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## **Redefining Competition Constructively: The Challenges of Privatisation, Competition and Market-Based State Policy in the United States**

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## Redefining Competition Constructively: The Challenges of Privatisation, Competition and Market-Based State Policy in the United States

### Abstract

In the United States, the relationship between state governments and public colleges and universities is being redefined with new notions of autonomy and accountability, and with funding policies that are highly market-driven (often referred to as "privatisation") as the centerpieces. Situations and institutional strategies unthinkable only a few years ago are becoming increasingly commonplace. For instance, a few business and law schools at public institutions are moving toward privatisation, distancing themselves from both the states and their parent universities.

While American higher education has traditionally been competitive and market driven, emerging state market-based policies, which will clearly benefit some types of institutions over others, are further intensifying the competition with a variety of effects at the institutional and sector levels. Entrepreneurial or commercial activities may provide the additional resources individual institutions need to fulfil their public purpose. However, when all institutions pursue the same set of competitive strategies, no one gains an advantage. Institutions run harder to stay in place. The cumulative effect of competition may also work against important social objectives such as affordability and access. This paper explores the challenges that the current competitive environment creates for institutional leaders in the United States. It acknowledges that the competitive environment will not abate and suggests that by competing in different ways, over different objectives, with different purposes, US higher education might better meet its social objectives of increased access, lower cost and enhanced quality.

### Disciplines

Community College Education Administration | Community College Leadership | Education | Educational Assessment, Evaluation, and Research | Educational Leadership | Education Economics | Higher Education | Higher Education Administration

## **Redefining Competition Constructively: The Challenges of Privatisation, Competition and Market-based State Policy in the United States**

by

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*In the United States, the relationship between state governments and public colleges and universities is being redefined with new notions of autonomy and accountability, and with funding policies that are highly market-driven (often referred to as “privatisation”) as the centrepieces. Situations and institutional strategies unthinkable only a few years ago are becoming increasingly commonplace. For instance, a few business and law schools at public institutions are moving toward privatisation, distancing themselves from both the states and their parent universities.*

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While American higher education has traditionally been competitive and market driven, numerous challenges are further intensifying competition among similar and dissimilar colleges and universities, with a variety of effects on individual institutions and on higher education as a whole. Fiscal constraints, public policies that foster a greater role for market forces, changing levels of demand, and the increase in direct and indirect competitors exacerbate competition and push institutions to pursue strategies they believe will best position them in the competitive marketplace, such as using merit-based aid to recruit highly desirable students, hiring faculty “stars” and investing in high-cost amenities, such as residence halls, improved information technology infrastructure, wired classrooms and recreational facilities. Each of these investments has the potential for positive returns – better-prepared students, improved institutional quality, or the ability to leverage additional resources or opportunities. However, when institutions pursue the same set of strategies, no one gains a competitive advantage; institutions continue to invest, but since most are doing the same thing, they negate their investments. The cumulative effect is, in many ways, working against important social objectives, such as affordability and access.

This paper explores the challenges that the current competitive environment creates for institutional leaders in the United States. It is grounded in the assumption that the competitive environment will not abate and may in fact become more intense, and argues that by competing in different ways, over different objectives, with different purposes, US higher education might better meet its traditional public policy objectives of increased access, lower cost and enhanced quality. First, it explores environmental changes that are enhancing competition. Second, it looks at the competitive dynamics of US higher education. Third, it explores the notion of competing differently to minimise the potential pitfalls of the increasingly competitive environment.

## **The US higher education landscape**

Comparatively, US higher education is an enormous sector. The US Department of Education counts approximately 6 500 postsecondary institutions in its federal student financial aid programme, including 4 200 colleges and universities that award degrees (US Department of Education, 2003). Those 6 500 institutions enrol 14 million students in

undergraduate degrees programmes, with the remaining 2 million students enrolled in graduate programmes. Approximately 1 100 of these institutions are public two-year colleges, enrolling the largest share of undergraduates (6 million). There are 630 public four-year colleges and universities that enrol 6.2 million undergraduate and graduate students. Slightly more than 1 900 private, non-profit (or independent) colleges and universities enrol 3.2 million students. The remaining 2 400 institutions are for-profit, private, enrolling approximately 750 000 students.

