MEMORANDUM

I. INTRODUCTION

Competition in higher education has been on its way with a new format in its structure. While an increasing number of high school graduates are coming out of secondary schools with intentions of continuing for tertiary education, colleges look for ways of increasing their enrollments, or their quality, or both. In any case, one of the major aims of universities is to find the ablest students they can, who in turn would help the institutions increase their peer quality and therefore, overall academic standing. The new face of competition can be seen in the increasing;

- impact of information technology which not only forces the schools to change, but also the society as a whole,
- number of nontraditional students,
- effect of competition coming from for-profit sector, and
- price competition.

Schools, arguably more than ever, try to adapt themselves to the new competitive environment by attempting to reach out for the most possible number of students from different regions and countries, investing more on technological advances, spending effort to meet the changing demands of their students because of changing demographics, increasing their educational quality *vis-å-vis* for-profit and non-profit institutions, and finally managing their financial resources as rational as possible to exist in the tertiary sector especially when facing fierce price competition.

II. THE ROLE OF INFORMATION TECHNOLOGY AND DISTANCE LEARNING

Information technology (IT) has a number of impacts on higher education. The major impacts have been on access to college education, equity across institutions, student services, and educational practice (Long, November 3, 2005, lecture notes). Thanks to information technology, the number of beneficiaries of distance (online) learning has been increasing day by day. According to Allen and Seaman (2005), a significant number with more than 1.6 million students study online, and this figure is expected to grow substantially over time. It is not to offer that machines can completely replace the human factor, yet it would not be an overstatement to assert that improving technology diminishes the necessity of attending traditional classroom-style instruction and it offers different chances especially for those who are either physically away from the learning environment or unable to attend the class meetings on a formal basis because of the constraints of business life. Further, many of the studies suggest that not only distance-learning courses compare favorably with traditional classroom-based instruction, but also they end up with high student satisfaction (Merisotis & Phipps, 1999).

Universities now face higher costs arising from technology. The facts that hi-tech products, mainly PCs and servers, need to be replaced with new ones in time intervals of three to five years, and more staff are needed to support the use of technology put more pressure on the schools. Ehrenberg (2000) attributes to Cornell case where each of 1,600 faculty members is provided with a new machine every 3 years. With a decent assumption of $2,500 spending per scholar, it requires Cornell University to spend as much as $1.33 million a year, which is a remarkable figure and repeats itself in every other technological advancement cycle to keep up with. The author reminds that the spendings do not include the costs of software licenses, fees for connective machines to networks, and support personnel.

Despite the increasing expenses, schools opt for improving technology. A study of Allen and Seaman (2005) suggests that every group of schools, except Baccalaureate institutions, agree that online education is critical to their long-term strategy. According to the study, only the smallest institutions assess online learning outcomes inferior to traditional style learning outcomes and larger institutions are more likely to view its outcomes superior. In general, at most institutions the outcomes of online education are judged to be equivalent or superior when compared with face-to-face instruction.

The changing competition has an impact on trends. Within the next three years, virtually all institutions expect improvement in online learning. The trend mainly affects for-profit institutions, which continue to expect the largest growth in their online learning component, faster than other institutions.

III. CHANGING DEMOGRAPHICS: NONTRADITIONAL STUDENTS

Today, more and more students above the age of 24 attend college as undergraduate students. In general, a nontraditional student (Long, November 10, 2005, lecture notes):

- Delays enrollment after high school.
- Attends part-time for at least part of the year.
- Works full-time while enrolled.
- Is considered financially independent.
- Has dependents other than spouse (often single parent).
- Does not have a high school diploma (instead has a GED or other certificate).
- Is a displaced worker or unemployed.
- Is a welfare recipient.
- Is an immigrant.

The demographics and other factors changed undergraduate students' structure so much that today 73% of undergraduates have at least one nontraditional characteristic listed above. This structural change carries the institutions to a new competitive climate. Now that the number of nontraditional students has been increasing, colleges became aware that to survive in the new environment, they have

many things to do in order to attract this type of students who are more demanding, look for job outcomes, value gaining skills and earning a degree rather than looking for expensive student centers, fancy campuses, dormitories or high-cost athletic facilities and teams.

