE providers the majority of full-time undergraduate students are drawn from the 18-19 age cohort, titled the young population. Changes to the numbers in the young population, coupled with the age participation rate (the proportion of the group entering HE¹) largely determine the number of individuals undertaking an undergraduate degree. As participation rates typically only gradually change over time, movements in the number in the young population are the main determinant of variations in demand for undergraduate HE.

3. A changing demographic

For England, numbers in the 18 age group have declined since 2016. The position is expected to reverse in 2020, with numbers increasing by nearly 23 percent by 2030.² The decline in the young population has occurred during a period when some HE providers have been seeking to increase their student numbers. This has intensified competition for recruitment between providers. Not all providers have been successful in recruiting to their desired numbers. Detailed analysis of the number of students accepting places broken-down by provider shows that during the recent recruitment cycles there have been 'gainers' and 'losers' in the competition to secure student enrolments.³



4. Political drivers

Directly or indirectly, government is a major influence on the operating environment for HE. Government inspired changes to regulation or funding often require providers to act and make changes to the way they operate. This is because most HE providers receive significant direct and/or indirect funding support from the government. Funding is therefore a major lever by which a government can influence the level of resources and nature of competitive activity in the HE sector. Changes to governing funding or regulatory policy can profoundly impact competitive behaviours within the sector.

5. Private, but public

While the institutional arrangements differ between the devolved administrations of the UK, each of the national governments exerts control over the HE sector. This is achieved through the use of public funding levers and policy directives. As a result, although the individual providers are normally described as independent and autonomous entities, most rely on public funding and are heavily influenced by government policy. Consequently, frequent changes to government policy and the ministers responsible for HE policy can lead to an uncertain policy environment, and make long-term planning challenging.

6. Technology drivers

The impact of digital technology on HE continues to be debated. Is it a disruptive technology – fundamentally changing the way HE is delivered? Alternatively, are the technologies complementary, supporting traditional methods of delivery and student engagement (essentially suggesting a hybrid model)? Did the initial enthusiasm and early promise of Massive Open Online Course Systems (MOOCS) fail to understand the strengths of the traditional model of HE? What is its role of social media in recruiting students? The answer to these, and other related questions, will influence how a provider expects technology in the future to influence HE provision and delivery.

7. Stability, uncertainty and risk

Uncertainty increases if the external drivers of the HE environment become less stable and predictable. Uncertainty makes the competitive pressures and the opportunities and threats faced by a provider more difficult to assess. It may lead to governing bodies becoming more risk adverse, exercising increased care when making major investment decisions for example.

8. Horizon scanning

Governing bodies and the executive should regularly review the uncertainties that the provider faces and assess the likelihood of occurrence and impact of key change factors. This process typically starts by scanning the 'horizon' to identify the factors that are most likely to change and impact the provider. Horizon scanning enables the provider to identify which factors are likely to change and have a significant impact on HE, allowing different scenarios to be generated and assessed.

9. Scenario planning

Scenario planning examines the different situations generated by horizon scanning and considers what actions the provider might need to take. It allows the governing body and executive team to explore and examine the impact of changes to external factors and consider how the provider might best respond. If there is both a high impact and high likelihood of a scenario occurring, the provider should plan accordingly and be prepared to take early action.

10. Is scenario planning now more important?

With the onset of a more uncertain operating environment, arguably the importance of effective scenario planning has increased. It is an essential tool for supporting the financial sustainability of the institution.⁴

11. Responding to uncertainty

Where governing bodies and executive teams cannot foresee the future for HE with any certainty, alternative scenarios may be generated. Under these circumstances, it may be prudent to adopt a contingent approach, ensuring the provider has a high degree of resilience and is positioned to respond to different scenarios.

12. Resilience

Should they get into difficulties, there is a growing disinclination by national governments to intervene and provide financial support for 'public' HE providers.⁵ There is, therefore an increasing need for governing bodies to give attention to resilience. One measure of resilience is the provider's level of financial reserves. If the level of a provider's financial reserves is high, a provider will be better placed to withstand a period of financial pressure. Conversely, a lack of financial reserves makes a provider more vulnerable to having to react immediately in response to change in the policy environment.



