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Disruptive innovation and the higher education 'eco-system' post-2012

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Disruptive innovation and the higher education ecosystem post-2012

Stimulus paper

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Professor Ilfryn Price, Sheffield Business School

Stimulus Paper Series

The Leadership Foundation is pleased to launch its new series of 'Stimulus Papers' which are intended to inform thinking, choices and decisions at institutional and system levels in UK higher education. The papers were selected from an open tender which sought to commission focused and thought-provoking papers that address the challenges facing leaders, managers and governors in the new economic environment facing the UK.

The themes addressed fall into different clusters including higher education leadership, business models for higher education, leading the student experience and leadership and equality of opportunity in higher education. We hope these papers will stimulate discussion and debate, as well as giving an insight into some of the new and emerging issues relevant to higher education today.

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Abstract

Disruptive innovations in business sectors are arguably triggered by the arrival of new competitors who disturb, or punctuate, an existing equilibrium. They can be aided by changes to a wider context. The ecosystem of professional services has seen major disruptions over the last 10 or 15 years. This paper presents speculative scenarios of pending disruptions in higher education, taking into account the changes which have taken place in professional services. We present a strategic map of the higher education sector which hints at disruption and differentiation as an ongoing process, albeit one which does not affect all institutions equally. The challenges posed by the potential disruptors will, we argue, require many institutions to respond in new and innovative ways. Innovation in higher education in areas well beyond traditional research, knowledge transfer and the curriculum will be required to a much greater extent than in the past. We write not to predict but to, hopefully, provoke thought and a greater consideration of potential disruptions in higher education – and how institutions might best respond to these. This paper follows on from our review of 'Leadership and Innovation Lessons from Professional Services Firms' also published by the Leadership Foundation for Higher Education.

Dr Tom Kennie and Professor Ilfryn Price

Introduction

In 'Leadership and Innovation Lessons from Professional Services Firms'¹ we described the landscape and workings of Professional Services Firms (PSFs) and posed some questions for higher education leaders. In our concluding section we summarised our reflections as follows:

'Of course higher education institutions (HEIs) are different. We have omitted discussion of their public and societal role or their sensitivity to policy decisions. We have not contrasted ethics and regulation or ventured into the vexed question of whether higher education continues to fulfil all aspects of its 'public good' mission. We have not dwelt on unionisation, common in higher education and negligible in PSFs. All potentially stabilise the higher education ecosystem as do the institutions of academe itself.

We do contend that the ecosystem of PSFs has changed dramatically, with a few clear successes achieved by different strategies. Some market leaders such as McKinsey have retained their niche. Others have failed or been acquired. Strategic differentiation, focus and client alignment have become dramatically more important. Business development activities have mushroomed, with many firms employing or developing specialists in that activity and associated relationship management. HR policies have become more focused on attracting and developing talent, internationally in many cases, but equally, often consciously, only retaining a proportion of those recruited; the so called 'up or out' policy. Much more emphasis has been given to leadership and business than simply professional skills. Cultures, work, and workplaces, have all become much more flexible and interactive. Above all perhaps the traditional mainstream has shrunk considerably.'

This accompanying paper will explore how some of the same and some new disrupting influences are having an impact on higher education as a sector; or as we wish to argue further as an ecosystem. We start by examining some of the current, and potentially future, disruptive factors which are having an impact on higher education (and which could lead to new disruptive innovations). We will then offer a possible way of mapping the future landscape of higher education, and finally will explore the implications and 'links back' to the parallel changes in the world of PSFs which were explored in the first paper.

"I found this comparison between service sectors and higher education most interesting. What particularly struck a chord with my higher education experience to date (8 years now in two institutions) were the themes of the increasing needs for differentiation and agility. The other point that occurs with my ICI experience is that collaborative working between parts of the sector (in this case public-private) is becoming more normal and that will continue and may well accelerate as the market becomes more competitive"

**Dr Mike Wilkinson, Deputy Vice-Chancellor, Southampton Solent University
(previously General Manager Strategy and Planning, Europe, ICI Paints)**

1
Kennie and Price (2012)

Disruptive innovation

The term disruptive innovation was coined by Harvard Business School Professor Clayton Christensen. His original work started in the technology sector and focused on examining how and why some changes in a marketplace led, in a relatively short time, to radical restructuring of the overall system. His original work was published in 'The Innovator's Dilemma' in 1997. In it he distinguishes between 'sustaining innovation' (incremental or step changes in an existing order) and 'disruptive innovation' (major changes which ultimately transform an industry sector). Among his many insights was one which is now established wisdom, but at the time was highly counter-intuitive. He concluded that whilst existing players in a market typically succeed and win at sustaining innovation it was the new entrants (rather than existing players) who typically succeeded and were the winners at disruptive innovation, punctuating the equilibrium of that particular sector.

