

Strategic Avoidance: Can universities learn from other sectors?

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Universities live in interesting times. For instance, government policies in Australia are allowing for more deregulation of the student market while overseas universities are entering the Australian domestic market. In an environment of increasing uncertainty, sound strategic planning is important. Processes including benchmarking, environmental scanning, knowledge management and risk management can identify best practice and guide 'strategic pursuit'. Two approaches are suggested to assist universities. The first is to expand planning frameworks from within-sector to include cross-sector comparisons. The second is to use these processes not only towards strategic pursuit but also to learn from mistakes made in other sectors, that is, 'strategic avoidance'. To defend this approach, potential lessons which could be learnt by universities from other sectors are provided. The concept of strategic avoidance has relevance for universities in other countries, and in addition, may be used by organisations in other sectors.

Introduction

Competition for the recruitment of students in the higher education sector has intensified. While academic mobility is not a new phenomenon (Wildavsky, 2010), students now have increasing opportunities to choose between studying at higher education institutions in either domestic or offshore locations. Also, the opportunity for students to complete a degree across a number of institutions is becoming more prevalent. For an existing or potential student there are an increasing number of suppliers from which to choose the higher education 'product'. Not only do higher education institutions now compete to attract the best students, there is also a desire by many to increase total student numbers, that is, increase market share. For many institutions, income

from additional students provides marginal revenues to meet increasing operating costs. Many universities have recruitment tactics to ensure that enrolment objectives are realised. In some countries, this may include employing recruitment officers and the payment of commission agents to recruit students (Wildavsky, 2010).

In Australia for instance, the higher education market is being increasingly deregulated by its national government. This has occurred in conjunction with the expansion of the domestic market in response to government policies intended to increase the opportunities for Australian citizens to receive higher education. A number of international universities including Carnegie Mellon (Mather, 2011), Laureate (Mather, 2011), New York University (Van Onsellen, 2011) and University College London (Van Onsellen, 2011) now have a presence in Australia.

Competing more so in a global marketplace, Australian universities have to contend with issues such as currency fluctuations and government immigration policies when seeking to attract international students (Hilmer, 2010). As an export industry, the provision of higher education to international students by Australian universities is faced with more competition by universities in the United States, the United Kingdom, United Arab Emirates and Singapore. The current strong Australian dollar means that Australian education is less price-competitive against many overseas institutions, particularly the United States and United Kingdom. Further, Australian students have more buying power in overseas markets and there are reports of its best students now being lured to top overseas universities (see Stevenson & Rosenberg, 2011).

Not unique to Australia, higher education is entering an era in which there is increasing environmental uncertainty (for example see Rolfe, 2003), particularly in the context of the desire to increase student numbers in a more competitive market. Higher education institutions are increasingly realising the importance of strategic and operational planning as well as branding and marketing (Bunzel, 2007). In their report, *University of the Future*, Ernst & Young (2012 p.4) advise:

'Our primary hypothesis is that the dominant university model in Australia – a broad-based teaching and research institution, supported by a large asset base, predominantly in-house back office – will prove unviable in all but a few cases over the next 10-15 years.'

As with organisations operating in other sectors undergoing substantial change, not only are there important decisions to be made, there may be a lack of successful models upon which strategic decisions can be based. Typically, corporate strategists use a number of common processes which include benchmarking, environmental scanning, knowledge management and risk management (Grant, 2008). These organisational planning processes are now discussed.

Organisational planning processes

From both strategic and operational perspectives, organisations can undertake benchmarking activities with the aim of identifying 'best practice.' Hill and Jones (2008, p.105) argue that 'one of the best ways to develop distinctive competencies that contribute to superior efficiency, quality, innovation and responsiveness to customers is to identify and adopt best industrial practice.' They suggest this requires tracking the practice of other companies by benchmarking; that is, measuring the company against

the products, practices and services of some of its most efficient global competitors. Patterson (1996) considers that the benchmarking process can also be done within the organisation (internal benchmarking), and as well, identifies five forms of external benchmarking being, *competitive, collaborative, shadow, functional and world class*.

An example of functional and cross sector benchmarking is provided by Hill and Jones (2008) who explain that in the 1980s Xerox benchmarked itself against L.L. Bean for distribution procedures, Deere and Company for central computer operations, Proctor and Gamble for marketing, and Florida Power and Light for total quality management processes. In contrast, benchmarking by higher education institutions is mostly done *within-sector* rather than *across-sector* (for example, see ASHE-ERIC Higher Education Report, 2009). Langford's (2010) study of work practices and outcomes in Australian universities provides examples of cross-sector benchmarking.

