Resources, Capabilities and Competition in Higher Education

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Abstract

Once a relatively stable industry operating in a benign environment, global higher education is undergoing dramatic change. Higher education institutions (HEIs) now face a variety of challenges including globalisation, changes in funding arrangements and the emergence of organisations like consultancies that are moving into the ‘education space’. Increasingly, there is a need to think in competitive terms and many senior management teams are not equipped with the necessary skills. This paper presents a review of the major challenges facing HEIs and then draws on extant theory from the resource-based view of the firm (RBV) to offer a number of propositions regarding the types of resources and capabilities that will be needed in order to compete successfully.

Keywords: Competitive advantage, market orientation, positioning, strategy
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Introduction

Higher education is becoming a classic study of the transition from a benign, stable environment to a dynamic, unpredictable one. Some of the world’s universities are hundreds of years old and for much of that time they operated in a relatively unchanging manner. However in the 21st century, the future for all higher education establishments is a lot less certain. The State has become increasingly demanding of the sector which is currently viewed as critical to a country’s economic fortunes due to the emergence of the information society and knowledge as a critical competitive variable (Johnson and Yelland 2008). This has impacted on funding, quality initiatives, governance and other areas. Changes in funding arrangements in particular, have had a knock on impact on competition for students, faculty and research funding across a global marketplace.

Despite the objections of many faculty members, the higher education sector is now characterised by the language of strategic marketing with discussion of customers, competition, global opportunity and value becoming commonplace. The senior management teams at HEIs must increasingly think in competitive terms and manage their organisations as ‘businesses’. Much of this does not come naturally to individuals often promoted for their academic contributions rather than their managerial and leadership skills. As a result, this paper aims to explore the resources and capabilities that HEIs need to develop in order to be successful in this new environment. It is part of a larger study of the linkages between resources, university positioning and performance which is being undertaken in the UK and Ireland.

The paper begins by articulating some of the core challenges facing HEIs. It then draws on the extant literature from the resource-based view (RBV) and the dynamic capabilities-based view (DCV) to identify some of the critical skills and competencies that must be acquired to ensure competitive success. Then finally, the implications for research and practice are briefly explored.

Challenges facing Universities Worldwide

In a global competitive environment, where rankings and positions on league tables are seen as key performance indicators, HEIs are under increasing pressure to fulfil more and more roles in an effort to fight for a place in the global higher education market (Altbach 2008). In trying to compete, they are faced with several critical issues as follows.

Funding

HEI’s are being asked to fund a greater portion of their costs. For example, the government’s involvement in the funding of UK higher education is gradually being reduced to less than 40 percent (Hasan 2004). This has resulted in a more business-like approach being adopted in universities, as they seek out innovative ways to diversify income. One outcome has been the marketisation of higher education, as institutions focus on how they can produce income and de-emphasise areas not contributing to revenue. Examples of this include the increasing numbers of HEI’s charging tuition fees for courses, increasing levels of fee-paying international students, focusing on continuous professional development and executive education, attempting to leverage fundraising from alumni, the commercial exploitation of

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intellectual property rights (IPR) through licensing and spin outs, and the hire/rental of university facilities to organisations.

**Equity and Access**
While access to higher education has improved significantly across many countries, inequities nevertheless remain. These inequities exist mainly for minorities as access to higher education tends to be greater among those from higher socio-economic groups. In Ireland for example, the majority of students in third level education fall into the 18-20 year old category and are generally from professional and managerial classes (Hasan 2004). In cases where students from disadvantaged or under-represented backgrounds do gain access to third level education, equity is often not achieved when they are offered places in less well-established HEI’s and consequently receive an inferior education. In addition, HEIs are coming under greater pressure to be more inclusive and to facilitate life long learning, part time or flexible (distance) study, and adult/mature learners.

**Internationalisation**
Competition among HEIs, for students, staff and research funding is increasing significantly. In the UK, this has been exacerbated by the ‘Obama’ effect in the USA with America re-entering the market for international students, strong competition from other English speaking countries such as Australia and New Zealand and courses taught in English in Continental European countries. Developing an international profile, through the use of university branding and marketing activities provides universities with opportunities to market themselves individually to a global audience. For some though, this is a relatively new concept. For example, fee paying foreign students account for 6.8% of the total student population in Ireland, compared to 14.1% in the UK (Hasan 2004).