So, what are some examples of such 'disruptive innovations'? Let's start by considering some other sectors. We might highlight the stellar rise and equally spectacular fall of the mini-computer industry in the 1990s (whatever happened to Wang and DEC?); the impact of low cost airlines; the growth of new providers in the High Street in established markets (think Specsavers and their impact on local opticians); the provision of basic health-care in Tesco's stores (e.g. flu jabs) and the consequences of iTunes on music stores (think HMV). Christensen has been mining this rich vein for many years and has explored many other markets from 'chip' manufacturers and others in Silicon Valley, to Healthcare systems, to the outsourcing of specific areas of knowledge production to India by large consultancies and mapping companies. Most recently, however, he has turned his attention to higher education. His latest book, 'The Innovative University'², provides an opportunity for him to explore his 'own back yard' and consider whether higher education is affected by such disruptive forces.

Potential perturbations in higher education

So what are (or might be) some of the potential disruptions which might influence the higher education landscape? A quick list might include, among many, many other drivers of change and innovation, examples such as:

- The changes in the way which funding for English higher education is being channelled (from direct to institution to more indirect via students).
- The increased focus for institutions on attracting the 'best' students through the use of the AAB+ and recruitment process and the even greater competition that this is now likely to promote in England.
- The high levels of demand in both the 'developed' and the emerging economies for higher education and the increase in the number of private 'for' and 'not for' profit providers as they seek to meet this demand.

- The vast and rapidly expanding wealth of open educational resources and the explosion in access to 'free' knowledge content through, among others, the use of 'iTunes U'; which is increasingly breaking the hegemony or a 'closed shop'; for others leading to the de-professionalisation of learning.
- The rapid development of 'blended' learning as a central part of the strategy of many, and increasingly most, higher education providers.
- The separation of different parts of the higher education value chain i.e into the component elements of the student journey from marketing, recruitment, creation of 'content', the delivery, assessment, accreditation etc (often referred to as 'unbundling').
- On the research front, the increased selectivity and concentration of funding into a few very fortunate institutions (and individuals).
- Also the increasing entry of PSFs, large and niche, into areas of broadly speaking, evidence based contract research.
- The globalisation of higher education and the mobility of international student flows, the instability in these cross border movements also the massive investments being made in higher education in many countries (such as China, Malaysia, India etc).

Which of these (and other) influences will prove to be merely incremental, 'sustaining innovations' and which will be 'step changes'? Which will turn out to be 'game changing,' disruptive innovations and which merely local perturbations in the ecosystem? The impact of each will become apparent as the landscape begins to be formed as progressive layers of innovation interact with each other (together with the occasional volcanic eruption).

A potential new higher education ecosystem

Despite our lack of certainty about the future it is possible to identify a number of critical uncertainties and thus to create a plausible scenario matrix based on the interplay between a number of the most significant drivers. Further details about the scenario process (including the 'matrix' or 'double-variable' approach which we have used here) can be found in Sayers' guide to scenario planning in higher education³. Figure 1 below presents the results of our mapping of critical uncertainties based on our analysis of the key disruptive innovations in UK higher education.

The quadrants are not mutually exclusive and most universities will have activity in, and may well relate to, three or even all four quadrants. This raises a number of questions for institutional leaders such as, where do we see ourselves positioned today, where would we like to be positioned in the future and how might we differentiate ourselves from other providers.