In addition to benchmarking, Hill and Jones (p.10) argue that part of the strategic management process involves an analysis of the organisation's external operating environment to 'identify strategic opportunities and threats ... that will affect how [an organisation] pursues its mission.' They point out that three interrelated environments should be examined during this process; the industry environment, the national environment, and the wider socio-economic or macro-environment. It is some of the activities and events occurring in the broader macro-environment which is given attention in this work.

Following a discussion on the importance of benchmarking, Grant (2008 p. 159) alerts managers to the growing interest in knowledge management which is broadly defined as, 'the processes and practices through which organisations generate value from knowledge'. Further, he argues there is a growing body of literature pointing to the capability of knowledge management to generate substantial gains in organisational performance. Grant (2008) distinguishes between *knowledge generation* (exploration) and *knowledge application* (exploitation). Figure 1 shows that knowledge generation can result from knowledge creation (derived from research) or knowledge acquisition (derived from sources including training, recruitment, intellectual property licensing and benchmarking). Knowledge obtained from these sources can assist senior management in charting the company's future course (Aguilar, 1976). With reference to Figure 1, knowledge generation, particularly through benchmarking, and knowledge application are relevant to the arguments presented herein.

In dealing with corporate strategy, Grant (2008) also discusses attendant uncertainty and risks. With regard to emerging industries in particular, Grant identifies two main sources of uncertainty. The first is technological uncertainty 'arising from the unpredictability of technological evolution and the complex dynamics through which technical standards and dominant designs are selected.' The second is market uncertainty 'relating to the size and growth rates of the markets for new products' (Grant, 2008 p.302). On reflection, although not an emerging industry, arguably universities for the most part face both technological uncertainty and market uncertainty. If reliable forecasting is impossible, Grant (2008) argues the keys to managing risk in these circumstances are *alertness* and *responsiveness* to emerging trends, together with *limiting vulnerability to mistakes*. This advice also has relevance to the term 'strategic avoidance' introduced later in this paper.

The processes of benchmarking, environmental scanning, knowledge management and risk management can aid strategic planning. Moreover, Grant (2008 p.144) suggests these processes are often not fully utilised and warns:

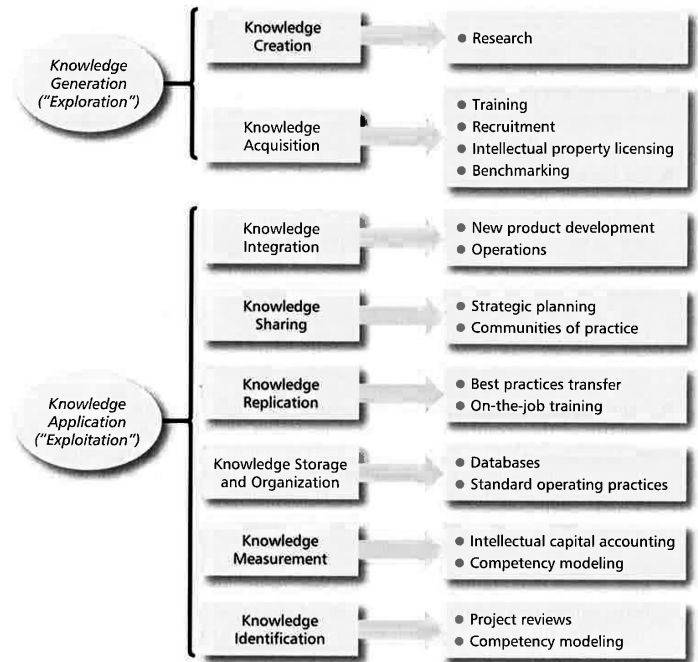
'In assessing their own competencies, organisations frequently fall victim to past glories, hopes for the future, and their own wishful thinking. The tendency toward hubris among companies – and their senior managers – means that business success often sows the seeds of its own destruction.'

Grant opinions that even organisations which are enjoying success should retain focus on the organisational planning processes mentioned at the beginning of this paragraph. With regard to Australian universities for instance, Ernst & Young (2011) point out that contributions to past and even present success of many universities has been the restraint on competition imposed by government and the ability for a university to dominate within its location. Universities are now entering an era of more deregulation and a marketplace where geographic boundaries matter less.

