

Frank Newman

The Futures Project: Policy for Higher Education in a Changing World

Competition and Market Forces: Higher Education Enters The Maelstrom Of Transformation

For the last two years The Futures Project: Policy for Higher Education in a Changing World has been examining the growing competition and the increasing use of market forces in higher education. The following is a summary of what we have found. The goal has been to understand their impact and to fashion appropriate policy initiatives and institutional strategies to respond to these changes.

What is known about the shape and impact of market forces in higher education?

From our examination of the changes under way in higher education, we have noted significant increases in the level of competition among the universities and colleges that make up the system of higher education. For a number of reasons, the competition among the traditional non-profit institutions has been growing despite the increase in number of students interested in attending higher education.

This growing competition is compounded and amplified by the number of new providers who have entered into the traditional preserve of higher education. This includes a substantial number of for-profit universities and colleges giving degrees in traditional fields and, increasingly, accredited. There is also large number of virtual courses and programs, many provided by familiar non-profit universities and colleges; others provided by the for-profit institutions. Beyond these new competitors, there's a whole array of organizations, which, while not formally part of higher education, provide some of the services traditionally provided by colleges and universities. These include corporate universities, certificate programs, museums, etc.

Compounding all of this is the impact of the new information and communication technology. Technology not only provides the capacity for virtual education, thus increasing the competition, but it creates new ways of teaching and learning which will in time shake up the old order. One result will be to change how the institutions that provide teaching and learning are valued. Technology also has another capacity that adds to the level of competition—the Internet makes it easy to see what courses and programs are available from the growing array of providers, making it easier for students to pick and choose not only which institution they wish to attend but what courses they wish to take at some other institution even while enrolled at their prime institution.

Quite suddenly, political and academic leaders have been surprised to find higher education in the grip of transforming change. Part of this change flows from political leaders demanding greater access as a result of realizing that success in the new

economy will require more of the population to gain a college education. It also stems from the growing concern that the skills and attitudes that young people bring to their roles as citizens are inadequate. And, in part, the change is a result of the growing frustration on the part of policy makers over the lack of responsiveness by higher education to the public's needs. But the main force for change is not these demands but the new level of competition and a growing interest on the part of political leaders to depend on market forces to structure higher education, a change that is beginning to transform how the system of higher education is organized.

The Market is Coming

In our examination of the underlying forces that have been driving the transformation of higher education, we have focused on four: growing competition among the traditional non-profit universities and colleges; the new providers of higher education including for-profit degree granting institutions, virtual programs and institutions, and corporate universities; the impact of digital technology; and the globalization of higher education. The convergence of these forces is proving to be powerful enough to bring change to what has been a remarkably stable system.

The growing intensity of competition and the larger role that the market is playing provide a new chance for significant gains in how well higher education actually serves society. However, there is also a danger of significant setbacks. Market forces are not always benign. One need only remember the American experience with health care.

How market forces are structured is key. Competition won't automatically lead to better colleges and universities. These forces must be strong enough to encourage change. At the same time, they must be channeled or restrained in ways that prevent damage.

All effective markets have some degree of regulation or channeling. Therefore, legislators, governors, and boards need to develop policies that encourage the positive aspects of market forces while at the same time they mitigate their potentially negative effects. Institutional leaders need to develop strategies that allow their university or college to succeed in this new setting.

To create a new and more effective structure for higher education, there is another change needed as well—the generation of serious discussions, state by state, between political and academic leaders, as to how to restructure the system of higher education. This will mean overcoming the traditional reluctance on both sides to engage in any serious discussion of substance about the nature of higher education. In the absence of such debate and of conscious planning, there is the danger that the system of higher education will drift into some new market-oriented format without adequate restraints. The result is likely to be society losing some of the attributes of higher education that are essential to a free and effective society.