These colleges and universities are funded by a variety of means, although tuition and fees (which include individual, family or employer money, but also government-backed financial aid that students use to pay tuition), and state government appropriations for the public institutions are most important. These two sources – along with local government appropriations for community colleges and federal research grants and contracts at research universities – provide the majority of funding for institutional general operating expenses. However, other sources of funding are important and increasingly so, including private gifts, returns from endowment investments, and revenue from various enterprises, licensing agreements and services. For the most part, US colleges and universities pursue an intentionally diversified set of revenue streams (Hearn, 2003).

Competition throughout higher education for students and their tuition dollars can be fierce in this market underwritten by more than USD 105 billion (2002/03) in available financial aid (including USD 71 billion in federal grants, loans and tax credits; USD 6 billion in state grants, and USD 20 billion in grants provided by colleges and universities, as well as private organisations) (College Board, 2003). Most students have multiple choices when selecting a college or university in which to enrol. While competition for students can spur improvements and innovation and keep institutions focused on meeting student needs, it can also have negative effects. Institutions may make academic and financial choices that may improve the recruitment of certain types of students (e.g. highly talented, wealthy or athletic), but impede their ability to do other things, such as serve low-income but qualified students or adult students.

To further complicate the competition over students, 20 states will see a decline in the number of projected high school graduates by 2017/18 (Western Interstate Commission for Higher Education, 2003). States such as Louisiana, Montana, North Dakota, South Dakota and Wyoming are predicted to see steep drops on the order of between 10 and 35%. That said, other states such as Nevada and Arizona have projected tremendous growth (103% in Nevada for example and 55% in Arizona), and other Western and Southern states will see increases of between 25 and 50%. These demographic trends mean that in some instances, institutions will be starved for prospective students, yet in

other states capacity may be taxed to such an extent that students less prepared and less able to pay their way may be closed out of postsecondary education entirely, relegated to institutions of marginal quality, or concentrated in institutions where they will not receive the attention they will need to succeed.

Beyond tuition and fees, the other primary source of funding, particularly for the public institutions, is state appropriations. Depending upon the mission and complexity of the institution, this can range tremendously from well over 60% to less than 10% of the institution's revenue. However, public moneys are playing a smaller and smaller part in institutions' financial portfolios. According to Kane, Orzag and Gunter (2003), funding for higher education has dropped from 7.2% of overall state expenditures in 1977 to 5.3% of state expenditures in 2000. They argue that if funding had remained constant at 1977 levels, higher education would have gained an additional USD 21 billion. As a percentage of institutional revenue, state funding has also declined, from 46.5% in 1977 to 35.9% in 1996 (Kane, Orzag and Gunter, 2003). Furthermore, the future financial outlook for all 50 states looks bleak. Recent data suggest that no state will have a surplus in baseline revenues, and 29 states will face a gap of 5% or more (Jones, 2006). These predicted shortfalls are due to insufficient tax revenue as economic growth and sales and excise taxes do not keep pace with demand for governmental programmes and services; increased spending, mostly due to Medicaid growth; and reduction in federal grants to states.

## **Changing state relationships**

Many states are changing not only the way they fund public higher education, but some are developing (and many others are considering) new policies that affect their broader relationships with public colleges and universities. Charter colleges, tuition deregulation, state enterprise status, public corporations and restructuring are all terms that describe various policies being implemented in a range of states including Colorado, Maryland, Massachusetts, Ohio, Texas and Virginia. Each reflects a combination of changing fiscal and regulatory policies and practices, with particular attention given to autonomy, accountability and funding. The specifics of each vary, as does the language, and to complicate matters the terminology is not readily transparent or used consistently. In some instances, different language refers to different packages of policies. However, in other situations, similar language has different meaning in practice. (Charter colleges in Maryland are not exactly the same as the chartered university proposal advanced by a number of universities in Virginia, even though the states are neighbours.) And different labels can further describe similar policies.

