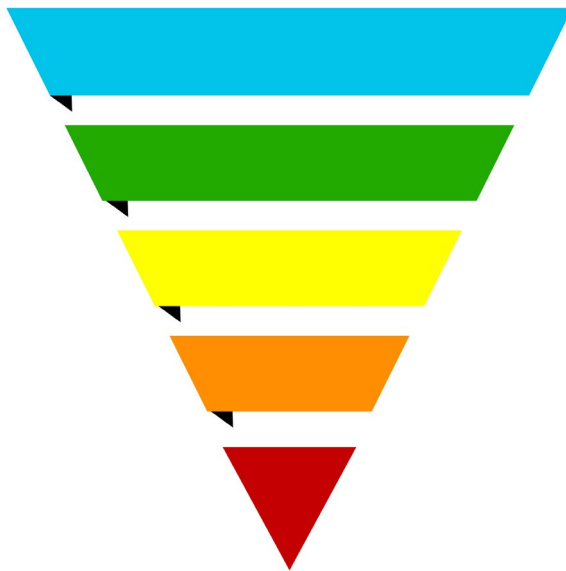


**Down with the world-class
university: How our business
models damage universal
higher education**

With a Foreword by Professor Frances Corner



About the author

Edward Venning is Founding Partner at Six Ravens Consulting LLP, working with knowledge-led institutions on their most important communication, governance and policy challenges. Previous work for HEPI includes *Size is Everything* (HEPI Report 160), the first full picture of small, specialist and practice-based institutions in higher education.

He has served on the executive board of University of the Arts London (UAL), the largest world-class university in its field, and of Southbank Centre. Before that, he was a senior civil servant.

Acknowledgements

Edward is grateful to Frances Corner and staff at Goldsmiths, University of London, for inspiring this report, and for convening sector roundtables and leadership conversations on this topic over many months.

He thanks everyone who shared their thoughts on business models and system design and reviewed early versions of the report. These perspectives – from universities, colleges, regulators, sector bodies and banks – have been invaluable.

Contents

Foreword	4
Executive summary	7
1. Growth to come	10
2. System design	18
Conclusion	29
Recommendations – change standards, scope and structures	31
Endnotes	32

Foreword

Professor Frances Corner, Warden of Goldsmiths, University of London

Education matters. For centuries we have cultivated a diverse higher education landscape. From Prince Albert's establishment of art and design institutions addressing the shortage of design and manufacturing skills, to somewhere like Goldsmiths College, established by the Goldsmiths Livery Company to support the education and training of young men in South London. This variety has empowered individuals, fuelled economic growth and given us a vibrant society. Over recent decades the UK has purposefully expanded higher education access, with participation rates rising from around 10% to exceeding 50%. As positive as this is, it is not enough. Today's global issues demand a more forward-thinking approach to maximise the sector's societal and economic impact as well as its overall sustainability.

The expertise and collaborative spirit found across higher education positions us perfectly to work together to tackle issues like social inequality, AI and climate change. And to use our creativity to bring about real cultural change. Yet politicisation, a growing student debt burden, increased global competition and a singular focus on immediate skills threaten our legitimate goals, whether that is education for macro-economic growth or for its own sake, not to mention critical thinking, cultural awareness and responsible citizenship.

So, how might we leverage our past to design a future where education aligns with national need, ensuring a sustainable and impactful sector?

We know the current financial model is unsustainable, but this is not just about resolving the current financial shortfall. Universities are being scrutinised – for their purpose, access and performance evaluation as well as funding. We need now, more than ever, to capitalise on our heritage and reputation, to restructure how we deliver education purposefully and collectively aligning it with a national industrial, social and economic UK strategy.

Understanding higher education requires looking beyond individual aspects, like skills development, and recognising it as a holistic experience. A university education equips students with a toolbox richer than just job-ready skills.

One of our strengths is how students learn in and through a subject. Where students develop not just content knowledge, but also critical thinking and research capabilities. This develops essential transferable skills like problem-solving, communication and teamwork. These skills are not separate entities to be bolted onto a traditional curriculum; they are inherent to a well-designed, subject-specific learning process.

Academic thinking does not just happen in a vacuum. Learning takes place with others. Learning flourishes through collaboration and discourse – both within and beyond our institutions. Looking beyond the walls of our institutions, partnering with other sectors and sharing ideas with wider communities is crucial. This is how we can understand the human experience and every university must contribute to this shared mission.

Focusing solely on skills paints an incomplete picture. A university education is the fertile ground where those skills can take root and flourish alongside critical thinking and a broader worldview. It is the complete package that shapes future leaders and engaged citizens, not just a training ground for specific occupations.

In the age of technology, when the very definition and purpose of higher education is undergoing a critical re-evaluation, we need more, not fewer, graduates equipped with advanced skills to solve complex problems. These individuals will require expertise across a broad spectrum of knowledge and creative endeavours.

Regionalisation offers exciting possibilities. Higher education can play a vital role in developing an even more diverse, articulate and critically engaged workforce throughout the UK. A workforce that acknowledges the wider UK context but one that can address solutions and opportunities for the immediate regional environments. Improving infrastructure and

technology can do some of this, it can empower local and global networks, fostering vibrant communication and diverse learning models. But, if we are to educate more of the population, we need to innovative our business models even further to meet evolving student and employer demands.

So how can we achieve universal access to this new vision of higher education, ensuring it is tailored to the specific needs of our different regions? Can we define and structure a system of education that is both universally accessible and regionally relevant? And, more importantly, can we afford not to pursue this ambitious goal?

The opportunity exists to advance the frontiers of subject knowledge while playing a role in creating social and economic benefits. Beyond employability, we must prioritise continuous professional development, lifelong learning opportunities and robust partnerships across public and private sectors. These cannot be achieved by a single institution. This collaboration is key to strengthening industry ties and reducing reliance on the public or students funding world-class research.

Skills development and global economic contributions cannot be achieved by simply stretching existing models. The world is changing, and structural reform is essential. This paper delves deeper into the UK's competitive advantage to innovate within tradition for the purposes of universal access. By embracing this spirit, we can ensure that higher education remains a powerful engine for growth and progress.