Notwithstanding the benefits of the planning processes described, the next section introduces some possible shortcomings. Examples are provided from a range of industry sectors which may be relevant to the higher education sector in Australia and beyond.

Figure 1: Knowledge Processes within the Organisation

Source: Grant (2008 p. 161)



Learning from mistakes

Organisational planning processes can influence either proactive or reactive strategies. For instance, benchmarking has a focus on delivering best practice as does knowledge generation and knowledge application. Environmental scanning seeks to identify both opportunities and threats in the industry, as well as, the national and global socio-economic environments. Similarly, risk management requires alertness and responsiveness to emerging trends. In addition to using benchmarking and knowledge management to identify best practices, these processes can be combined with risk management to limit vulnerability to mistakes.

As well as scanning organisations within and across sectors to benchmark (and copy or even improve upon) best practices, organisations have an opportunity to learn from 'strategic mistakes.' Normally, organisations undertake benchmarking, environmental scanning and knowledge management with the aim of 'strategic pursuit.' Such processes can however, be used as a means to increase alertness, and as a consequence, limit vulnerability mistakes by way of 'strategic avoidance.' Examples to explain 'strategic avoidance' are provided in the following discussion in the form of lessons which could be learnt by higher education, particularly in Australia, to avoid mistakes made in other industry sectors.

Strategic avoidance

To support the argument proposed, a search of contemporary issues in business where mistakes have occurred was undertaken. As a result, a number of 'lessons' from the finance, property, tourism, fast-food and government sectors, mainly derived from an Australian context, are provided as examples of cross-sector comparisons and strategic avoidance. These are discussed having regard to potential implications for decision making in higher education.

Lesson 1: From the Finance Sector: 'Do not lend money to people with no capacity to repay'

Investigations into the causes of the Global Financial Crisis (GFC), particularly in the USA, exposed the inept lending practices of the banks. With a race to increase market share and the ease of access to funds, banks lent money to many customers who had no capacity to repay (For example, NINJAs - No Income, No Job or Assets). The result was a large number of defaults on loans resulting in hardship for the borrowers and both financial and reputational losses for the banks. Contributing to this outcome was the desire by the banks to transfer some of their fixed costs to variable costs, and to rapidly grow market share. To do this, many banks used a commission-based model (using brokers) as a distribution channel for loans. Allegedly, the commission-based model - an approach that many in the higher education sector use to recruit students (see, Wildavsky, 2010) - gave rise to 'creative applications' to 'help' applicants gain approval for loans.

A lesson for higher education institutions operating in very competitive markets, where there may be almost an obsession with market share is perhaps, 'do not allow entry to students with no capacity to pass'. An obsession with increasing market share, and using commission based models, may be lessons in strategic avoidance. Such practices, having an emphasis on market share and using commission-based models for recruitment may ultimately cause hardship for students and ultimately lead to financial and reputational losses for higher education institutions. In addition, there may be a link between the level of ability of students and the high drop-out rates, estimated to be costing the sector A\$1.4 billion per year (see Hare, 2011a).

Sadler (2011, p.33) points out that the university system is caught between two large scale factors: 'One is to protect revenue streams through enrolments and retention while tapping into a broader social spectrum of students. The other is to ensure appropriate academic achieve-

ment standards'. Reflecting on Sadler's comments, a sole focus on increasing market share could be a strategy best avoided. For example, Hare and Ross (2012 p.4) identified that 'regional universities made an offer to almost every person who applied this year, while the proportion of school-leavers who gained a place with a university entrance score under 50 has more than doubled in three years'. With regard to the dependence of Australia's higher education sector on the international student market, Schwartz (2012) commented:

'Faced with declining revenues, vice-chancellors boarded the Shanghai-Mumbai express and set off to sell their wares. They offered large commissions to send students to their universities. To attract more students, some universities reconsidered their standards: do students really require a high competency in English for university work; have we been too tough on plagiarism and other forms of cheating... Will [universities] be able to resist the temptation to enrol students who might not be sufficiently motivated or prepared for higher education?'

In 2011, the Victorian Ombudsman criticised four universities when examining 'How Universities Deal with International Students' (Taylor, 2011, p.32) accusing them of compromising academic standards to retain their market share claiming: 'Universities have a responsibility to ensure that international students have the English skills they need to study successfully in Australia. I do not believe universities have been meeting these obligations.'

It may be that Australian universities are charting a course not dissimilar to that set within the finance sector where hardship for some 'customers' and the reputational capital of the institution may be at risk.