3

Sayers (2010)

Figure 1:
Higher education: A possible
future scenario matrix



4
Although written in institutional terms the analysis might apply at the level of faculties, schools or departments.

The time horizon for this potential future ecosystem is clearly difficult to gauge. Some elements are already in place, others may take 10 or more years. A comprehensive description of the characteristics of each quadrant or zone is beyond this short paper. A brief categorisation of the various types of provider inhabiting each quadrant might, however, be as follows⁴:

Q1 The 'Ivy League' independents: highly selective, research intensive, private funding, not for profit

This quadrant contains very few higher education providers. The current press speculation about the creation of a UK Ivy League may be the early indications of this disruption. The success (or otherwise) of the Bloomsbury based New College of the Humanities may be an interesting experiment which leads to others benefitting from the potential benefits of so called 'first mover advantage' or alternatively this experiment might just not work. Whatever the outcome, it is possible to contemplate a future scenario where a very small handful of institutions seek independence from 'state' control in relation to tuition fee limits and other direct or indirect 'state' interventions on selection, benchmarks, participation etc. We may also see a further very small handful of small specialist niche colleges with global brands seeking greater autonomy by 'going private'.

Q2 The very lucky few: highly selective, research intensive, private and public funding

This quadrant is also a zone with relatively few providers. At first glance it might appear to contain members of the two mission groups which are most research intensive⁵ (the Russell and 1994 mission groups). In a less resource-constrained environment this might be the case. The more likely outcome is that this is the region of 'the very lucky few' – at least for those who see their future success in research terms. In this zone those research intensives with a longer history of investment in research may select to create their future through research strength and access to a greater share of public funding for research. Whilst they might argue (convincingly) that those in Q1 should not be able to access such public funds it does seem unlikely that this would occur since going 'private' without such a condition would make such a move virtually impossible. The announcement of strategic alliances and collaborations e.g. Birmingham-Nottingham: Liverpool-Lancaster globally between Warwick and Monash may well prove to be important steps to secure a position in this important space.

Within this quadrant it is also possible to speculate about how access to public funds will become even more focused not only for research purposes but also for certain types of teaching provision. Increasingly across the English system and the devolved administrations the move towards funding on the basis of 'something for something' seems likely to grow be it through explicit 'outcome agreements' as proposed in Scotland or through access to regional growth funding in England. Some universities already access additional marginal funding through their close working in their city or region and gain access to some other public funds by working collaboratively with other public services in their locality. These more '**publicly engaged**' universities may well benefit financially by demonstrating how they not only provide new services in their locality but also differentiate themselves by a much higher emphasis on their public service and public good activities. The recent report by Kelly and McNicol⁶ offer some interesting perspectives on this theme.

Q3 The vertically integrated: open access and/or content, learning focused, public and private funding

This quadrant contains a number of distinctive higher education models. One model, the vertically integrated one, consists of a higher education system with a number of interlinked, elements. The '**merged multiversities**' might emerge and gain competitive advantage from their ability to build close and sustainable partnerships between part of the school system, the further education college sector involved in higher education delivery and in some cases with limited private sector providers (for international and domestic students). These merged multiversities are also likely to extend beyond their original geographical boundaries as the mode of delivery becomes less dependent on an exclusively

5

According to HEFCE statistics only a minority in this sector actually earn more than half their income directly from research.

6

Kelly and McNicol (2011)

7
www.khanacademy.org

8
Brazil, Russia, India, China

face-to-face model. The difficulties of establishing such bodies are significant and those who have in the past moved in this direction (e.g. Thames Valley University (now known as the University of West London), and Reading College among others) are at present moving away from it and back to a more focused higher education agenda. However, as the year-on-year impact of the new fee and student number control systems play out (in England) this may be an opportunity for some.

Also in this quadrant one might see a growth in providers who seek to maximise value from the rapidly expanding area of open educational resources (OCR). Drawing its value from this, the notion of an **'Open Source University'** may emerge. This 'free at the point of delivery' model adds value by providing effective navigation, routes and pathways to qualifications and advice and guidance, among many other potential services, to an as yet un-served market, the classic region where 'disruptive innovation' typically lies. If the earlier lessons of disruption are transferable into higher education it seems likely that this space won't be filled by a current incumbent but by a new player entering the market. The business model to make this possible would require further disruptions to take place to enable new providers access to student loans, degree awarding powers and changes in aspects of quality assurance among other changes.

Q4 The networked for profits: open access and/or content, learning focused, private funding, for profit

This quadrant is possibly the most organic part of the new ecosystem. As different drivers combine and flourish, the influence of the new private funders may play out in different ways.