Executive summary

Higher education's onrushing insolvency is not, as many would wish, merely a fixable fault in our funding model, caused by government backsliding on the tuition fee. Instead, we have a system-design problem, in which funding problems are simply a characteristic, not a cause. What other sector would allow itself to stall in an era of surging demand, as our addressable market expands from young people to all adults?

The fault lies in our business models and our operating assumptions, as a sector and as providers. We must rethink the types of people we serve, and how we can meet their needs for education and skills in ways that meet the test of private and public goods. Our fascination with the 'world-class university' model has had negative systemic effects, draining resources from the wider sector. And we must question our default setting, our cherished high-quality, high-touch and high-cost model. These attributes are not inviolable aspects of our offer. Each places huge demands on students and providers. Can our system really be fit for purpose, if it is unworkable for large minorities of students and providers, and unaffordable for the state?

Higher education has long been crucial in the race between innovation and education, helping society adapt to technological change. But universities face challenges to our position in research, with reduced relevance to cutting-edge developments in key fields. The UK is falling behind other advanced economies in tertiary enrolment. Meanwhile, new types of competitor are emerging to offer micro-credentials and stackable qualifications outside traditional university structures.

To address these challenges, we must shift towards more collaborative, interdependent models and group structures. We must rethink our relationships with industry and restore higher education's broader public good remit. This will help achieve the critical mass and agility needed to serve new markets and develop compelling value propositions for universal higher education.

Restructuring the sector, rather than individual providers, provides a constructive way out of our financial difficulties, averting a doomed attempt to restore the status quo. Apart from being structurally unsound, the status quo actively inhibits the sector's growth and destroys value in fields as various as lifelong learning, practice-based and technical education and subjects as diverse as Medicine, Arts and Humanities.

A systemic approach would be new to the sector. Policymakers have tended to focus on efficiency within the business model, which has promoted managerialism. They have not been offered a confident, academically informed concept of value. To use business school language, this concept would embrace different customer segments, alternative value propositions and a customer experience which does not mandate a three-year, immersive, residential model.

As part of this, we need a better way to talk about and use business model thinking. Higher education business model patterns have not been well researched. The term 'business model' itself is problematic in policy use at present. Even quite respectable sector bodies use the term interchangeably with operating model and funding model. The clear assumption is that the current default business model of UK higher education deserves to be shored up as the only option.

But exciting alternative business models already exist in this country and are widespread across the world. Many of these derive from group structures, joint ventures and regional frameworks, rather than single-institution initiatives. They are characterised by innovations on the value side of the business model, targeting different customer segments and relationships, developing new value propositions and operating across a variety of channels. By contrast, most UK policy interventions over the last 30 years have worked the efficacy side of the business model, preoccupied by revenue streams, resources, key activities, outsourcing and cost structure.

Universal access to university is essential to win the race between technology and education. The UK needs to keep up with the massive

increase in tertiary education at the global level. But it will be an unmet expectation, degrading national competitiveness and the sector's legitimacy, unless we find, fund and popularise compelling new value propositions. To do so, we must change the way we are organised, switching to the agile, multi-modal approach typical of fast-growth sectors. This requires a wider range of autonomous providers with structural incentives to work together academically and professionally, finding new ways to be world-class. This will help diversify sources of support and funding, improve results and keep the UK on the path to universal, all-age access to the benefits of higher education.

1. Growth to come

The driving force of the knowledge society is the race between innovation and education. As technology changes we develop the necessary cognitive and practical skills to make the most of it. The race is for high stakes. If education stays ahead of innovation, it leads to job creation and economic growth. But when technology outpaces skills, inequality and societal problems rise instead. In economic terms, 'higher inequality is largely accounted for by a rising premium for skills, for education [based on] both demand ("technology") and supply ("education")'.¹

At first, primary education ensured people kept up with innovation, and was made compulsory. The next wave of innovation meant the baton passed to secondary education, now compulsory (in England) to age 18. Universities are the final relay in this race, meeting the growing need for advanced cognitive skills. We help society absorb rapid change caused by innovation, with all its cultural, social and economic ramifications. This has resulted in explosive growth since 1992.

For the first time, the coming wave of technology is large and fast enough to require whole populations to be educated, and not just the young. This presents three opportunities for universities in the UK. To seize them, we must restructure and re-position the sector, our value propositions and our business models, or be overtaken in our turn.

The biggest opportunity is to keep our place at the centre of the massive increase in tertiary education at the global level. All key drivers of education are speeding up: from higher labour productivity through human capital development to increasing social mobility. The need for education is expanding to all stages of life, helping the whole population to adapt to rapid social and technological change. This places us on the brink of truly universal tertiary education. The effect is likely to be as profound, and contested, as the introduction of compulsory secondary and mass higher education, which allowed us to keep pace with the demands of globalisation, computing and digital transformation.

Mustafa Suleyman, CEO of Microsoft AI and co-founder of Deep Mind, recently argued that benefiting (rather than suffering) from artificial intelligence will require:

a massive re-skilling program and education effort [to] prepare vulnerable populations, raise awareness of risks, and increase opportunities for engagement with the capabilities of the wave.²

And it has long been assumed that higher education would continue to grow in line with and at the same pace as the middle classes, which the World Bank expects to triple between 2009 and 2030.

The second opportunity is to renegotiate universities' position in research. Economic analysis suggests public science may reduce corporate research and development (R&D).³ *The Economist* ungenerously interprets this as proof that 'universities' blistering growth and the rich world's stagnant productivity could be two sides to the same coin.⁴ This is a stretch. Life sciences do well in the analysis. What's more, researchers prove themselves in universities before they are recruited by industry. Nevertheless, university research does seem to be less relevant to cutting-edge developments in key fields of science and technology, including AI. Universities may no longer be the main places 'where the action is' unless we respond.⁵ This will require us to rethink our relationship with government, civil society and, above all, with industry. *The Independent Review of University Spin-out Companies* set out the coordinates of this relationship, a surprising number of which come down to proximity. The *Review* also dolorously noticed that most UK spin-out ecosystems 'have not yet matured to the point where IP, talent, capital, and support services are truly self-reinforcing'.⁶

Thirdly, we must universalise (and indeed restore) a broad public good remit to higher education and translate the resulting benefits into policy objectives. This will be more straightforward now that its principal adversary, human capital growth, is losing ground amidst growing scepticism of the durability of the graduate premium.