Time is important. Political leaders need to address these issues while the system is still in flux and before it settles into some new mode that will—once again—be hard to

change. The leaders of universities and colleges need to recognize their responsibility to join with political leaders to help develop thoughtful policies that safeguard the essential nature of higher education's contributions. They need to recognize as well, that in order for every institution to thrive, and perhaps even to survive, each will need its own strategy that helps it to focus on what it does best and to improve performance.

The New Competition

Higher education in the United States has always viewed itself as competitive, particularly when compared to systems elsewhere in the world, with universities, colleges, and community colleges-- public, private, and for profit--all seeking students and funding. In reality, however, the competition has been muted, more benign than ferocious, more focused on prestige than quality or price. It has been mitigated by tradition and governmental regulation. Institutions have largely competed within particular segments--by type of institution, level of prestige and geography. States have operated what are basically higher education cartels. Each public institution is assigned its role and regulations govern its funding, enrollment, operation, and scope.

For the last several years, however, the system has been shifting steadily toward greater competition, with less market segmentation, more dependence on market forces and less on regulation. The traditional competition among institutions—for students, for research dollars, in fundraising, in sports, and particularly in prestige—has been intensifying. For example:

- The use of student aid to attract students who will enhance institutional prestige is accelerating.
- Newly aggressive community colleges collaborate with four-year institutions either online or on-site to provide baccalaureate degrees, making readily available an inexpensive and accessible choice for students interested in a four-year degree.
- Programs for older, working students have exploded.
- The number of research teams applying for federally funded research grants has grown as institutions strive to gain a foothold as research universities.
- Even inter-collegiate athletic competition is escalating with the intensity of recruiting increasing, expenditures rising and coaches' salaries reaching (by academic standards) the stratosphere.

What is causing this change? It is not a lack of students—more are applying to college than ever before. Nor is it a lack of dollars, for total grant funding, state support, tuition and fundraising have all increased substantially. But while student numbers and dollars swell, competition and the search for new revenue sources are expanding faster. Gordon Winston has described this new climate as an “arms race” in which institutions engage in a frenetic and never-ending search for better students, better faculty, winning athletic

teams, more research funding, prestige, and—above all—the revenue to make these things possible.

The New Providers

The rapidly growing number of new competitors is a powerful force driving the higher education market. Counted among the new competitors are over 600 for-profit degree-granting universities and colleges. Many of these for-profit institutions have been around for years, a few for a century or more. Recently they have grown in numbers and size, moved into offering conventional degrees, and sought accreditation. Over the decade of the 90's, the number of for-profit institutions granting two-year degrees rose 78%; those granting four-year degrees rose 266%.

There has been, as well, an explosion of virtual or online courses available from virtual institutions, virtual arms of traditional institutions, for-profit universities and colleges, and consortia—over 2000 institutions are offering virtual courses to over two million students.

Beyond this array of higher education institutions jostling for position, there are additional institutions that are not formally part of higher education but serve some of the same functions. This includes the information technology companies running certificate programs; corporate universities (which now number over 2000) that train their own employees; and museums, publishers and even government agencies offering courses.

The sum of these challenges is a fundamentally changed climate of competition. Not only is there an expanded universe of providers of higher education, but the Internet provides students an easy way to access this wider variety of choices. Students used to be constrained in their choice of institutions or courses by their limited knowledge of what was available. Today a student interested in choosing an undergraduate college, enrolling for an MBA, or finding an alternative to an introductory math course can easily peruse a wide variety of options on the Internet and find a range of institutions and a selection of virtual, traditional or mixed courses that match his or her current needs. A student enrolled in a university who finds a given course is of poor quality—or even just inconvenient—can easily find a substitute nearby or online.

Technology in the Classroom:

When the conversation in higher education turns to the subject of technology, there is a tendency to leap, instinctively, to one aspect—virtual or online education, education at a distance over the Internet. Virtual education does indeed represent a significant new opportunity, though the going is not always smooth. Some universities that entered the domain of virtual higher education with a poor plan—or no plan—have found the going rough. But virtual education is growing. Beyond the sheer growth, an emerging body of research makes plain that learning via the Internet can be both effective and satisfying for students. As a result, technology, through the impact of virtual education, has already become a major force in the shift toward greater competition.