First is the anticipated continued growth of the 'global integrators'. As the demand for higher education grows particularly in the emerging BRIC⁸ economies, a relatively few major global (and regional) players will expand considerably. Whether it is the Laureate group, Raffles Inc. or Tata PLC it seems unlikely that the market will shrink. What is also likely is that more 'state' assets will transfer either wholly, or more likely, in parts, to this area.

Independently, as constrained resources continue to dominate in many higher education markets, the existing and a potentially new group of 'unbundlers' will begin to have a more substantial influence on our existing landscape. Existing players such as Pearson PLC are already having a potentially disruptive impact on the provision of 'structured content'. Other new incumbents such as the Khan Academy⁷ are offering free access to basic STEM content using a donation business model. Many more unbundlers exist in higher education, for example in the use of personalised learning analytics and the provision of tools to assist learning through collaboration. Others seem likely to come into the 'cloud' and 'mobile learning' zones which are very much in their infancy, but which have the potential to offer many opportunities for unbundling for disruptive innovators.

A third model we are already seeing emerge in this zone is the establishment of specialist 'for-profit' universities. Again, it is in its infancy in the UK with one private

university and one 'for profit' university college to date. The impact of the proposed changes in the regulatory environment could lead to further growth.

The squeezed undifferentiated middle

The final zone in this new ecosystem lives at the centre of this particular mapping. In the 1990s, it was christened the squeezed middle and might now be termed the undifferentiated centre. Unlike Q1-4 this is an area populated by a much greater share of the current system (maybe up to 40-50%). It is possible to put forward a persuasive case that this has been a useful place to locate oneself as an institution in the world of UK higher education, particularly over the past 10 years. Many of the funding drivers have offered incentives to locate oneself in this region. So long as one has been reasonably 'fleet of foot' (and you have a good bid team) it was possible to obtain streams of funding in a number of areas e.g. for regional development / economic regeneration, for business engagement, for widening participation, for knowledge transfer / exchange and so on. Today, with so many of these streams closing or being under threat, this is a much less comfortable space to inhabit.

If the picture we are painting of this new landscape begins to take shape, being in the undifferentiated centre will become a much riskier place to operate from. A key question for higher education providers will be how to differentiate oneself in this middle ground, particularly if the opportunities to move into Q1-4 are unlikely, unappealing or unhelpful.

A number of institutions have made good progress in becoming differentiated. For some these have created a new space in the ecosystem by defining a third axis in our framework. This third axis – the employer engaged/knowledge transfer dimension has proved a useful one for a number of 'business facing', 'enterprising' and 'employability' focused institutions. This is, however, also becoming an increasingly crowded space. Defining more precisely where your distinctiveness lies in the 'business facing', 'enterprising' or 'employability' territory requires more consideration. As we highlighted earlier some professional service firms approach this challenge by defining in what business sectors they will focus their attention. Perhaps this, with other approaches, might help those who wish to give greater emphasis to this dimension as their source of differentiation.

The counter argument

The case against differentiation can also be posited. Why try and be different when frankly the vast majority of institutions operate in the same areas. Indeed they serve a local need where differentiation might limit their potential by reducing the opportunities for growth which may arise. In the words of Sir Humphrey of Yes Minister, we might suggest 'that is a brave, courageous decision Vice-Chancellor'. It may well prove to be deliverable and you could prove to be one of another 'lucky few' who are successful in this space. 'Focus local and limit the global' is a cautious reminder of the dangers of over extending the reach of your institution. To do so, however, requires a willingness to do more radical 'strategic disinvestment' so that your institution can give greater attention to the opportunities to serve this geographically focused strategy. Indeed one of the lessons from the professional service sector is that when done well such a strategy can prove highly effective.

The professional service ecosystem and lessons

If we now look back to the professional service sector's experience which we introduced in our previous paper⁹, what parallel lessons and implications might we identify?

First, the globalisation of professional services has also led to a new ecosystem emerging in that sector some parts of which offer some interesting parallels to higher education.

If we look at Q1 – *The 'Ivy League' independents*, the PSF equivalent in this quadrant has been the establishment of a few 'elite' firms (as distinct from the growth of large global players). In the legal services market, Slaughter & May, for example, have retained the independence and reputation at the top of the high-end corporate market, similarly McKinsey in the consulting market have established themselves as a distinct and somewhat 'elite' brand in the top end of their markets. Until recently one could also have identified Drivers Jonas in the property services market (but they were acquired in 2010 by Deloitte).