The idea of higher education as a public good has been out of favour recently. People have preferred to argue that education exists mainly to increase individual earning potential. But doubts are growing about the

so-called graduate premium. *The Economist* was again ungenerous in its interpretations when catastrophising about China's graduate premium. The underlying research actually shows strong regional differences due to industrial strategy. Even so, the law of averages would suggest that all premia weaken as more people enjoy them. And it has long been forecast, among educational theorists, that the job of universal education is instead a public good, 'to maximize the adaptability of that population to a society whose chief characteristic is rapid social and technological change'.⁷

Much of this will take place within the civic agenda, which covers a broad range of public good missions. These include higher level skills acquisition, innovation, community cohesion and delivery of public service outcomes during the era of austerity. Universities increasingly take a commanding role in their immediate locality, stepping into the breach created by the abolition of regional development agencies, albeit with no additional funding. And 'civicness' is just one strand of public good in education. We need to remind policymakers that higher education is a cultural and social building block of society, with a key role in adjusting to technological and climate change through social innovation:

*Just as mass education transformed peasants and tribespersons into 'persons' and 'citizens,' so too does university education transform persons and citizens into strategic 'actors,' with considerably augmented authority.*⁸

This outcome is fundamental to our approach. The Program for the International Assessment of Adult Competencies (PIAAC) measures cognitive and workplace skills needed for work and life across 33 countries. The first report from the PIAAC survey 'was optimistic about the role of adult learning programmes in reducing the problem, [whereas] the causal empirical evidence on training programmes is not that promising'.⁹ That is partly because, by definition, training is task-specific whereas higher education requires students to formulate a conceptual framework. But we face a doubting public which knows a rounded higher education combines education and training, and requires theory, practice and enquiry. This combination is characteristic of practice-based higher education, but not more generally.

These three opportunities mean our sector should continue to grow, but only if we renew our effectiveness, the way we are organised and our finances. At the moment, that seems unlikely. UK providers are still struggling to absorb the stress and responsibility of a massive expansion in student numbers over the last 20 years. And despite the recent big increase in UK students (of all ages) in tertiary education, we lag well behind advanced economies such as Australia and the United States, and China should surge past us in 2025.¹⁰

Meanwhile, UK graduate premia are falling in line with low industrial demand in the regions for otherwise valuable skills, as we also see in China.¹¹ A key factor is undoubtedly reduced industrial growth. But the link between a university degree and higher earnings is weakening. As more people graduate, the average benefit, the famed 'graduate premium', is bound to decrease amid rising concerns about elite overproduction.

*Governments continue to use human capital rationales to explain the expansion of higher education, recycling expectations about careers, status, and widespread mobility that universal higher education systems cannot fulfil.*¹²

As the dominant force in 18+ education, universities face the classic disadvantages of an incumbent in the face of disruptive change. But we still have significant advantages. Higher education is a better long-term investment than technical training, combining conceptual skills with continuous innovation. Our students learn critical thinking and advanced problem-solving. A graduate's ability to navigate the world is a vital indicator of life chances. This justifies public subsidy and strong protections in regulation and global standards.

New players in the education market are taking a different approach to the same objectives. They are not constrained by our quality and regulatory standards. With little interest in becoming a university, they are not encumbered with the costs and assumptions of the existing model. But they are building something very like the cutting-edge of higher education and rapidly achieving large scale. They routinely deploy micro-credits,

with proprietary credit ladders and stackable qualifications. This model is increasingly common in the walled garden of enterprise software systems (as with Salesforce Trailhead). Or it is used to expand market penetration (as with Google Education) with the usual competitive strategy of cost leadership.

These new value propositions strip back our core business to its basics. They are unencumbered by our sunk costs of lecture theatres, seminars or staff. This is education, rather than teaching. It responds to professional need and popular interest. It is the future we did not like the sound of, and were too slow to build. But we can still join in, either willingly and creatively or in 'the form of extensions and modifications of contemporary education', imposed against our will.¹³

The current financial crisis in UK higher education has been largely imposed on us.¹⁴ The growth of English higher education has been large, rapid and characterised by chronic underfunding. Yes, we enjoyed a period of plenty between 2010 and 2016, but that was exceptional. Within the present fiscal-political framework, higher education in the UK is no longer able to meet its public goals. This is rapidly degrading an entire class of elite providers, accompanied by an extinction event encompassing entire academic fields.

The financial effects of negative growth on individual providers are increasingly well understood. With £1 billion annual loss on Home students, and £5 billion loss on research, providers depend on international tuition fees in a volatile market. Most English providers expect to enter deficit in 2025/26 if the international student growth rate slows beyond expectation, or if university expenditure increases marginally. Both scenarios are considered likely. Many providers are already in deficit thanks to unpredictable movements in international demand, although these deficits are sometimes obscured by depletion of capital reserves.

We need to address the false policy compact between universities and government:

English policy on the public good outcomes of higher education has been hi-jacked and reworked by Treasury's near 30-year drive

*to implement a fee-based market. [...] Without... consensus about definitions and measures of public good outcomes, or their importance, or the respective roles of government and institutions in producing them, or their financing, there could be no effective challenge to the idea of private pecuniary outcomes as universal descriptors of higher education in England.*¹⁵

Universities are more than our economic contribution via human capital and applied research. This economic argument ‘under-plays all contributions, effects and values in higher education that are not defined as [...] private goods’, as noted by Simon Marginson and Lili Yang.¹⁶ All major categories of university endeavour depend on a reliable surplus from tuition fees, as a private good. Or to put it another way, everything runs at a loss. That is because, at the collective level, research, education and knowledge exchange are inherently public good activities. Their main value is beyond the boundaries of the university, not within it. For example, most knowledge exchange loses money for most universities. Beyond the select few universities which succeed in commercialisation, the point of knowledge exchange is to drive innovation productivity as an industrial good. It is no surprise that this does not drive direct income for universities.

The paramount public good of higher education is our collective achievement, acting with universities across the world to shape educational approaches, knowledge and standards. This enables Britain to participate in global knowledge infrastructure.