As a whole, these approaches share some common elements. First, they reflect a greater market orientation. The effect is a greater reliance on private dollars and typically the ability to set, keep and invest one's own tuition and fees. They encourage more entrepreneurial behaviour and the commercialisation of knowledge. They often provide increased procedural autonomy and less excessive regulation. The result is enhanced institutional ability to respond to a changing environment more quickly, to forgo expensive and burdensome state procedures (such as on capital projects and lease agreements), and to develop and manage their own operational policies (such as those regarding human resource issues or procurement). However, these policies are sometimes accompanied by decreased or flat public funding. Even so, some institutions find it appealing to forgo more resources for less volatility in year-to-year allocations so they may better plan and prepare for the long term. Finally, these policies typically include additional accountability requirements that often result in state-set performance measures. For example, in Virginia, the state outlined a set of 11 goals, referred to as the "state ask" (Couturier, in press).

The impact of these changing policies most likely will vary by institutional mission. Some institutions will benefit from and thus welcome these policy shifts, particularly those with the reputation and capability to be entrepreneurial and hold a steady position (or even gain) in the competitive marketplace. This is not to suggest that the previous environment did not favour some institutions over others; however, public policy often helped address the inequities across institutions. Those likely to benefit the most may be the large, diversified (typically, research) universities that offer a range of undergraduate, graduate, professional and lifelong learning programmes; have sizable auxiliary services that offer products desirable in the marketplace; can commercialise research or other products and services; and are able to create and draw upon diverse revenue streams. The majority of public institutions do not have such capacities, so that the new rules effectively favour those already most able to compete. Smaller institutions, community colleges and those that focus predominately on undergraduate education must often live under the same market-based policies as their larger counterparts, but have fewer strategies to pursue and fewer resources to tap. Neither will they be exempted from the heightened standards and reporting requirements of accountability. At the same time, some independent (private, non-profit) colleges and universities may welcome some (but surely not all) of these policy changes, as they might mean easier access to public dollars and a more level playing field with public institutions.

## Increasingly competitive playing field

Not only are the rules of the game evolving for many US colleges and universities, but the providers appearing on the competitive playing field are changing as well. For instance, between 1990 and 2000 the number of private, for-profit institutions increased by 112% to approximately 750 institutions (albeit another 200 went out of business) (Hentschke, 2004). And although they continue to serve a relatively small per cent of students (approximately 5%) (Kinser, 2006), their growth between 1995 and 2000 increased by 52%, far outpacing growth in other segments of US higher education (Hentschke, 2004). They were often touted as the new darlings by Wall Street and even public policy makers, until recent scandals began to tarnish that image.

Competition from abroad may soon further challenge US higher education on many levels. For instance regarding research universities, the Chinese government has set a goal to develop (and fund) 100 world class universities through its China 211 effort (Zhong, 2006). Another Chinese government initiative, 985 Project, is providing substantial grants to select universities the government believes have the greatest potential to compete in the global academic marketplace (Mohrman, 2005). Peking and Tsinghua Universities both received CNY 1.8 billion (USD 225 million) in the first round of that project's funding. Substantial investment like that is bound to have an impact. Elsewhere, Singapore's minister of education stated his country's intention to create a "Boston of the East" through its investment in world class higher education (Altbach, 2000). More recently, the European Union has expressed plans to create a transnational technological institute on par with those in the United States, and a primary objective of the Bologna Process is to create a competitive European higher education sector.