First and foremost, the schools need to form flexible schedules and programs. The fact that many nontraditionals are working forces the schools to create solutions to meet the demands of these students. Second, the institutions with local and accessible locations will have competitive advantage. Third, because of students' work and study constraints, colleges need to offer career-oriented programs some of which are more appreciated by the job market. Fourth, there is a need for colleges to meet the changing demands of nontraditional students, such as child care centers in the campus for working parents. This is especially an issue that two-year institutions should pay attention as Choy (2002) asserts that nontraditional students are, in particular, likely to choose these institutions. Another point is that these schools should also consider to have commuter lounges for these types of students in order to make them feel comfortable out of the classroom and to keep the units or offices assisting students open for nontraditional students who come to school during night hours or weekends.

IV. COMPETITION FROM FOR-PROFIT HIGHER EDUCATION INSTITUTIONS

Schwartz (2004) affirms that 1 out of 12 college students attends a for-profit institution, a sector which reached a $23 billion annual revenue. The leading one, the University of Phoenix, has approximately 201,000 full-time students at 142 campuses. For-profit institutions have various strategies and their existence is a threat mainly for the poorer schools with no- or low-endowments, which are relatively less-competitive institutions. Their existence also is a concern for the colleges which serve the same populations and for the ones that offer the same types of programs (Long, November 17, 2005, lecture notes). Thanks to the new IT and the organizational efficiencies, for-profit schools are able to lower their costs as well as their prices, or they can provide different and better education, or both (Winston, 1999). Among various ways of reducing the costs, keeping the number of full-time faculty low and providing almost no library facilities (with the exception of on-line journals and magazines) are the major cost-cutting precautions. According to Winston, the University of Phoenix had managed to instruct 60,000 students with a mere 45 full-time faculty, and the remaining need was met with part-time adjuncts.

Like many for-profit firms in different sectors, for-profit colleges differentiate their products for the market as well. Focusing on working adults is an additional advantage for these schools, which provide very few abstract knowledge in their instruction and rather prefer to be practitioner-oriented. In this sense, the education of for-profit schools are somewhat different from liberal arts education. With the fact that they are more market-oriented and more market-friendly, Winston finds their competitive advantage in the ability of aligning their offerings to employer needs.

In the US, the average cost of colleges exceeds their average price. The difference, which can be called as an average subsidy for each student, is made up by other sources of universities, such as endowment, appropriations, gifts, and other. Since for-profit institutions cannot charge their students tuitions less than their costs, an entering company has to offer the same education as low as at least equivalent to the average subsidy amount. So, subsidy can be perceived as a serious barrier for newcomer for-profits. Thus, it can be concluded that low-subsidy schools with few resources are the most vulnerable schools to for-profit competition, and according to Winston (1999) they are comprehensive universities, private specialized institutions, liberal arts colleges, and private two-year colleges, with more than four out of five are private while merely one private research university appears to be highly vulnerable. On the other hand, among the public schools, two-year colleges are highly vulnerable.

In this competitive environment, Winston argues that if the vulnerable schools lose out to for-profit competitors they can either change what and how they do, or they can change their faculty structure by lowering the number of tenured faculty. In other words, they have to reduce their costs and change their products and organization in the first strategy; employ more part-time adjuncts in order to increase productivity and reduce faculty discretion over the academic issues in the second one. The author exemplifies RPI, NYU, and BU, which market their academic reputation to offer employee education to leading corporations.

Having said that, top-tier institutions with significant amounts of endowment are protected and under less pressure because of having the luxury of high subsidies for their students. Winston (1999) gives a striking example from the top decile private institutions, where the average school gives a subsidy of $24,138 with a price-cost ratio of 0.254, which is almost impossible for for-profit competitors to threaten. However, even the highly-selective institutions might face serious competition from for-profit schools for courses which are better-taught or less expensive. One might think that the university would not be willing to accept these transfer credits from for-profits; but doing so would raise other problems such as Advanced Placement test credits and proficiency exams like French and basic math (Winston, 1999). Under such circumstances, even the flagship institutions might face fierce competition and would have to try to find ways of supporting their underrated departments since fewer funds would be coming from profitable programs. After all, the new competitive environment forces even top-tier schools to do subsidy-by-course analysis. This environment drives all of the schools to offer a broader variety of educational choices to meet the greater variety of educational needs of changing demographical structure of students, which is called by Levine (cited in Winston, 1999) as “Boutique-ing” of higher education.

The “for-profit” understanding is a different issue for traditional universities. While quality institutions such as New York University and Temple University wanted to create for-profit subsidiaries, their efforts failed in 2001, as similar to Columbia-Michigan-Chicago partnership in 2003. One reason

could be seen in cost management while the major problem can be defined as the gap between educational mission of such institutions and the entrepreneurial spirit needed to run these kind of operations, something non-profit flagships are not much used to (Schwartz, 2004).