Lesson 2: From the Property Sector: 'Do not sell the rent roll'

The Australian property market is cyclical and sometimes volatile. Despite the importance given by Australians to owning their own home, the *property sales market* does experience peaks and troughs. In addition, there are many Australians who rent property, the *property rental market*. Transactions in both of these markets are normally mediated by licensed real estate agents with commissions being paid as a percentage of the value of the transaction. In dollar terms, the commission on a property sale is far more than that earned on a weekly rental payment for a property. In a boom property market, real estate agents earn high incomes from the commissions on property sales. As the gross commission from rents is substantially lower, relative to sales commissions, some real estate agents decide to sell their rent roll (the right to manage

properties for rent on behalf of the property owners) to other agents. Some see the relative small returns from commissions on rent payments as a 'nuisance.' However, if the boom property sales market turns to a bust, there are fewer sales commissions (and sometimes none). Those who have sold the rent roll during the boom have sacrificed a reduced yet reliable cash flow. As a consequence, *when* the cyclical - even volatile - market (commissions from sales) slows or stagnates, and the more stable market (commissions from rents) has been sold off, the real estate firm can face a liquidity crisis.

Perhaps a lesson in strategic avoidance for higher education institutions is distinguishing between higher-profit volatile markets and lower-profit stable markets. Perhaps the lower-profit stable markets should not be ignored (and even

sold or abandoned) during the peaks of the higher-profit volatile markets. If there is a downturn in the higher-profit volatile markets, the reliable cash flow from the lower-profit in more stable markets may no longer exist. Powell (2011) for instance advises

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of the predicted decline of international students enrolling in Australian universities, while Hare (2011b, p.27) reports that fees from foreign students are 'propping up' university research and that 'there is extreme reliance on international students'. Meyers (2012, p. 159) explains that the income from foreign students, upon which many institutions have become dependent, can evaporate in a matter of months and reminds, 'we have seen Central Queensland University effectively go broke due to their exposure to the foreign student market'. The point here is that the lower-profit more stable domestic markets should not be ignored during the peaks of the higher-profit more volatile international markets. Interestingly, notwithstanding the higher per student revenues to universities from international students, Braithwaite and West (2012) found that domestic students who relocate to attend an Australian university may contribute more to a regional economy than some segments of international students.

Lesson 3: From the Tourism Sector: 'Do not target conflicting segments'

Essentially, marketing practice suggests that organisations should identify segments within markets and target those segments which can realise the sustainable exchange of benefits. An organisation will normally target more than one segment. In tourism, a case in point is the popular

destination of the Gold Coast of Queensland, Australia. There are many segments, including some based on age while others are based on interests. One tourist segment might be the 'older retiree' who seeks the warm weather, beaches and relaxation. Another segment might be the 'schoolie', that is, a young person who has just finished high school who travels to the Gold Coast to attend 'wild' parties which continue over a period of weeks (see Winchester, McGuirk & Everett, 1999). Although both of these segments are sought after by Gold Coast tourism operators, they are not compatible. The products they wish to consume are mutually exclusive - that is 'rest and relaxation' and 'parties and excitement.' The presence of each segment may deter the other. Most likely, one will dominate and the other will go elsewhere.

Perhaps a lesson for higher education institutions is to be aware of its segments and mitigate the risk of conflicts. For instance, segments may be defined by higher education institutions according to capabilities. Would there be conflict between a segment

of higher capability students and a segment of lower capability students? The presence of each segment may deter the other. One may dominate and the other may go elsewhere. A study undertaken by Rindfleish (2003) into segment profiling in higher education highlights the need for 'a reduction in the risk of misplaced strategic goals' (p.158). Notwithstanding the merits of government policy providing pathways for people of diverse backgrounds, Hare and Ross (2012) report of the possible trend of the higher education sector being stratified along socio-economic lines. Further, it may be that universities which have high numbers of international students with limited English skills (see Taylor, 2011) and as well high numbers of domestic students with an Australian Tertiary Admission Rank (ATAR) below 50, may combine to form a lower capability segment which may by its presence conflict with a higher capability segment which may prefer to seek another university.