**Collaboration**
While competition between institutions is necessary for their individual success, HEIs must recognise the importance of inter-institution collaboration to reach critical mass in order to achieve performance outcomes. The globalisation of education has resulted in increased levels of cross-border institutional activity and greater academic mobility (Ordorika 2008). HEIs are under pressure to collaborate for the purposes of both teaching and research and to compensate for institutional weaknesses. There is also a momentum behind greater collaboration with industry. In addition to basic R&D activities, many HEIs have become involved in the establishment of science parks and on-campus start ups, where high level research is commercialised (Devitt, Hill and O’Briain 2009).

**Quality**
HEIs are generally characterised as being large in size and span a broad range of functions, which as a result makes the issue of quality one that is difficult to monitor and control. For example, several Irish universities have developed their own internal quality assurance procedures and systems, beyond what is legally required, as this has enabled them to focus on quality improvement. In addition to this, quality reviews have been conducted in many countries, to assess the quality of services being provided by a range on HEI’s.

**Research**
Research is seen as fundamental in establishing a HEI as a key player in the race to generate new knowledge from scientific research. Many HEIs that in the past had a strong teaching focus are now looking at ways in which they can shift their focus to increase research activity. This is often considered to be a key performance indicator and an institution’s income,
national prominence and influence is often dependent on research output (Ordorika 2008). In keeping with the perceived role of HEI’s in supporting the economy, a greater focus is being given to research in science and technology (van Ginkel 1995).

Competition
As universities have sought to differentiate their offerings from those of competitors, so the levels of choice open to stakeholders (students, staff, users of facilities) have increased. A whole industry has developed around the provision of digestible information about university offerings – the standard of the research, the student staff ratios on programmes, expenditure on student and/or staff facilities etc. Much of this information is available through the internet but increasingly coalesces in the myriad league tables, both domestic and international now being published. As with other industries, the internet and easy information access has shifted power in the supply chain from the provider to the consumer.

Resources and Capabilities in Higher Education
Since the work of Wernerfelt (1984) in particular, theorists studying organisational performance have recognised the importance of understanding internal strengths as a key source of success. This body of work, usually labelled the resource-based view of the firm (RBV), dominated much of the strategic management literature in the 1990s. Some significant criticism of its core precepts (see for example, Priem and Butler 2001) combined with the influence of scholars from marketing, strategy, sociology and organisational theory has led to the emergence of an allied field, namely the dynamic capabilities view (DCV). Both these perspectives share many commonalities, particularly their concern with understanding the idiosyncratic nature of organisations and how this influences performance. Several contemporary reviews of both these streams of literature are available (e.g., Easterby-Smith, Lyles and Peteraf 2009; Lockett, Thompson and Morgenstern 2009; Wang and Ahmed 2007). In essence the work of Barney (1991) articulated the core requirements that a resource or capability must have in order to confer advantages on the host organisation. Labelled the VRIO framework, Barney argued that competitive potential of resources rests in their ability to meet the criteria of value, rareness, inimitability and organisation. Advantage-seeking HEIs should aim to invest in resources and capabilities with these kinds of characteristics.

The choices facing HEIs in the current environment are many and complex. For example, institutions that formerly had a teaching focus must now develop a research focus; those that traditionally had a concern with just their domestic market must now also consider international markets and so on. Increasingly too their performance is being monitored by funding bodies and judged by independent assessors. The core functions of HEIs are research, teaching and community engagement and these comprise elements of a ‘balanced scorecard’ that is used to assess them. Leading international rankings of HEIs such as the Shanghai Jiao Tong University ranking and the THES-QS World University Ranking are based on multiple metrics which examine these kinds of dimensions. Our core argument below is that improved performance as measured by these criteria will be dependent on the ability of HEIs to generate and deploy advantage-creating resources and capabilities.

Marketing Capabilities
Traditionally, the marketing conducted by HEIs focused on the communication of information to potential students about courses on offer. A much more fully fledged marketing competence will be required in the future, as customers (students etc.) seize control of the information flow. Most notably, HEIs will require a market orientation (Kohli and Jaworski 1990) and a marketing strategy that encompasses the core notions of market segmentation,
targeting and positioning of the organisation in a global marketplace. Critical marketing
capabilities such as market sensing and customer linking (Day 1994) will need to be
developed and deployed in the creation of tangible assets such as customer relationship
management (CRM) systems. HEIs will also need to build and maintain their brands, as well
as looking to extend those brands either geographically into new markets or into new product
areas providing income streams such as on-campus hotel facilities, etc. The prevalence of
university league tables means that a HEI’s brand profile is now very visible and this impacts
upon its ability to attract top class faculty and students. Therefore the core challenge facing
HEIs will be the development of excellent marketing and branding capabilities which are in
turn used to exploit opportunities or neutralise threats in the competitive environment (Barney
1991). In this sense excellence is a relative term, but the more it meets the VRIO criteria the
greater its competitive potential, therefore.