13. Clustering providers

Not all HE providers are the same. Within the HE sector there is a wide spectrum of providers with different missions, cultures and constitutional forms. Providers can be loosely clustered into 'strategic groups', each being a sub-group of providers with some similarity as to their missions and strategic aims. Although there is competition between strategic groups, and occasionally a provider will move from one group to another, providers typically compete most keenly with competitors in their strategic group.

14. A continuous spectrum

For the UK's system of HE, it is possible to identify a number of strategic groups. Collectively, the different strategic groups offer a continuous spectrum of providers and competition. Between the different strategic groups there is overlap. This emphasises that moving from one group to another is characterised by a gradual transition, rather than an abrupt change.

15. Differentiating between providers

HE providers typically engage in multiple activities. Despite this, providers are normally ranked according to a small number of dimensions. This should be borne in mind when considering into which strategic group a provider should be placed. Typically, for example, for many league tables, differentiation is primarily based on research intensity⁶. In practice to gain a more rounded view of the provider, it is important to consider the wider spectrum of activities, including, for example:

- the nature and scope of the subject provision
- the balance of provision between undergraduate and postgraduate provision
- the size and proportion of international students within the total student population
- whether course provision is primarily full-time or part-time; delivered face-to-face or on-line
- the characteristics of the student entry, including the extent to which widening participation and access is a major focus.

16. World class universities

If research is used as a measure of quality and differentiation, it is possible to identify a number of so-called 'world class universities (WCU)' or 'super research universities (SRU)'⁷. These are frequently judged to form the apex of the national systems of HE. These providers typically occupy a high position in the international league tables of providers, reflecting the close correlation between a provider's position and their level of research activity and outcomes. Further, once they attain their position, WCUs enjoy advantages that tend to sustain their position relative to other national providers⁸.

17. Strategic groups

The most research intensive institutions in the UK are typically members of the [Russell Group](#). This is a self-selecting group, currently comprising 24 providers, including some who might be labelled WCU. Some providers who are not members of the Russell Group may also engage in a high level of research intensity, exhibiting particular areas of research strength. This is true of a number of pre-92 chartered providers who are not members of the Russell Group. Less research intense institutions, including many post-92 corporations, typically have a higher reliance on teaching and the term 'comprehensive' has sometimes been applied to reflect their characteristics. Aside from multi-faculty providers, there are also specialist, or mono-technic, providers, focusing on specific curriculum areas. Examples include specialist providers of art and design or management education.

18. Alternative providers

In the UK, the term alternative provider is applied to providers who typically do not have a heritage of receiving direct grant funding as public providers. Nevertheless, students studying at an alternative provider may have access to government-backed student loans. However, alternative providers are far from homogeneous. Many are small-scale and often specialist, while others may be larger and multi-disciplinary. Similarly, alternative providers may be either not-for-profit or for-profit, and while some have secured the right to use a university title and hold taught degree awarding powers (TDAP), others do not have the right to use the university title and instead deliver externally validated courses.



19. The impact of changes

Differences in focus and provision mean that changes in the operating environment often have a differential effect on strategic groups, and individual providers. Some changes may have relatively little impact on one group of providers, but have a significant impact on another group. As a result, the views of a governing body on any proposed changes to HE policy are likely to differ.

20. Core activities

While universities are increasingly expected to fulfill many different objectives, their core activities remain teaching and research. The relative importance of teaching students and undertaking research varies between providers. 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 exhibit a higher dependency on research funding, and, in particular, the need to achieve high grades in the periodic Research Excellence Framework (REF). Based on the REF outcomes, Quality Research (QR) funding is allocated to providers by national funding bodies⁹.

21. Research funding

An important element of the competitive rivalry between providers with a strong research mission is the achievement of a strong result from the periodic national research assessment. Improving outcomes from the REF is important for those providers seeking to strengthen their reputation and resources for research. An improving reputation and additional resources will increase the provider's attractiveness to research-active staff, and the perceived quality of the provider's offer to students.