The financial jeopardy of individual institutions, while genuinely unnerving, is therefore an especially pernicious type of political misdirection, as are appeals for efficiency savings. The 2023 EY / Times Higher Education report on financial sustainability highlighted that ‘financial sustainability will not be achieved by merely trimming the academic payroll, using contractors, re-organising internally or paring back on professional services.’¹⁷ Across a 20-year period, statistical studies of English higher education ‘have demonstrated that the sector appears to be reasonably efficient’ and ‘typically found that, on the whole and with some exceptions, universities are operating close to the efficiency frontier.’¹⁸ The key term in that

sentence is 'on the whole'. Efficiencies remain available but with massive capital investment. For example, the Office for Students notes further efficiencies 'will require substantial investment in IT and infrastructure over many years'.¹⁹ Nor is market logic remorselessly at work in the collapse of university balance sheets. As is increasingly recognised, there is no real market in UK higher education, at least, not between universities and students. Despite the language of student fees and loans, we have created at most a quasi-market competition between institutions, ordered by calibration exercises like research assessment and university ranking. Even the genuine market in international students is more responsive to government rhetoric than to institutional activity.

Institutional jeopardy stems instead from terrible system design at the national level. Other than a failure in foresight, this is nobody's fault. Martin Trow, doyen of global higher education studies in the late 20th century, defined the thresholds at which fundamental change is required in the expansion of any system:

Countries that develop a system of elite higher education in modern times seem able to expand it without changing its character in fundamental ways until it is providing places for about 15% of the relevant age group. ... if the transition is made successfully, the system is then able to develop institutions that can grow without being transformed, until they start to admit over 30% of the relevant age group. Beyond that ... large sections of the population are sending nearly all their sons and daughters to some kind of higher education, and the system must again create new forms of higher education as it begins to move rapidly toward universal access.²⁰

The growth of UK institutions has raced past the 30% mark without fundamental change to the character of our system and institutions. We need to re-trench and re-set the industrial organisation of the higher education sector, together with the presiding value propositions and default business models. This will allow us to expand in competition with faster growing sectors in the US, China, Canada and Australia. It is the precondition for a sustainable financial settlement and resilient operating

models. And as it happens, system design – sometimes known as master planning – is an approach used by the most competitive nations in higher education.

2. System design

It is often said that the business model of higher education is broken. But who broke it? Government is the usual suspect. The accusation is most often made when lobbying for more public funding, when all we really mean is our revenue streams have been disrupted. But this simply indicates a different problem in the business model, which the sector itself has broken, not through failure, but through success – of a kind.

Conventionally, a business model has two aspects. First, value propositions – products are designed for customers (notwithstanding our constitutional dislike of the term in relation to students). Secondly, efficiency – resources and activities are mobilised for an agreed fee to deliver the product. Our national debate has dwelled on efficiency, focusing on fees and cost structure (aka vice-chancellors' salaries).

Little attention has been paid to the first aspect of our business model, the value proposition. As suppliers, universities tend to treat our main teachable products (undergraduate, postgraduate, Doctor of Philosophy and Master of Business Administration) as eternal. But these remain subject to the product adoption curve and the product lifecycle. The same could be said of the relationship between research and its client-competitors in government and industry. This lack of attention to value propositions did not much matter in the growth years (stage three of the product lifecycle). But now that we have reached the late majority of adopters, it is starting to matter enormously. Our products are mature and our growth is capped.

To gain access to the substantial markets identified in the first part of this report, we need to regear our value proposition and the way we organise ourselves to deliver.

If the falling unit of resource has hurt all UK universities so much, this is partly because we share a very similar business model. The existing model has served us so well that we have internalised it, not bothering to interrogate – or even fully set out – our value proposition and customer segments. For example, the Russell Group's recent explainer purports to describe

its business model for student education; instead, it simply describes its operating model and revenue streams.²¹ Useful and clear though that may be, its intended audience (policymakers) might fairly ask whether the value proposition – the offer – to students needs to be immersive, three-year, principally residential ... and extremely costly. They may notice immersive institutions struggling with pastoral care and welfare. They may see elite institutions insist on selecting students, then struggle in Clearing.

Hard questions are being posed quite sharply, under the banner of value for money. If our existing business model is unaffordable and if we are failing to achieve the scale necessary to deliver mass education, this may well be due to problems with our value proposition, key resources and cost base. Recognising these problems, and generating alternative business models, would then allow institutions to reorganise themselves to deliver.

The path to a better funding settlement lies through a different approach to value, now that we have fought ourselves to a standstill on the efficiency side of the business model. We should urgently attend to three building blocks, namely: customer segments; value propositions; and channels. This will not come easily, because all three building blocks are fixed deep in our system design.

To understand why, we need to understand the most recent full re-set of our system, its value propositions and our foundational assumptions.

National system design

Global higher education was invented in California in 1960. That year, the *California Master Plan for Higher Education* set the template for 'a differentiated public higher education system to cater to research excellence as well as to access and massification'. As Simon Marginson puts it in his magisterial critique of the California Idea of higher education, 'the work of policy makers and university leaders everywhere is shaped by this global template.'²²

Cross-national research consistently shows that individual universities are heavily constrained by larger systems, and struggle to adapt to new challenges. Any major change therefore needs to start at the system level.²³ Massive systemic interventions, like the California Master Plan, allow us to see where and how to intervene sympathetically in our system with a specific national character and industrial structure.

Three main dimensions – standards, scope and structure – govern the size and composition of higher education systems. Standards are increasingly subject to convergence and harmonisation led by supra-national agreements, such as the Bologna Process. This includes processes, accreditation and levels of education (such as undergraduate, postgraduate). This limits the extent to which nation-states can change things without decoupling their higher education sector from the global knowledge sector, which shares an ‘increasingly common organizational framework: the common campus, common degrees (bachelor’s, master’s), common titles (student, professor), common credits, and so on’.²⁴

National strategies in higher education have greater discretion over scope (what counts as higher education) and structure (the organising principles of the sector and its institutions). For example, all post-secondary institutions in the USA are considered to fall within the scope of higher education. This includes professional institutions which do not award degrees. US higher education enjoys a wide range of provider types. In fact, the level of structural differentiation, providing separately for professional formation alongside universities, appears to be an essential element of universal access. America’s world-class universities co-exist with two-year community colleges and liberal arts colleges. France has its *grandes écoles*, Germany its *Fachhochschulen*. These are often high-status, applied-science alternatives to the ‘world-class’ academic (or research) universities.