Last but not least, (Kirp, 2003) attracts attention to the fact that some for-profit schools are accredited, which not only gives them legitimacy but also provides access for their students to federal loan programs. Swenson, Warren and Boggs (2005, p.2) further the discussion by pointing out that "the real dividing line between institutions may now not be between those that are for profit and those that are not but between those that are accredited and those that are not."

V. PRICE COMPETITION

Wealthy universities, not only having the financial ability of subsidizing their students, but also having more maneuver to go beyond this and paying the students stipend to make them attend their institutions, create a "negative tuition" and they are easily able to attract the best undergraduates. Winston and Zimmerman (2000) suggest this trend may become a threat causing a collapse and expose all schools to further competition that they may not be able to cope with because of the fact that all of their savings would be converted into student subsidies in order to increase quality.

In this new era of competition, while top-tier, affluent institutions pick the *crême de la crême* group of bright undergraduate students, we may come to see a period when higher prices would be charged by poorer schools and lower prices by the highly-selective institutions. On the one hand, rich schools -by subsidizing and paying the high-caliber students- will receive more and more applications by enjoying selecting the best among the best; on the other hand, those who are not able to make these most-wanted schools will have to attend lower-quality, higher priced colleges which are unable to provide wealthy packages for their students and interestingly have higher tuitions than the better schools.

According to Winston and Zimmerman, as of 1995, an education worth of $12,800 was sold for $4,000 in the US, which meant that on average the higher education institutions provided a subsidy of $8,800 for their students. This competitive environment surely increases the student demand significantly and this excess demand allows the institutions to choose the students with the ablest peer quality.

VI. IMPLICATIONS AND CONCLUSIONS

This era, almost undisputedly, brings advantages for most of the students, except for majority of those coming from low-income families. The transition of financial aid structure from need-based to merit-based provides a cosy climate for middle- and high-income families' children who have clear advantages to get higher SAT scores and are abler to provide higher merits on their application documents. Seaman (2001, p.1) confirms this structure with a striking claim that today "more

scholarships go to kids who don't need them." In fact, this picture of merit-based aid and preferential packages make only those institutions more competitive who have the financial ability to cover those huge aids. However, I argue that one of the major characteristics of American higher education system has been undermined by such financial aid offerings.

Cited in Seaman (2001), a college counselor from a leading prep school in Massachusetts noted that the latest wave of merit-based scholarships had become a barrier against economic and racial diversity. I think that whether the recent evolution of competition in American higher education sector is positive or negative for society can be answered with this view. Cornell's Ehrenberg, bitterly describes the losers as the "low-income kids." I find this dilemma that more funds are being spent for relatively affluent families' children a paradoxical situation against the whole idea of American existence -that is, giving chance to each and every one of society's members and having leaders from completely different backgrounds-. With this trend accelerating, particularly those educational leaders who manage universities should be concerned that the pathway to leadership in American society in politics, business life, world of academia, and others will merely be for those who have no additional advantages other than having more financial resources. Lovett -president of American Association for Higher Education- (2005) confesses that campus leaders and government boards unfortunately give little thought as to how rankings may have impact on the allocation of funds for low-income and minority students. And after all, I believe that as long as these tuition wars will continue, so will the suffering diversity.

On the other hand, schools need to question whether this new wave will be sustainable in the coming future. With decreasing state appropriations, there are enough reasons for schools to get concerned of the fact that their financial flexibility has been based more than ever on other resources such as endowment, appropriations, and gifts. If schools will have harm from these developments, without any question, society will, too. On the other hand, it should be a question mark for schools to put more and more emphasis on numbers and rankings, and to ignore the negative tuitions that had been created by themselves to face fierce competition and maintain their existence in this environment.

We know that the dominant goals of institutions are educational excellence, prestige, and influence (Bowen, 1980). However, having influence on society requires more than having financial abilities and it is not only a matter of monetary concerns that schools might be facing. It is the trust and unlimited credibility of society that make schools prestigious. In this new competitive climate, I think that the universities face a bigger threat than the ongoing competition. And it is the threat of the possibility of losing American society's confidence that these institutions have been losing their pioneership of creating leaders from different segments of American social life and the possibility of raising a concern that getting a quality education is becoming a privilege only for wealthy individuals.