What lessons, if any, might be of interest for those wishing to populate Q1?

First is the obvious one, there are very few players in these markets, this is a highly sought after status and, as in higher education, takes time to evolve (albeit in the professional service sector it happens in decades rather than centuries).

Second, is the high level of selectivity in hiring and promotion in these; If the 'tenure track' in the US system sounds like a tough career route to some, the processes in the elite PSF world are in a somewhat different league. In the world of (say) McKinsey the success (or attrition rate) from entry to equity partnership is around 10% (90%) and the firm openly retains a policy of 'up-or-out'. The rewards for the survivors are great but, for the majority, the policy creates a very challenging career route. And yet there are hordes of the best graduates annually desperate to join them. Why? The lesson of experience is in the care and attention placed upon those who exit the 'family'. Rather than being viewed as 'failures' they are viewed much more as alumni and future clients. Those who leave can look forward to highly successful careers with long-lasting collaborative relationships with their ex-colleagues. Far from failures, they are treated as valuable assets. Could higher education gain something from this by reflecting on our approach to talent and career development?

It is a moot point to reflect on whether any ivy league independents would consider removing themselves for some or all of the the national regulatory and quality assurance systems and rely instead on 'reputation' as being sufficient.

Turning now to Q2 – *the very lucky few*. There is no direct PSF equivalent in this quadrant. A slightly different set of drivers, have however, created a small group of a lucky few global players who dominate the key sectors; firms such as:

- The 'Big Four' in accounting (PWC, KPMG, Deloitte, Ernst & Young)

"It is perhaps in the area of people that the most interesting parallels exist. It seems likely that in both ecosystems¹⁰ there are likely to be increasing challenges in how to attract, retain and manage the human capital of the firm or institution. As more and more of British GDP is generated by the service sector there is going to be an increasing demand for knowledge workers. Professional service firms and universities have traditionally been collections of individuals for whom autonomy and the opportunity to be creative and innovative are important. In addition either through the partnership or through the senate they have desired to share in collective decision making processes which determine the future of their joint endeavours. Clearly with the increasing professionalisation of both PSFs and universities some of each of those three characteristics has been eroded. Already though we hear in higher education of the need to protect academic freedom, the resistance to the emphasis on delivery and commonly agreed standards which need to be performance managed. In both sectors the high performers can write their own rules; those who bring in large fees or large research grants; those who have national profiles, who contribute to the notion of eminence for the firm can often play outside the rules that govern the many. The rise to partnership or the professoriate may have criteria and guidelines but such criteria are very flexible, as are the pay scales, when the need is to retain a top performer. There will be a challenge in an increasingly managerial environments to retain sufficient cultural flexibility to allow talent to flourish"

David Wagstaff, Ranmore Consulting / Sheffield Business School

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i.e. PSFs and HEIs

- The 'Magic Circle' in law (Clifford Chance, Linklaters, Freshfields, Allen & Overy and others)
- The IT consulting sector (Accenture, IBM, Oracle)
- The 'super league' of global property advisers (JLL, CBRE, Savills)

What are some of the potential implications and lessons for HEIs in this area?

First is another fairly obvious point that there are again a relatively small number of large players in each market. It isn't the big 20 (coincidentally the number of members of the Russell Group). Perhaps membership of this club demands scale on a global basis. Making friends in foreign places via global partnerships, international campuses, networks of influence may well be a good strategic move if you want to be a player in this zone.

Second, their growth has come about by consolidation of two or more major players in the market (as implied by the names). Is this a portent of the future for higher education? Curiously in higher education the name and hence the brand of Oxbridge is made up of two independent institutions but it nevertheless manages to say something about each of them, together. The creation of strategic alliances may in some instances be a staging point towards merger. For others it may be more of a response to the increasing concentration of research funding in fewer larger units and the need to build critical mass. Not all have succeeded at this. For example, DTZ in the property services sector has suffered from over extending its growth by acquisition in the period leading up to the global economic crash. It has recently been acquired by UGL Services; an Australian based corporation expanding globally in property related services.

Third perhaps, is a reminder of how easy it is to lose as well as gain reputations. Remember Andersen Consulting? It was a member of this select club (then known as the 'Big Five') until the Enron scandal brought it to its premature and high profile end. Conflicts of interest and ethical dilemmas also arise in higher education. An even greater attention to reputational risk may be needed in future (as evidenced by the attention recently to the call by CASE Europe for the publication of codes to guide the acceptance of gifts from donors).