By contrast, the UK splits its scope across further, higher and lifelong education. Public interest would be best served if each of these were treated as high status. Instead, there has been enduring snobbery within the sector. Snobbery that does not simply favour universities as a whole, but particular types of university. Not just higher education in general, but particular

pedagogies – academic rather than practice-based. And inevitably, the status race has class and metropolitan overtones. Status-seeking behaviour also shows up in favoured-child funding arrangements such as the Strategic Investment Fund. Partly thanks to these behaviours, higher education lost its structural differentiation with the abolition of the binary divide in 1992. All providers of higher education converged on university (i.e. academic) status, even as they have been increasingly measured against graduate salaries, the traditional metric for providers of professional formation. The industrial structure of UK higher education has become muddled. Along the way, we have abandoned modes of education that are common to professional formation and lifelong learning, such as shorter, less immersive and non-credentialed education.

As the following case studies suggest, successful system design usually focuses on just one of the three dimensions (standards, scope and structures), changing a single level of the sector at a time. And there is a noticeable emphasis on preserving a diverse sector via safeguards for institutional autonomy. This is vital to a fully differentiated system, capable of serving the broadest audience of institutions, staff and students.

Case studies in international system design

France: convergent structures, diverse institutions

For over 15 years, France has encouraged closer relationships between its higher education institutions. From 2010, the IDEX programme rewarded co-operation between the profession-focused *grandes écoles*, comprehensive research universities and the private sector. In a parallel initiative, Paris-Saclay University was established in 2015, bringing together *grandes écoles* with public universities on a single campus. Starting as a community of universities, it achieved full university status in 2019, creating a single entity of sufficient size and quality to compete for world-class status. Rather than a unitary structure, each member institution remains independent but shares a significant portion of existing and newly invested resources.

Europe: convergent standards, diverse institutions

The Sorbonne Declaration of 1998 and the Bologna Declaration of 1999 were supra-national actions to bringing European national higher education systems into closer alignment. The dominant structural characteristic is educational level (such as undergraduate and postgraduate) rather than the type of institution. At the same time, the Bologna Process was designed to safeguard 'diversity between higher education systems at the macro level, [emphasising] the legitimacy of institutional diversity and heterogeneity of academic cultures'.²⁵

China: the race for world-class universities

Starting in 1996, Projects 211 and 985 launched the world-class university agenda in China and resulted in an elite coalition of China's prestigious universities, known as C9. Building on this foundation from 2015, the Double First-Class initiative set milestones in 2020, 2030 and 2050 for institutional and disciplinary world-class status. According to researchers Yilin Wei and Charles Johnstone, world-class status is the result of a deliberate strategy to concentrate talent on a few elite universities, rather than across regions and institutions.²⁶ Nevertheless, China has swiftly expanded gross tertiary enrolment through a separate set of policies, rising from bottom of the table to challenger status in 20 years.

Down with the world-class university

The California Idea has had unintended consequences worldwide. Among others, Japan, China, India and Germany have developed programmes to compete for world-class university status, measured against global rankings tables.

Notably, only part of the model has been adopted. World-class US universities have strong commercial ties to major industries, famously the military and big tech. Without this, the 'world-class' business model is simply a race for prestige with low overall return on investment. The world-class university succeeds because of the hyper-concentration

of funding and opportunities at the national level. Rather than innate, institutional brilliance and superior results, ranking success derives from three complementary factors:

*(a) a high concentration of talent (faculty and students), (b) abundant resources to offer a rich learning environment and to conduct advanced research, and (c) favorable governance features that encourage strategic vision, innovation, and flexibility and that enable institutions to make decisions and to manage resources without being encumbered by bureaucracy.*²⁷

Nice work if you can get it, but this is a zero-sum game in which some institutions become too big and, frankly, too rich to fail, while the rest face fundamental challenges to their business models and liquidity. Even the top-ranked universities rarely see significant changes in their positions. For other institutions, the pressure to climb the rankings undermines their unique strengths and financial stability. It pushes all universities ‘upwards towards a global research-intensive form that not all can perform, not all should perform, and none can finance’.²⁸

The world-class university system passes more or less unnoticed in public policy, perhaps because it supports Britain’s global education aspirations. No doubt it seems a desirable outcome of market competition. But this disguises the extent of state intervention on the side of the winners.

Heavier scrutiny is needed of the disturbing effects of the ‘world-class’ system on national academic strategy, provider differentiation, social mobility and resilience. For example, unpublished analysis by the School of Advanced Study, University of London and the Arts and Humanities Alliance suggests 20% of universities have closed whole subject areas over the last 12 months. The axe has fallen within a specific academic field (the humanities). And the closures have happened overwhelmingly within regional, non-Russell Group universities. In a 2023 report, *The Humanities in the UK Today: What’s Going On?*, HEPI found this was attributable to the Russell Group’s increased share of the market over the last decade.²⁹ We should focus less on discipline (the report argues humanities remain a UK strength) and more on the regressive effects of the world-class university agenda.

Little has changed in business models or productivity in recent years. This has consequences for student success, regional distribution of resources and academic provision. It may also be a predictor of which providers are allowed to fail. As we have seen, this is already the case in countries including China.

How can we encourage a break with the world-class university? Abandoning this status should not mean abandoning global relevance or excellence. We need to redefine what it means to be world-class through innovative educational models and diverse forms of knowledge creation. This should be accompanied by vital practical tasks – taking back control of standards, managing regulatory flow and the main sector headwinds more assertively. We must place a higher premium on autonomy and differentiation, without making a god of independence. Collaborative business models are an alternative route to critical mass and agility, which do not undercut diversity or smother smaller institutions. We must also break our fascination with our highest cost commitment – the classroom (in person or online). A university's core value proposition is its approach to education and knowledge, not the action of teaching at a particular place.

The importance of group structures

The hallmark of English higher education institutions is mutually assured autonomy. Historically, individual providers spread their risk by working together, whether in interdependent networks or group structures, or nestled within local government. This interdependence has been eroded by the drive for competition. While competition may advance individual choice, 'unregulated market forces in education tend to fragment the common educational infrastructure – and values – on which everyone depends.'³⁰

Our atomised educational infrastructure requires stronger, more active leadership and governance, and more dynamic use of our organisational, financial, staffing and academic autonomy. It may also require reform of governance codes. As we have seen with the regional distribution of humanities, fiduciary duty to the individual institution risks destroying common interests.