However, as important as the capacity to educate at a distance is, the impact that digital technology is beginning to have on learning, particularly in the traditional classroom is, over in the long run, of far greater significance. Much of the early use of the computer and Internet in traditional classroom settings has served to do ordinary tasks more efficiently—providing the course syllabus and readings, providing a communication link between faculty and students and among students, creating the means for more effective student research. Many faculty are still wary as to whether the technology is simple and reliable enough to use for more sophisticated learning tasks. Everyday, however, software is emerging that is better, faster, cheaper, more reliable, easier to use and that allows students to take part in more engaging and effective learning. Our estimate is that over the next five or six years, the use of such software will become commonplace, truly transforming the way learning takes place in most settings in traditional classrooms on campus and in virtual courses online.

The opportunity ahead lies in the capacity to use information and communication technology to transform learning in ways that capitalize on what we have known for a long time about powerful pedagogy—that students learn more, more profoundly, and remember over a far longer period when they are actively engaged in a self-driven learning activity rather than when they are engaged only passively, sitting and listening. Technology can help address the different learning styles of students. Technology can provide professors with a practical approach to those methods that have been recognized as far more effective than lecturing.

As higher education moves forward, every post-secondary institution should recognize that digital technology has already begun to change how students learn in every setting: online courses, elementary and secondary schools, skill training centers, as well as traditional classrooms. Indeed, as the capacity and use of technology continue to advance, the traditional and the online course will look more alike to the student. Each will use technology to enhance learning. Each will encourage active learning and frequent communication with the faculty member and other students. Each will use faculty members as mentors and guides rather than as the primary source of information. More and more learning will involve both classroom and online instruction.

All of these changes raise important questions that each colleges and universities should consider. Soon, those institutions skilled in the use of technology to improve learning will be seen as more dynamic and effective than their less-engaged competitors. Therefore, institutions and faculty that view themselves as excellent at teaching now need to excel at the use of technology if they are to remain leaders.

The Globalization of Higher Education

Recently there has emerged a new phenomenon—the globalization of higher education. We mean here the emergence of global rather than international institutions. International institutions have foreign students enrolled. Their domestic students often spend some time studying abroad. Similarly, faculty comes from other countries to study, teach, or do research and the home institution faculty frequently go abroad. All of

these activities have become routine for the best-known universities (and increasingly the best known liberal arts and community colleges).

Global institutions, on the other hand, conduct operations (i.e., educate students) in multiple countries. This may be accomplished by establishing campuses (e.g., Monash University), by creating learning centers (e.g., the British Open University), or forming alliances with local institutions (e.g., MIT). Any virtual (online) program is by its nature global, and a number of global, online consortia are popping up as well (e.g., Cardean University, Universitas 21). Technology makes content delivery increasingly a global enterprise. What is appearing more and more are mixtures—programs that use intense short trips to the home university campus or to nearby learning centers to supplement a base of virtual coursework. Several business schools have begun to offer executive education this way (e.g., Duke University).

Given the right circumstances, societies can gain from the entry of global higher education institutions into their communities. In cases where the existing institutions are set in their ways and outmoded in their approach, new institutions are bringing a breath of fresh air, pushing the older institutions to new action. Where access is limited, new institutions are broadening opportunity. New institutions may, as well, bring a needed diversity to the types of experiences available to students.

Preserving the Special Nature of Higher Education

In the coming struggle over the application of market forces, a crucial issue will be whether higher education retains its special role and responsibilities. Over their long history, universities and colleges—both state-owned and private—have held a privileged position because their purpose is a focus on the needs of society rather than on self-gain. With that special position have come responsibilities. One concern of policy makers is that over the years the drive for prestige has been more self-serving than society serving. Today, as higher education becomes more closely linked to for-profit activities and market forces, its special status is further endangered. With growing emphasis on revenue streams, introduction of for-profit subsidiaries, large-scale corporate sponsorship of research, high presidential salaries, and other trappings of the corporate world, there is a new danger that higher education will become—both in perception and in reality—just another interest group devoid of any attributes that raise its interests above those of the marketplace throng.