P1a: Excellent marketing capabilities will be associated with superior performance in HEIs.
P1b: Excellent branding capabilities will be associated with superior performance in HEIs.

Networking Capabilities
Traditionally resource-based perspectives on organisations placed a heavy emphasis on
organisationally-bound resources that were internally developed over time (Dierickx and Cool
1989). In dynamic environments where the boundaries of organisations are fluid, attention has
shifted to resources developed within alliances and networks (Nohria and Eccles 1992).
Acquiring resources can be just as effective as attempting to develop them. In the global
market for higher education, many alliances have already emerged between leading
institutions around the world. Future success will be contingent on the ability to build
international networks as a vehicle for generating income streams such as research funding
and student income. Linkages with industry will also enable the generation of income both as
inputs into the research process and as outputs where research is successfully commercialised,
therefore,

P2: Excellent networking capabilities will be associated with superior performance in HEIs.

Managerial Capabilities
One of the criticisms of the resource-based perspective on organisations was the failure to
fully account for the role of management in the process (Castinias and Helfat 1991).
Subsequent resource management models see this process as incorporating the structuring of
resource portfolios, bundling resources to build capabilities and leveraging capabilities to
provide value to customers and a competitive advantage (Sirmon, Hitt and Ireland 2007). The
task facing the senior management of HEIs has changed radically as the environment has
become more competitive and uncertain. Income sources are no longer guaranteed,
competition from other HEIs has increased and new organisations such as consultancy
companies have entered the education arena. HEIs now need to be managed as commercial
entities, which require the development of new mental models in their senior management
teams (Schomaker 1992). The capacity to ‘sense and shape’ opportunities, to seize
opportunities and to reconfigure tangible and intangible assets to avail of these opportunities
are key managerial capabilities (Teece 2007), therefore,

P3a: Senior management teams with a commercial mindset will be associated with a superior
performance in HEIs.
P3b: Excellent resource management capabilities will be associated with superior
performance in HEIs.
**Fund Raising Capabilities**
Finance is a tangible asset which has been deemed as being relatively easy to match and therefore unlikely to be a source of competitive advantage (Wernerfelt 1989). However, as the recent credit crisis has demonstrated, an ability to get access to finance can be a crucial capability which gives rise to temporal advantages. As outlined above, the higher education sector is facing a more structural funding problem, whereby the State is seeking to increasingly remove itself as the primary funder. The skills and capabilities of a HEI to raise funds will be critical to its ability to deliver value outputs and build an international presence, therefore,

P4: Excellent fund raising capabilities will be associated with superior performance in HEIs.

**Innovation Capabilities**
HEIs increasingly need to develop an ability to innovate (Hurley and Hult 1998), and thus complement market and innovation orientation (Menguc and Auh 2006). In fact, innovation is the only way that HEIs can keep the pace with the changing environment, which calls for the generation of new teaching practices (i.e., brand new programs), new students’ relationship management systems (i.e., new admission systems), new research initiatives (i.e., new research programs or research centres), new knowledge transfer initiatives (i.e., new industry-based collaborative programs) and so forth. Although the importance of innovation has long been recognised in commercial settings, it still represents a challenge in the context of HEI’s, where for a long time, keeping with tradition has been a measure of quality and reputation, therefore,

P5. Excellent innovation capabilities will be associated with superior performance in HEIs.

**Discussion and Conclusions**
This paper has outlined some of the key resources and capabilities that HEIs need to develop in order to succeed in the changing global market for education. Resource pools by their nature are complex and several other resources such as new process development capabilities (i.e. new course development), commercialisation capabilities (IPR exploitation) and knowledge development capabilities would also appear to be important in this context. As well as attempting to fully enumerate the HEI resource pool, the next stage of the research will seek to test the propositions outlined above. Empirical research in the RBV field by definition is difficult. The most potent resources from a competitive viewpoint are those that are difficult to identify and understand and multiple levels of capabilities have been identified (Ambrosini, Bowman and Collier 2009). As a result there have been calls to move away from quantitative studies to more case-based and ethnographic type research (Rouse and Daellenbach 2002). The approach to be used in this study will seek first to identify top performers in terms of research, teaching etc, using well defined and comparable metrics and then work back to understanding the organisation’s resource pool through a case-based approach. In this way, the research seeks to advance our understanding of organisational resources and capabilities; it responds to calls for a different approach to the study of this domain; and it will inform a field of practice which needs to respond quickly to dramatic changes in its environment.
References