Universities need to get into the habit of working together across most activities, to create opportunities and neutralise economic and political pressure. Although joint research bids are already routine, co-operation and group endeavours are rare in education and professional services. This is despite the example set by Oxbridge, in which fully independent colleges underwrite (and resist) the power of the university as a whole. Examples of a group approach are found worldwide. The University of California groups nine universities under one President. Each ranks individually among the best in the world, but none is autonomous. Université Paris-Saclay brings together 15 constituent colleges, again high-ranked and in that case still autonomous.

The world's great universities often contain multitudes. How should we interpret this in the British context?

Institutional growth has put huge strain on standard models of leadership, academic delivery and finance. We have become too complicated to grow bigger or smaller easily. University business models need updating for the purposes of universal access, especially the three-year degree, which is costly to run, inappropriate to the typical lifelong student and leaves the cost-base under-utilised.

For too long, merger and acquisition has been the default structural approach in expansion and crisis alike. This is problematic, as it threatens the autonomy, identity and pedagogy of the merged institutions, and tends to deplete the diversity of the sector, as in the Welsh experience of rationalisation. Furthermore, mergers demand significant financial headroom and management overhead. These may not be available when required, which is often at very short notice.

We need to develop – and popularise – a better framework of options, allowing institutions to re-shape themselves at lower risk to themselves and to the student experience, ideally before they enter crisis. This framework should include a wider set of models that rebuild institutional capacity, improve academic collaboration and efficiency in professional services.

A greater range of corporate forms will be essential to this endeavour. Unitary models (1 and 2 below) are perhaps seen as the default. Interdependent models (3 and 4 below) may be a more resilient way to achieve critical mass in edge endeavours that are too risky, marginal or regional to be addressable at scale through unitary forms. The aim is to make audacious gains in areas that no single institution could achieve on their own.

1. **The massive unitary model.** Sometimes known as the super-university, this corporate form is shared by many of the largest UK universities, and is the best-recognised route to scale.
2. **The subsidiarised group model** manages complexity, increasing autonomy and entrepreneurialism among business divisions, while operating on a unitary basis. Examples include Coventry, Anglia Ruskin University and London South Bank University Group. The multi-academy model in secondary education also deserves attention.
3. **Federal and collegiate models** are the foundational university structures, pooling resources to achieve structural resilience and synergies. Examples include University of London, Durham, University of the Arts London, Oxford and Cambridge, each with very different characteristics.
4. **Modular and joint ventures** with industry and other sectors are least common in the sector. Examples include medical science partnerships³¹, disciplinary and research consortia and partnerships. Interesting models include partnerships between:
 - Different levels of education, as in the partnership between Bath Spa University and New City College on the new University Centre in Hoxton, London.
 - Business and education. University of Mondragon (Spain) is, in effect, the education and R&D arm of a network of business co-operatives, known collectively as Mondragon Corporation.

These measures will require government to provide significant upfront investment and governance incentives, as the costs are beyond the

resources of any individual provider. It might be based on the conditions proposed by Public First / University of Warwick for a new Transformation Fund:

to provide upfront capital for institutions wanting to restructure their university ... where a university was not able to access private capital for such restructuring, and in the absence of which, a university would be felt to have no option but to engage in less optimal downsizing.³²

The key objectives for this Fund, as proposed by Public First, are later cost savings and improvements in productivity. And they envisage limited use of the Fund. While reasonable on its own terms, the risk is that the Fund is used solely to restore the status quo. It would be better to expand the definition of productivity to include the new business models, value propositions and corporate forms necessary for universities to take part in universal higher education. This would be an expensive transition. But the same is already true of the public investment in world-class universities.

Taking control as a sector

In theory, our sector should be well equipped to absorb the steady increase in regulation and in public expectations, including wellbeing, the civic university agenda and expansion to lifelong learning. Instead, our reputation has sunk and our burden has risen.

We need to manage these expectations more actively and interdependently, given the significant financial and administrative burden they incur, and the flaws in the design of our system. The health of providers is the pre-condition for student success, and needs national, regional and thematic management in the public interest. Should we really continue to lay this expectation on the Office for Students and the Department for Education, whose job this never was? If so, we will always resent their inability to second-guess us. As in other sectors, we are the ones to reshape the tertiary ecosystem, consider resource distribution, scrutinise regulatory burden and change the public narrative around higher education's value.

This cannot be achieved through individual institutions with competing interests. Universities UK and other sector bodies should collaborate to establish a new sector-wide leadership body for higher education, in order to:

- i. Assign a cost to each public good required from universities, and design mechanisms to withdraw from providing these goods if that cost is not met.
- ii. Set a course for mature self- and co-regulation to manage regulatory flow. This should include a clear sense of what can be reasonably loaded onto the higher education system.
- iii. Rapidly develop the valuation and accountability frameworks by which other sectors proactively deal with business pressures. This includes marshalling and structuring macro factors including finance, pension, rising pay, industrial relations and academic cold spots, together with evaluation and accountability frameworks, including rankings.
- iv. Prevent cold spots opening up in strategic academic provision. Arts and humanities have been an early loser in this trade-off. In some regions, all pathways are now closed to first-generation students and those who cannot afford to study away from home.

Conclusion

Mary Curnock Cook rightly identifies an education superhighway, backed by regulation and public expectation, funnelling young people in their hundreds of thousands towards tertiary education each year.³³ We know a great deal about these young people. We have strong policy expectations about the shape of their journey. Our corporate forms are set up to deliver them to their graduate destinations.

A new road system is now required for a much larger group of travellers, as we head towards universal higher education. We know singularly little about these people, as the assessment of the £2 million higher education pilot of short courses showed. Working-age adults are the largest, best-understood cohort in almost every business model. Higher education's inability to understand them, segment them and offer relevant, prestigious value propositions (with the honourable exception of the MBA), our insistence that they use our superhighway, despite mounting evidence of its irrelevance ... this is almost magnificent.