In Q3 *The vertically integrated*, again there isn't a direct parallel. However if we explore the 'mid-tier firms' a potential comparison can be made between the two ecosystems. The 'merged multiversities' vertical integration equivalents in professional services are the large national and regional firms. These large players (such as Eversheds in the legal services sector) provide local, national and some international coverage at a price which is more competitive than the 'Magic Circle' firms. Additionally there are a small group of 'boutique' practices known for their expertise in more focused areas of professional services. Strategy practices such as Booz Allen or the Boston Consulting Group or corporate lawyers such as Dickinson Dees are in this territory.

A potential lesson from this group is the need to stay fresh and ahead of the pack by investing in thought leadership and research. Rather than being paid to do research, these players invest their own resources. Such intellectual reinvestment is costly (in good times it is in the region of 5-7% of revenue – well in excess of the surplus levels achievable by the vast majority of HEIs).

What are some other lessons for the 'merged multiversities' of the future?

First, the challenge of culture change. Most of the players in this group of professional services players have been formed by the amalgamation of many smaller partnerships. With each acquisition came the challenge of creating a new shared culture without losing some of the original drive of the founders. In the transition, many of these firms have faced crises of leadership as the baton is passed. The best have recognised the fragility of the links and have tried to build succession for the future, the less successful have suffered from faltered performance with routine breakaway groups leaving to create new niche competitors as the clash of cultures takes its toll. Might the potential merged multiversities face similar clashes either over cultural 'incompatibilities or through splits and defections as some groups seek to regain some perceived loss of autonomy?

Second, this group often faces the challenge of developing a new and distinctive brand. As they acquire new members (often part of the squeezed middle) they face the challenge of creating brand identification. Integrating new members and creating loyalty to an as yet untried new brand is a key test. Might the newly emergent merged multiversities also face similar challenges?

Third, for those who are an amalgamation of many different firms, there is a need to create new systems and procedures and a common platform is vital if the intended economies of scale are to be realised. Again, a recognition of this less visible, but vital foundation work may be worthy of consideration.

No equivalent of the open source university exists in the professional service ecosystem. A few experiments with networked practices have taken place. In the legal market,

Keystone Law describes itself as the country's largest 'dispersed' law firm, where technology is used to deliver exceptional service without the conventional overhead. Similar experiments exist in other sectors, but as yet they are limited in scale.

The interesting disruptors in this field are in the lower-level IT area. The wonderfully named RentACoder (now known as vWorker) based in India offers clients access to experienced IT professionals for specialist IT exercises. It is a mix of ebay and a network. The lesson here is how difficult it is for new players to become embedded in this zone. Where trust and personal relationships (and professional indemnity insurance!) are important, you might not entrust your future IT procurement or higher education qualification to highereducationsupermarket.com or its equivalent, but you never know!

In Q4 – *The networked for profits* the equivalent players in the professional services ecosystem are also in their infancy¹¹. Recent disruptions, such as the deregulation of legal services (as mentioned earlier), led to new players preparing to enter the market such as 'Tesco Law'. Unbundling in professional services is not yet well-developed. Where we do see unbundling, it is often in the 'back office' functions.

Finally The Squeezed/Undifferentiated Middle. As may prove the case in higher education, being in this zone, 'sitting on the fence' is far from a safe place in the professional services market. Routine culls of firms take place as yet another 'middle of the road' firm seeks safety through merger or is broken up and those who are marketable get integrated with other practices. The break up might be precipitated by any number of factors:

- Cash flow difficulties caused by imprudent investment decisions (e.g. Halliwells in the legal market).
- A loss of key talent as individuals and teams jump ship before the final collapse occurs (e.g. Chesterton Commercial in the property sector).
- A loss of market confidence following a professional negligence issue (e.g. as mentioned earlier Andersen Consulting).

Or, perhaps most frequently:

- The lack of a differentiated market strategy where clients no longer see sufficient distinctive advantage from using the firm. It is too much like too many others, too expensive, too lacking in innovation, too cautious about taking risks and change, too dated and too 'fusty'.