Countries additionally have stepped up their efforts to recruit and educate international students and the United States has not kept pace proportionately. For example, Australia has tripled its number of foreign students since 1990, which is an increase of more than 13-fold since 1980. United Kingdom institutions have increased the number of foreign students three-fold since 1990 and four-fold since 1980 (OECD, 2004). Early in this decade, the US share of the world market stood at 32%, down from a previous 40% (Schneider, 2000). Australian universities have responded by engaging in multiple strategies (predominately in Asia), one of which is "offshore education", where students enrol at Australian institutions, but study outside the country at a foreign partner's campus. In 2000, approximately one-third of the estimated 100 000 international students enrolled in Australian higher education were outside of Australia (Davis et al., 2000).

Online education has further affected competition, adding to the mix not only for-profit institutions or distance learning providers from abroad, but



traditional institutions that are now located no more than a “click” away. Geographic locations are less important thanks to technology. A student can easily choose a math course offered online by another geographically distant institution over the one at her home institution if the student believes the competitor’s version is better suited to her needs or of higher quality (Newman et al., 2004).

Finally, public institutions in a single state not only compete with one another for public dollars, but also must compete with increasingly organised, independent higher education for public subsidy (Hebel, 2004). For example, in 2005, independent colleges and universities in New York State received access to public dollars for capital building projects, much to the chagrin of their public institution counterparts. However, as an inverse example, private institutions are seeing their historic domain of private fundraising and gifts challenged by public institutions. The Chronicle of Higher Education has been tracking 22 US universities engaged in campaigns to raise USD 1 billion. Of those 15 institutions are public (see <http://chronicle.com/>).

### **Winner-take-all environment**

The above tensions, dynamics, pressures and actors all play themselves out in the higher education competitive environment described by two economists as “winner-take-all”. Frank and Cook (1995) argue that higher education operates as a particular type of competitive system in which those at the top get a disproportional share of rewards. This type of environment places particular constraints on institutions and creates dynamics that narrow their options and dictate their strategies. A primary characteristic of this environment is that small differences in performance translate into large differences in rewards. In many instances only the “winners” reap the benefits. Others walk away with nothing to show for their efforts. As an illustration, the authors describe an auction in which, unlike a traditional auction, not only the winner placing the highest bid pays, but others who make serious bids (investments) for the item do as well. However, only one winner (or a few winners) takes the stakes, disproportionate to the number of those who enter the game. Furthermore, success is more likely to come to those already successful or adept at the game, creating even more incentives to reach the top.

The complexities of succeeding in this type of environment are compounded by the fact that success is determined by relative standing, not functional or discrete results. For example, institutions strive to be “top ten” institutions. Not all can be a top ten university, and when demand is dictated in relative terms only a limited number of institutions can ever succeed. Because this competitive environment has a limited set of concrete determinants, institutions invest in surrogates. For example, indicators of

prestige and status, that might but are not guaranteed to prove beneficial, become the coins of the realm. Institutions seek the best researchers, try to field the best athletic teams, recruit the best students and build the most elaborate research facilities; not in absolute terms, but in relative ones. They make those investments hoping for the scarce payoff at the end, but risk gaining little for their efforts if they do not attain one of the few coveted spots at the top.

The rewards accumulated by those at the top are highly visible and thus encourage newcomers to get in the game and try to compete on the already established terms, which they usually do from inferior positions. Frank and Cook argue that most newcomers overestimate their chances of winning, thus too many competitors become easily attracted to a situation that will only pay off for those at the top. When too many contestants participate, they engage in unproductive patterns of consumption and spending as each tries to “one-up” the others to gain a competitive advantage. For example, research funding by the National Institutes of Health (NIH) has increased significantly in the last decade, leading many universities to see biomedical sciences as a potential source of support. To succeed, institutions that have not competed successfully in this arena recruit star faculty who have strong track records obtaining NIH funding. They each invest in laboratories and programmes to increase their health-related research. However, the number of such faculty is limited and competitor institutions often try to recruit the same small group of stellar faculty, creating bidding wars over salary and laboratories, each requiring an investment. To gain an advantage, institutions end up outspending each other. By doing so, they cancel out each other’s investments, and are often unable to recoup dollars spent.