To extend Curnock Cook's metaphor, what is missing for these new travellers is the system of offramps and onramps, the network of A and B roads that will carry them to a variety of destinations. This requires a new business model, based on new value propositions, not our immersive high-cost, three-year residential proposition for younger travellers.

We will need to re-organise ourselves to deliver this, which is hard when we are set in our ways. It is well-known that implementing a new business model in a longstanding enterprise competes with established models. In a time of transition, different providers will use different corporate forms. Some will spin out new ventures into separate entities or business units. Others will achieve great work by working in partnerships. Above all, though, we should tackle this as a sector-wide exercise in system design. Massification may have hit its high-water mark in the UK, because we chose the wrong design principle in unmanaged competition and the idea of students as self-interested actors. We must not make the same mistake in universal education.

What would a properly designed system look like? The core elements are differentiation, access, funding and universalism, combined with deep insight into the students of the future. This requires the following characteristics:

- i. **Clear purpose.** The sector must manage mission creep and system load more effectively, whether this comes from state or public expectations, or our own over-reach.
- ii. **Structural capacity,** redefining growth to favour joint ventures, group structures and new providers to reach new markets, not just existing ones.
- iii. **Institutional agility,** helping institutions to re-set their complexity, assumptions and shape in the market.

Recommendations – change standards, scope and structures

Recommendation 1: The new Labour Government should task an Independent Commission to design universal provision into tertiary education. This should address excellence, equity, plurality and universality, unifying the divisions between further, higher and lifelong categories of education. It should go beyond funding considerations to differentiate types of providers. It should recommend quality standards for non-regulated adult education providers, including continuing professional development.

Recommendation 2: The Office for Students and Skills England should work with the sector to develop new value propositions for universal education, supported by regulation and investment in new credentials. They should develop a standard segmentation of adult learners beyond the current catch-all 'lifelong' category. And they should define skills as conceptual and enquiry-based, not just technical.

Recommendation 3: The Department for Education should establish a major transition fund with incentives for providers to develop new business models, value propositions and organisational structures in line with the new system design.

Recommendation 4: The Department for Education and the Office for Students should review the use of merger and acquisition in higher education. They should encourage the spread of alternative massive structures and collaboration in higher education, including federal models, joint ventures and other corporate forms that enable providers to collaborate while maintaining autonomy.

Recommendation 5: Universities UK and other sector bodies should collaborate to establish a sector-wide leadership body for higher education, responsible for overseeing the tertiary ecosystem, resource distribution, scrutinising regulatory burden and shaping the public narrative around higher education's value.

Recommendation 6: The Office for Students' remit should be amended to include accountability for the overall health of providers and the sector, alongside its responsibility to students. This should include managing regulatory burden.

Endnotes

- 1 Simon Burgess, 'Human Capital and Education: The State of the Art in the Economics of Education', *IZA Institute of Labor Economics*, Discussion Paper No.9885, April 2016, p.10 <https://www.iza.org/publications/dp/9885/human-capital-and-education-the-state-of-the-art-in-the-economics-of-education>
 - 2 Mustafa Suleyman and Michael Baskar, *The Coming Wave*, 2023, p.262
 - 3 Ashish Arora et al, 'The Effect of Public Science on Corporate R&D', *National Bureau of Economic Research*, Working Paper 31899, November 2023 <https://www.nber.org/papers/w31899>
 - 4 'Universities are failing to boost economic growth', *The Economist*, 5 February 2024 <https://www.economist.com/finance-and-economics/2024/02/05/universities-are-failing-to-boost-economic-growth>
 - 5 David John Frank and John W Meyer, *The University and the Global Knowledge Society*, May 2020 <https://doi.org/10.2307/j.ctvs9fh15>
 - 6 Department for Science, Innovation and Technology, *Independent Review of University Spin-out Companies*, November 2023, p.4 https://assets.publishing.service.gov.uk/media/6549fcb23ff5770013a88131/independent_review_of_university_spin_out_companies.pdf
 - 7 Martin Trow, *Problems in the Transition from Elite to Mass Higher Education*, 1973, p.8
 - 8 David John Frank and John W Meyer, *The University and the Global Knowledge Society*, May 2020, p.132
 - 9 Simon Burgess, 'Human Capital and Education: The State of the Art in the Economics of Education', *IZA Institute of Labor Economics*, Discussion Paper No.9885, April 2016, p.46 <https://www.iza.org/publications/dp/9885/human-capital-and-education-the-state-of-the-art-in-the-economics-of-education>
 - 10 UNESCO / Our World in Data, 'Gross enrolment ratio in tertiary education, 1970 to 2022' <https://ourworldindata.org/grapher/gross-enrollment-ratio-in-tertiary-education?-time=earliest..2022&country=GBR~AUS~USA~KOR~FRA~DEU~SGP~CHN>
 - 11 John Burn-Murdoch, 'Britain's graduates are being short-changed while America's are rich', *Financial Times*, 28 October 2023 <https://www.ft.com/content/570d23b3-d286-4cb9-a319-b49cc4056f52>
- Debbie McVitty, 'The places that are thriving make good use of their graduates', *Wonkhe*, 6 November 2023 <https://wonkhe.com/blogs/the-places-that-are-thriving-make-good-use-of-their-graduates/>
- Eric A. Hanushek et al, 'Understanding Trends in Chinese Skill Premiums, 2007-2018', *NBER Working Paper* No.31367, June 2023 <https://hanushek.stanford.edu/publications/understanding-trends-chinese-skill-premiums-2007-2018>
- 12 Simon Marginson, *The Dream Is Over: The Crisis of Clark Kerr's California Idea of Higher Education*, 2016, p.62 <https://www.jstor.org/stable/10.1525/j.ctt1kc6k1p.13>
 - 13 David John Frank and John W Meyer, *The University and the Global Knowledge Society*, May 2020, p.145