It is, therefore, critical to ask what the soul of higher education is that needs to be saved—what are those attributes that are essential to preserving higher education's role as servant to the needs of society so that they do not slip away to be lost forever in the heat of competition. The Futures Project has focused on three such attributes:

- Socializing students so that they are ready to undertake their responsibilities in society.
- Providing citizens social mobility through the opportunity for access to higher education.

- Upholding the university as the home of disinterested scholarship in the pursuit of truth as well as open and unfettered debate, so that society has a source of research that can be applied to societal problems and an intellectual free space for the discussion of critical issues.

In each case the question is, will the new providers—the virtual institutions, the for-profit institutions, as well as the traditional universities who feel forced to become “lean and mean” in order to compete with these new providers—concern themselves with these tasks or will they simply focus on providing students with the skills necessary to get a job and on generating the revenue to insure institutional success? Will public support for the broader roles of higher education erode as the public perception of the nature of higher education changes? These are questions that political and academic leaders must grapple with together.

The Changing Perception of Quality

All of these changes may well presage a shift in the perception of quality in higher education. The traditional battle for prestige has been largely a battle of inputs. In this battle, reputation is determined by the size of endowments, the reputation of faculty, the scores of entering students, the share of applicants rejected and the attractiveness of the campus. Since little or no information has been available about how much students are learning, parents, policymakers, and the academy itself have been forced to assume that an institution with high prestige must be high in the generation of learning as well. This is changing. There is a growing pressure, principally from policy makers, to measure learning directly; to measure what students know not what courses they have taken. Given the far more diverse patterns of attendance—students attending multiple institutions on the way to a degree, or even multiple institutions at the same time—measuring learning outcomes is more important for the universities and colleges as well. There is, as a result, a growing effort to create new ways to assess learning, ways that are increasingly practical because of technology.

Non-profit institutions, as the traditional stewards of educational quality, have long considered some of the alternative providers, particularly for-profit institutions, no real competition. But as the difference between for-profit and non-profit institutions has begun to blur, a significant change in public perception regarding the merit of some for-profit institutions has taken place. Some have established themselves in traditional academic areas, particularly through offering the kinds of bachelor and master’s degree programs formerly reserved for traditional non-profit universities and colleges. The best known of these institutions, but hardly the only one, is the University of Phoenix. By determined efforts to evaluate learner outcomes and faculty effectiveness at teaching, efforts far more extensive and effective than any at all but a few traditional universities or colleges, the best of these for-profit institutions have positioned themselves as quality leaders rather than as institutions of questionable reputation.

In this new environment, the quality of course work is becoming a more salient issue. If, for example, introductory math courses are taught in large lectures that give students little

chance for practice; if students' only interaction with faculty is with teaching assistants; and if freshman science courses have laboratories with hundreds of students, then the institution—or at the least, these courses—will be increasingly at risk. The Internet makes information about alternatives more readily available. Students who until now have had little capacity to weigh an institution's performance against that of its competitors and who have accepted its flaws because there seemed to be no choice, now have options. Some institutions, particularly those unwilling to plan for the future or to address their shortcomings and change, will run into trouble and may even fail. One of the benefits of the increased competition may be, as a result, a heightened concern within the institution to address these long-overlooked flaws.

Who Will Be Affected

There has been considerable speculation on which institutions are most vulnerable to this new level and kind of competition. Attention has focused particularly on the less-distinguished state colleges and the unselective private colleges. Many state colleges suffer from the tendency to try to be all things to all people—expanding the number of majors, adding graduate and professional programs, building dormitories. Consequently, they often become pale copies of the state research universities. Many of the unselective private colleges are under financed. However, there are examples within each of these categories of aggressive and focused institutions doing remarkably well. While surely the best-known and the best-endowed institutions enter this period of tougher competition with significant advantages, the real danger is not to any one class of institutions but to those institutions without a strategy, without a focus, without a willingness to change and to improve. How high the number of such institutions will prove to be is uncertain, but one thing is clear—every one of them will be at risk.