Such behaviour creates an “arms race” among contestants. The stakes are simply raised and to outpace competitors requires outspending them. The result is that all contestants run harder to stay in place and those that choose not to play the game quickly slip behind. Frank and Cook argue that ending an arms race is difficult without externally mandated agreements. However, when some universities did attempt to agree upfront on financial aid packages so that they would not compete for students using financial aid, the US Justice Department intervened, filing an anti-trust suit (Frank and Cook, 1995).

The above dynamics help illuminate why US colleges and universities seem obsessed with media rankings as they strive for prestige and position near the top of the relative standings. To increase their rankings, institutions shape and re-shape institutional behaviour and priorities to improve their placement (Ehrenberg, 2002). Several scholars (Slaughter and Leslie, 1997; Marginson and Considine, 2000) argue that, in higher education, status is an even more important goal in institutional decision making than money. Enhancing prestige in the “winner-take-all environment” opens possibilities.

Reputation and prestige bring with them public awareness and recognition, and opportunities and associations that otherwise might not be available to lower-status institutions (Ehrenberg, 2002).

### **Tensions between public interest and the competitive marketplace**

Fiscal situations, demographic swings, new state policies, and the rules and dynamics of the winner-take-all competitive environment create difficult and competing pressures for college and university leaders. On the one hand, they work to position their institution in the competitive environment, but on the other hand they are trying to meet public purposes that may not have much value in the marketplace, but which are essential to a functioning democracy. To be sure, competition in higher education is not always a negative force. As in other knowledge sectors, such as information technology, health care and consulting, competition has the potential to drive down costs, increase innovation and access, and improve quality (Porter and Teisberg, 2004). However, competition in higher education seems to be creating as many problems as it solves. The cumulative effect of competition may work against important social objectives, particularly access and affordability. Examples include offering institutional aid to highly sought-after students who could afford tuition rather than to students in need, building new state-of-the-art athletic facilities rather than revitalising the campus library, and investing in one set of academic programmes that have strong ties to the market place (e.g. executive Master of Business Administration programmes) while allowing a different set to starve on the vine (e.g. geography or hearing and audiology).

In the United States, historically, public policy objectives have included the trilogy of affordability, access and quality. Given economic trends in various states, many university leaders and policy makers are adding economic development as a fourth policy priority. However, the demands of the competitive marketplace push leaders to pursue strategies that generate revenue, maximise prestige to generate future opportunities, increase the attractiveness of their institution, enhance research capacities and promote quality. All the while, students and families, potential corporate partners and faculty become savvy consumers and exploit choices.

Although both sets of objectives include “quality”, that concept has different meanings depending on which side of the ledger one is looking at. Quality in the public purpose domain typically concerns itself with outputs and addresses issues related to undergraduate programmes, such as the ability of graduates to find meaningful employment and function well as citizens, and the production of well-prepared graduates to address state-wide needs (e.g. nursing shortages). Quality in the competitive arena is often heavily focused on input measures and may be concerned as much with

graduate and professional education as undergraduate education. In the competitive arena, quality often encompasses the abilities of researchers to attract federal and private grants and contracts, or the status and star credentials of faculty. In some ways these two types of quality overlap, but they also contain some incongruities.

## Competing differently

Competition among colleges and universities is not going to diminish; and, if anything, indicators suggest it will continue to intensify. Thus, might it be shaped to advance more positive ends, particularly the public policy objectives of affordability, access and quality?