- 14 Universities UK, *Financial sustainability of UK universities: PwC findings*, January 2024 <https://www.universitiesuk.ac.uk/what-we-do/policy-and-research/publications/financial-sustainability-uk-universities>
- 15 Simon Marginson, *The Dream Is Over: The Crisis of Clark Kerr's California Idea of Higher Education*, 2016, pp.16-17 <https://www.jstor.org/stable/10.1525/j.ctt1kc6k1p.13>
- 16 Simon Marginson and Lili Yang, 'Has the public good of higher education been emptied out? The case of England', *Higher Education: The International Journal of Higher Education Research*, Volume 88, October 2023, p.302 <https://doi.org/10.1007/s10734-023-01117-6>
- 17 EY / Times Higher Education, *How are you balancing the books for a digital future?*, 2023 https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/education/ey-financial-sustainability-whitepaper.pdf
- 18 Geraint Johnes and Jill Johnes, 'Costs, efficiency, and economies of scale and scope in the English higher education sector', *Oxford Review of Economic Policy*, Volume 32, Number 4, 2016, p.599 <http://www.jstor.org/stable/26363478>
Geraint Johnes, 'Costs and Industrial Structure in Contemporary British Higher Education', *The Economic Journal*, Volume 107, Number 442, 1997, pp.727-37 <http://www.jstor.org/stable/2957797>
- 19 Office for Students, *Financial sustainability of higher education providers in England*, May 2023 <https://www.officeforstudents.org.uk/publications/financial-sustainability-of-higher-education-providers-in-england-2023-update/>
- 20 Martin Trow, 'Reflections on the Transition from Elite to Mass to Universal Access: Forms and Phases of Higher Education in Modern Societies since WWII', *International Handbook of Higher Education*, 2005, p.252 <https://escholarship.org/uc/item/96p3s213>
- 21 Russell Group, *Understanding a research-intensive university's business model for educating students*, 2024 <https://russellgroup.ac.uk/media/6145/university-business-model-explainer.pdf>
- 22 Simon Marginson. *The Dream Is Over: The Crisis of Clark Kerr's California Idea of Higher Education*, 2016, p.72 <https://www.jstor.org/stable/10.1525/j.ctt1kc6k1p.15>
- 23 Georg Krücken, 'Learning the "New, New Thing": On the Role of Path Dependency in University Structures', *Higher Education*, Volume 46, Number 3, October 2003, pp.315-339 <https://www.jstor.org/stable/3447506>
- 24 David John Frank and John W Meyer, *The University and the Global Knowledge Society*, May 2020, p.33
- 25 Sarah Guri-Rosenblit et al, 'Massification and Diversity of Higher Education Systems: Interplay of Complex Dimensions', *Higher Education Policy*, December 2007 https://www.researchgate.net/publication/32029702_Massification_and_Diversity_of_Higher_Education_Systems_Interplay_of_Complex_Dimensions
- 26 Yilin Wei and Christopher Johnstone, 'Examining the race for world-class universities in China: a culture script analysis', *Higher Education*, Volume 79, Number 3, March 2020, pp.553-67 <https://www.jstor.org/stable/48736214>

- 27 Jamil Salmi and Nian Cai Liu, 'Paths to a World-Class University', in Nian Cai Liu, Qi Wang and Ying Cheng (eds), *Paths to a World-Class University: Lessons from Practices and Experiences*, January 2011, pp.ix-xviii
- 28 Simon Marginson. *The Dream Is Over: The Crisis of Clark Kerr's California Idea of Higher Education*, 2016, p.78 <https://www.jstor.org/stable/10.1525/j.ctt1kc6k1p.15>
- 29 Marion Thain et al, *The Humanities in the UK Today: What's Going On?*, HEPI Report 159, March 2023 <https://www.hepi.ac.uk/wp-content/uploads/2023/03/The-Humanities-in-the-UK-Today-Whats-Going-On.pdf>
- 30 Simon Marginson, *The Dream is Over: The Crisis of Clark Kerr's California Idea of Higher Education*, 2016, p.194 <https://www.jstor.org/stable/10.1525/j.ctt1kc6k1p.27>
- 31 <https://www.kcl.ac.uk/news/kings-and-the-university-of-portsmouth-to-deliver-medical-degree>
- 32 Jonathan Simons and Jess Lister, *Institution Overboard: Managing the Risk of Disorderly Market Exit in English Higher Education*, Public First / University of Warwick, July 2024, p.37 <https://www.publicfirst.co.uk/wp-content/uploads/2024/07/Institution-Overboard.pdf>
- 33 Mary Curnock Cook CBE, 'Tertiary Education for the 21st Century: the who, the what and the how', HEPI Blog, December 2023 <https://www.hepi.ac.uk/2023/12/14/tertiary-education-for-the-21st-century-the-who-the-what-and-the-how/>

Trustees

Professor Dame Sally Mapstone (Chair)

Sir David Bell

Mary Curnock Cook CBE

Professor Dame Julia Goodfellow

Professor Dame Helen Wallace

Advisory Board

Alison Allden OBE

Professor Nishan Canagarajah

Anne-Marie Canning MBE

Andy Forbes

Professor Sir Chris Husbands

Professor Nick Pearce

Professor Julie Sanders

Professor Iyiola Solanke

Professor David Sweeney CBE

President

Bahram Bekhradnia

Director

Nick Hillman

Partners

Advance HE

Chegg

Curio London

Elsevier

GatenbySanderson

iQ Student Accommodation

Instructure

Jisc

Kaplan

Kortext

Lloyds Bank

Mills & Reeve LLP

QS Quacquarelli Symonds

Research England

Studiosity

Taylor & Francis

TechnologyOne

Times Higher Education

Unite Students

UPP Group Limited

What if being world-class is bad for universities?

By playing the status game, UK higher education has forfeited public trust and our right to growth. What other sector would stall in an era of surging demand, as our addressable market expands from young people to all adults?

We need new forms of higher education to maintain our share of the massive global increase in tertiary education. This will expand the British economy. And it will help the whole population adapt to rapid social and technological change.

Written for academic leaders, policymakers and regulators, this HEPI report applies business-model thinking to the university sector. It offers actionable recommendations to rebalance the system, calling for compelling new value propositions and new definitions of excellence in higher education.

HEPI was established in 2002 to influence the higher education debate with evidence.

We are UK-wide, independent and non-partisan.

August 2024 ISBN 978-1-915744-30-2

Higher Education Policy Institute

99 Banbury Road, Oxford OX2 6JX

www.hepi.ac.uk

Printed by BCQ, Buckingham

Typesetting: Steve Billington, www.jarmanassociates.co.uk