In addition to institutions, some programs, or even courses, will be threatened as well. For example, many universities have fallen into the habit of using large lectures for introductory courses. While the savings from these large courses subsidize other activities of interest to the faculty, such as smaller upper-division courses or greater faculty time for scholarship, most are disliked by students and are less likely than more active pedagogical modes to produce deep learning. For-profit firms already aim to compete with these courses with ones that can be offered at lower cost, with smaller class size and more interaction. The question then is what will happen if the traditional college or university is forced to unbundle its course structure. The university then faces a choice of either outsourcing or revamping its introductory courses in order to be competitive.

Introductory courses are not the only cherries that the new providers (either for-profit or online or both) have begun to pick. Other “profitable” parts of the enterprise, such as the moneymaking majors (e.g., business or education), and money making programs for targeted students (Ex: adult education) are also vulnerable. Universities have used these as revenue sources to cross-subsidize the high cost of less popular majors or courses, faculty scholarship, and community service. As competition intensifies, if the university loses the capacity to cross subsidize, who will provide the resources for these activities?

The opportunity for the new providers to compete with established institutions is increased by the long historical advance of academic arteriosclerosis. Gradually but steadily costs have increased, rewards for faculty have shifted from teaching to publication, the steady addition of programs important to someone has led to a dispersion of resources and loss of focus, and governance has become cumbersome to the point of immobility. The result is that the rhetoric of the campus is often better than the reality.

None of this is to say that traditional campus-based universities and colleges are about to disappear. The traditional model has great advantages. It has also shown a remarkable ability to change as society changes, which is why it has survived for a thousand years. Most traditional-age undergraduate students who can afford to will still choose to attend a traditional campus, and at research universities, cutting-edge questions will still be pursued with zeal. However, competition is forcing a hard re-examination of the purpose and effectiveness of every activity—from how well and often faculty interact with students, to whether expenditures on student life actually create a learning community, to the issue of costs and the wise use of resources. Slowly but surely, the nature of even the most traditional institutions will change.

With continuing growth in overall demand there is likely to be some expansion of the market. There is also likely to be a lot of adjustment, including the learning of new approaches by the old institutions from the new—the for-profit and virtual providers. Wisely used, market forces can help the university and college become worthy of its rhetoric.

The Need For New Policies

Policy makers (governors, legislators and boards) are increasingly focused on the idea that accountability is needed and market forces might help. They want policies that encourage institutions to be responsive to the multiple needs of society and to be accountable. They want information about how much is being learned to be readily available—so students can make intelligent choices and so institutions can be held accountable.

But new policies require careful thought. The Futures Project has looked at the policy options tried or proposed around the world that can help create a more effective and responsive system of higher education. We are now working on options in three areas that will encourage:

- More entrepreneurial and accountable institutions
- Successful participation in higher education for a greater share of the population
- Institutional acceptance for the responsibility for student learning.

It is not only policy that must change, so must the strategies that individual universities and colleges follow. First of all, each needs a strategy—a set of goals, a clear idea for the institutions place in the overall system, its advantages, and a plan for meeting its goals. Each institution needs a governance process that can make decisions and act promptly, avoiding the state of gridlock so often seen. Each needs leadership capable of creating a willingness to change.

This will be a decade of opportunity for higher education—opportunity seized or opportunity missed. Much depends on the willingness of political and academic leaders to step forward and address how to change what needs changing, and how to preserve of those attributes essential to maintain. For this to be successful requires several conditions. The state must be explicit about its priorities. The state wishes the universities and colleges to be accountable, but accountable for what? Both the state and the institutions need to cooperate in asking how market forces can be created that encourage the institutions to provide the services that match these priorities. And the university and college leaders must set about the hard task of helping their institutions embrace change and develop a successful strategy for these new times.