22. Research and the role of governing body

Irrespective of the provider's level of research activity and funding, governing bodies should ensure there is a clear strategy for research. This should be linked to the provider's strategic plan and agreed objectives. The research strategy should contain a set of performance indicators, which are reviewed regularly.

23. Undergraduate recruitment

Recruitment of undergraduate students is a significant part of the activity of most providers. The student population is becoming increasingly diverse as the sector works to tackle issues around widening participation, articulating these in their access and participation plans¹⁰. While numbers engaging in full-time study have grown, the numbers of undergraduate part-time taught students have fallen.

24. Post-graduate provision

The number of full-time postgraduate taught students is increasing. This due to a number of factors, including the desire for individual students to gain further HE credentials and thereby differentiate themselves from those individuals who hold only a first degree. International students form a significant proportion of post-graduate full-time taught students attending HE providers in the UK.

25. Concluding remarks

The preceding discussion illustrates the dynamic environment for HE and the intensity of competition. To survive and be sustainable providers need to establish a clear strategic position and be capable of successfully responding to changes in public policy and the actions of competitors. Governors must be responsive to the needs of a more dynamic and less predictable environment: balancing support and challenge when executives bring forward proposals as to the provider's future direction and development.

26. Questions to consider

- Q** Does the governing body work with the executive to ensure it is engaged in horizon scanning?
- Q** Have different scenarios been reviewed by the governing body, and for each consideration given to what might be an appropriate response?
- Q** How resilience is the provider?
- Q** Who are the provider's main competitors?
- Q** What is the provider research strategy, and associated key performance indicators?
- Q** Has the provider been successful in securing its planned student numbers in the most recent recruitment cycles?
- Q** What is the level of applications in the current recruitment cycle?



End notes

- ¹ The Department for Education publishes participation rates for HE. The HE initial participation rate (HEIPR) – an estimate of the likelihood of a young person participating in HE by the age of 30 – was provisionally placed at 49.8% in 2016/17. HEIPR had increased by 0.7 percent on the previous year. The HEIPR for females is significantly greater than for males. Department for Education (2018), [Participation Rates in HE – Academic Years, 2006/2007 – 2016/2017, \(Provisional\)](#) 27 September 2018 (Accessed 14 March 2019).
- ² Bekhradnia B and Beech D (2018), [Demand for HE to 2030](#), HE Policy Institute Report 105, March.
- ³ The Universities and Colleges Admissions Service (UCAS) every year publishes a series of detailed end-of-cycle reports. The data include a time series detailing acceptances by provider. Analysis of this data shows which providers have increased their undergraduate student numbers, and those providers who have experienced a fall in acceptances. See UCAS [2018 End of Cycle Report](#).
- ⁴ Financial Sustainability Strategy Group (2019), [Understanding the impact of cross-flows on the financial sustainability of the UK HE sector](#), February, p.11.
- ⁵ For HE providers in England, senior officials from the Office for Students (OfS) have made it clear that they are unlikely to 'bail-out' institutions that find themselves in financial difficulty.
- ⁶ There are a number of reasons for focusing on research, notably that it is more difficult to measure the quality of teaching than research.
- ⁷ Palfreyman D and Temple P (2017), *Universities and Colleges: A Very Short Introduction*, Oxford University Press, pp.44-45.
- ⁸ Due to their reputation and resources available, these providers often attract the high quality students, researchers and academic staff. This makes the movement of a provider into the group difficult. Writing about the US system of HE Brint notes, 'the top three dozen research institutions seemed to be in a class of their own, and other research institutions struggle to keep up.' Brint S (2019), *Two Cheers for HE: Why American Universities Are Stronger Than Ever - and How to Meet the Challenges They Face*, Princeton University Press.
- ⁹ For further information see [REF 2014 shows UK university research leads the world](#).
- ¹⁰ Considerable discussion has taken place about whether the rate of progress in reducing the gap in HE participation between 'higher' and 'lower' socio-economic groups is sufficiently fast. Further, are some providers doing enough to offer places to students from disadvantaged socio-economic backgrounds?