The lessons in this area are all too clear. First, the undifferentiated centre is an increasingly unhelpful place to sit. Finding sources of differentiation is not easy (in PSFs as in higher education) yet it needs careful thought and attention. The new 'battle zone' for HEIs is very much focused around finding ways to redefine priorities so as to avoid trying to be 'all things to all people'. This is not to argue for an oversimplification into 'research-intensive' versus 'teaching-focused' distinctions, but to create interesting narratives which reflect the balance and interplay between the different areas of activity which make up a modern HEI and offer adequate differentiation (or a clear articulation of what you are even if you are similar to the one in the next county). The lesson from PSF is stark: differentiate or die.

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Though the world of opticians may have portents.

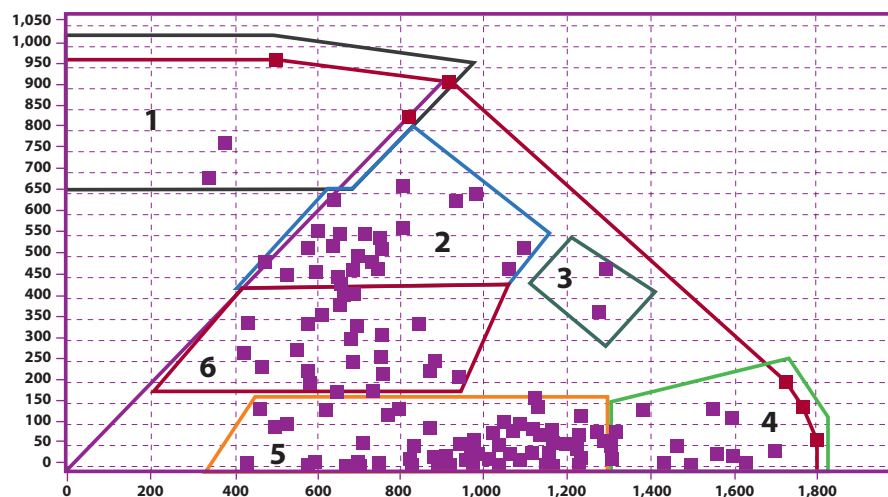
12
E.g. www.hsconferences.com/page82412017.aspx

13
Data from the 2007 Hefce EMS return (to preserve confidentiality). Some institutions with unusual spatial arrangements are excluded.

The asset question

One big difference between HEIs and the PSFs is that the former have an asset base of land and property, their estate, whereas the latter tend to lease office space. There are obvious reasons. Specialised facilities are not available in the general property market and 'campuses' are not, by and large located in central business districts. The 'estate' is however a significant and often under-utilised resource¹². Figure 2 contrasts the research and teaching income of UK universities normalised against the area of the non-residential estate¹³.

Figure 2:
Research and teaching income versus size of estate for UK HEIs



The codes on the axes are extracts from complex definitions used in Hefce's Estates Management System. The 'x' axis looks at 'teaching' (including CPD and short courses) income per unit area of the non residential estate. The 'y' axis does the same for research (including consultancy) income. There are issues around classification of certain smaller income streams and around generality in what is classified as non residential estate (a large, simple, cheap building such as an arts studio is not separated from a typically smaller, complex and costly building such as a research laboratory). However, these do not affect the overall picture.

The red envelope links the most efficient institutions on some combination of income streams. The blue diagonal represents a 50:50 balance of funding.

Zone 1 contains the few institutions (2 are missing) that genuinely have a greater research than teaching income. These might be the likely players in Quadrants 1 or 2 of our scenarios.

Zone 2 contains the remainder of the Russell Group and a number of other 'research led' institutions. All rely on teaching for more than 50% of their income, though this may include specialised masters or doctoral provision leveraging research reputations. It is notably crowded at present without any representatives

close to the line of maximum efficiency. The PSF equivalent might be the unmerged predecessors of today's global integrators.

Zone 3 is relatively empty territory occupied at present by two internationally recognized but more specialised institutions. Is this the territory of the internationally recognized 'boutique' specialists of the PSF world?

Zone 4 represents institutions whose economic offer is clearly teaching led with a rationalised estate and variable amounts of research funding, usually specialised. Not all the occupants are 'post 92' institutions. Many might be candidates for future multiversity strategies.

Zones 5 (with a greater teaching emphasis) and 6 represent what might be the undifferentiated middle. They appear to hold a large asset base in relation to their income; potentially a strategically vulnerable position in a scenario of increased disruption unless particular circumstance prevail¹⁴.