Lesson 4: From the Fast Food Sector: 'Do not confuse the customer with too many products'

In fast food businesses, it has been found that too much inventory increases both holding costs and preparation costs, and in addition, can confuse both staff and customers (see Schwartz, 2004). Part of the success of McDonalds, for instance, has been the strategy of having limited and

well-managed inventory. Staff and customers understand the products which are usually served efficiently and to consistent standards. By contrast, particularly prior to the McDonald's business model, some other types of cafe have extensive menus and therefore larger holding costs, preparation costs and service inefficiencies. Staff and customers in these establishments can become frustrated and confused. Today successful food outlets understand their market, have a product range to satisfy that market, and have both efficient supply chains and systems. In particular, the adage 'inventory is the enemy' has been learnt by such organisations.

Perhaps a lesson in strategic avoidance for higher education institutions is not to confuse their markets with too many products. A more focused and well-managed inventory of the educational programmes might be better

understood by staff and students. This may lead to greater efficiencies though reduced transaction costs and may result in increased overall satisfaction by both parties in addition higher quality outputs. Perhaps supporting this view, Ernst and Young (2011, p.15) recom-

mend more focused segmentation of the student market by universities and 'build product offerings, ... experience, brand and marketing strategy around the needs and preferences of the chosen segments'. Further, Szekeres (2010, p.436) reported on studies into marketing by universities stating: 'Students identified difficulties in making their choice due to the large variety of courses, the amount of information to sift through, particularly on similar courses, lack of experience in making choices and lack of assistance.' Ernst & Young (2012) suggest three broad lines of evolution of the business models of Australian universities being 'Streamlined Status Quo' (involving more efficient delivery of services), 'Niche Dominators' (refining the range of services and markets and targeting 'customer' segments) and 'Transformers' (private providers and new entrants carving out new positions and new markets). Ernst & Young (2012 p.5) suggest:

'Australian universities should critically assess the viability of their institution's current business model ... Deliberations ... need to include which customer segments to focus on, what 'products' or services they need, optimal channels to market, and the ideal role of the university within the education and research value chains.'

A lesson in strategic avoidance for both governments and higher education institutions is that a deregulation policy allowing foreign institutions entry to domestic markets may not result in more competition across the entire market.

While not suggesting the 'McDonaldisation' of universities, a lesson in strategic avoidance from the fast food sector may be to have a product range to satisfy target segments, and have both efficient supply chains and systems, that is not have 'extensive menus' offering a confusing array of products to the broader market.

Lesson 5: From the Government Sector: 'Do not assume deregulation means competition across all segments'

In deregulating markets, governments may not always achieve the desired objectives. For example, in deregulating the finance market in Australia in the 1980s, some in the Australian government (and the finance sector) foresaw the entry of foreign banks into Australia as resulting in branches being opened in towns and cities across the

nation. The result was quite different as the new entrants (such as ING) were inclined to only open offices in major cities and exclusively target the most profitable segments (referred to in marketing as 'cherry picking'). Australian banks soon found that they were losing high value cus-

tomers and potentially being left with low (no) value customers whom they were obliged to service.

A lesson in strategic avoidance for both governments and higher education institutions is that a deregulation policy allowing foreign institutions entry to domestic markets may not result in more competition across the entire market. Such an approach may actually result in new entrants targeting only the high value segments and leaving some higher education institutions with a greater share of the lower value (even loss-making) segments. This point has been raised by Ernst & Young (2011) who reflected upon the impact of deregulation in the utilities sector in Australia. In the context of Australian universities, one of their respondents, a vice-chancellor's chief of staff, made the comment: 'If we do not have the right government support, new entrants will cherry pick our most profitable courses. We're going to be left providing loss-making courses that serve the public good' (Ernst & Young, 2011, p.8). This point of course raises the issue of the role and objectives of universities in a society (see Marginson, 2011). In their more recent report, Ernst & Young (2012) predict, even warn, of new niche dominators and new entrants who will carve out new market spaces that merge parts of the higher education sector with other sectors.

Conclusion

This work argues that for organisations, particularly those operating in changing regulatory and market environments, such as universities in Australia, there is potential in not only using organisational planning processes for identifying best practices for 'strategic pursuit' but also to use these processes to learn from other sectors and adopt 'strategic avoidance', that is, to avoid mistakes made by organisations in other sectors. From the examples provided, it is suggested that universities can adopt this approach as a means of limiting vulnerability to mistakes and in doing so may develop more successful and sustainable strategic and operational plans. It should not be assumed that either best practice or mistakes in other sectors are not relevant. Strategic avoidance has a place for strategic and operational planning in businesses in other sectors although it may be universities which are entering a new era which are in a position to best benefit from this approach.

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