Overall the picture of diverging strategies and an, at best, weakly differentiated middle seems to us consistent with the general picture of change in higher education and with some alternative scenarios for success.

14

As is obvious in some cases.

15
Kennie and Price (2012)

Conclusions

What then might be the main points? What key lessons emerge from the comparison?

As we said in our previous paper¹⁵ of course HEIs are different. We have largely omitted discussion of their public and societal role or their sensitivity to policy decisions. We have not contrasted ethics and regulation or ventured into the vexed question of whether all higher education providers retain a public service ethos. We have not dwelt on unionisation, common in higher education and negligible in PSFs. All potentially stabilise the higher education ecosystem as do the institutions of academe themselves.

The ecosystem of PSFs has changed dramatically with a few clear successes, achieved by different strategies. Some market leaders such as McKinsey have retained their niche. Others have failed or been acquired. Strategic differentiation, focus and client alignment has become dramatically more important. The picture painted in Figure 2 suggests a huge existing diversity in the higher education sector with the dominant presence of a relatively undifferentiated, and potentially asset rich, middle. Coupled with the threat of disruptive new entrants from outside the sector, or disruptive new business models the picture is of a system that seems to us ripe for considerable change. Interesting times, as the old Chinese curse has it, may lie ahead.

To summarise we offer the following comparative perspective on the changes which are underway and which are creating the conditions for further disruptive innovation, in figure 3 below.

We do not have, and do not know of, the case based evidence illustrating how and why individual 'winners and losers' survived the disruption of the PSF ecosystem. We are in any case prejudiced against formulaic, instant recipe, models of success. Our practice management guideline series for the RICS were written from the socratic stance that facilitating reflection ultimately engenders greater action than does provision of answers. We hope this stimulus paper has the same effect.

Figure 3:
Changes in higher
education

From	To (or 'to include')
Stability	Uncertainty
Cost focus	Profit and margin focus
Higher Education Institutions	Diversity of Higher Education Providers
Research funding focused	Increased research selectivity and concentration of funding
National performance	Global performance for some, niche performance for others
Formulaic regulation	Reputation based regulation
Significant homogenisation and a squeezed middle	Variety and the development of a differentiated centre
Planning	Innovation
HE Sector	HE Ecosystem

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Biographies

Dr Tom Kennie

Tom is a Director of Ranmore and works across the higher education and professional services sectors on a range of leadership development, coaching and consulting projects. He is co-programme director of the Leadership Foundation Top Management Programme (TMP). He has a particular interest in the leadership of creativity and innovation and recently established the i-laboratory for higher education (www.i-lab-he.org).

Prior to forming Ranmore some 16 years ago he spent 8 years in the professional service sector, latterly as an HR Director. Before this he was an academic at the University of Surrey and at the University of Technology in Kingston, Jamaica. Tom is a graduate of the University of Glasgow, did post-graduate work at the University of Sussex and completed his PhD at Imperial College London.

With Ilfryn Price he co-authored three editions of guidelines for the Royal Institution of Chartered Surveyors (RICS) on the management of professional practices, the last in 2010, having originally qualified as a Fellow of the RICS (FRICS).

Professor Ilfryn Price, Sheffield Business School

After completing a PhD at Cambridge Ilfryn joined BP Exploration as a geologist in 1975 and spent 18 years as an oil industry professional including managing BPs Exploration and Production Research Division. In 1991 he was asked to lead a two year Process Review project for BP Exploration; a task which involved capturing the lessons the corporation was learning concerning organisational transformation and seeking other insights into the topic from companies, business schools and consultancies on a global basis.

From 1993 Ilfryn pursued a career as an academic researcher and consultant, in the emerging field of facilities management and the wider areas of organisational development and complex adaptive systems theory. His 1998 book 'Shifting the Patterns' was one of the first to draw evolutionary theory and organisational development into a new approach to understanding organisations.

His current research and application interests are the development of strategic systems for businesses to assess the use they make of facilities, the facilitation of partnerships and the use of complexity and memetics to appreciate new working arrangements. In 2007 he was chosen by BIFM as one of the 20 most influential pioneers of the subject. He recently co-edited an International book of the Management of Organizational Ecologies.

Notes

Notes

Stimulus paper

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