Competition can be viewed as multi-dimensional. What organisations compete over and the ways they compete are various elements that might be altered to improve practice, reason Michael Porter and Elizabeth Teisberg in the *Harvard Business Review* (2004). Focusing on health care, they argue that that sector might compete differently and by doing so would make marked improvements in public concerns of health care cost, accessibility and quality. They suggest that if health care competition focused on driving down costs, raising productivity and improving service quality with the intention of creating a healthy society – patient by patient and disease by disease – it would not be in its current troubled state. They suggest that instead health care's current form of competition makes it more expensive, limits access and patient choice, and hampers innovation and quality. Comparisons between health care and higher education are not uncommon, and they share the same policy concerns of affordability, quality and access. Following Porter and Teisberg's argument for health care, are colleges and universities competing over the wrong things that bring about undesirable effects? How might a different approach to competition work to improve higher education, particularly to lower costs, improve quality and expand access, while addressing the realities of the winner-take-all environment?

### **Improving health care via competition**

Porter and Teisberg say that, currently, competition in health care takes place at the wrong level, with the wrong objectives, in the wrong forms and geographic markets, with the wrong strategies and structures, marked by the wrong information, and with the wrong incentives for the participants. Many of these ideas might be relevant to higher education.

- *The Wrong Level:* Competition takes place at the level of health plans and hospitals, not at the prevention, diagnosis and treatment of individual health concerns. The authors cite studies that show that when teams of physicians treat a high volume of patients with a particular condition, they

create better outcomes and lower costs. They further suggest that costs and quality can be improved when organisations prevent errors, boost efficiency and develop expertise, which occurs through specialisation and focus.

- *The Wrong Objective:* The primary objective of health care competition is to reduce costs – not the overall costs of care, but predominately those borne by health plans and employers. The objective instead should be to improve the quality of health outcome per dollar spent at the disease and treatment level.
- *The Wrong Forms of Competition:* Instead of competing on the individual condition level, Porter and Teisberg suggest that health care has four unhealthy kinds of competition:
  - ❖ Competition each year for health plans to sign up subscribers, which limits competition at the disease level because of network restrictions and creates a short-term mindset.
  - ❖ Providers compete to be included in particular networks by giving deep discounts to large plans. It does not cost less to treat someone employed by a large company than someone who is self-employed.
  - ❖ Providers compete to be the largest, most powerful group offering the largest array of services to develop their bargaining clout. Hospital mergers create redundancies, not synergies.
  - ❖ Providers and payers shift costs to each other rather than work to lower costs or improve services. Payers raise rates on those who become ill; patients seek coverage for procedures not included (such as cosmetic surgery); and employers allow plans to deny coverage to employees.
- *The Wrong Geographic Market:* Because health care competition is local, providers are insulated from successes of others and the spread of best practices is impeded. Because most health care plans have high out-of-network costs, people are deterred further from seeking the best care elsewhere. Although people will still predominately visit their local doctors, those with complex or uncommon conditions may benefit from service available elsewhere.
- *The Wrong Strategies and Structures:* Although value is increased by deep expertise and tailored facilities, write Porter and Teisberg, health care instead pursues strategies that broaden services and expand capacities. Mergers and consolidations create conglomerations that stifle competition. (The authors do not mention if these larger structures facilitate communication and the transfer of best practices, something they argue elsewhere in the article is important.)
- *The Wrong Information:* Information allows people to shop for the best value and forces providers to compare themselves. The information in health care is about plan coverage and participant satisfaction, not about providers'

expertise and outcomes for treatments. Little information exists about how many patients with a particular diagnosis a provider has treated. Although difficult to collect, the authors note that some small-scale experiments in which a preponderance of information is readily available have lowered costs and improved performance.

- *The Wrong Incentives:* Finally, Porter and Teisberg suggest that the wrong incentives exist for both payers and providers. Insurers, they argue, should be rewarded for helping their customers learn about and obtain the best health care; for simplifying administrative processes; and for making participants' lives easier. Currently, payers benefit by enrolling healthy people and raising costs (or denying coverage) for those who are sick. They complicate billing and dispute payments, shifting costs to providers and/or patients. They restrict access to expensive treatments and out-of-network care, as providers have incentives to make referrals in their own network. Reimbursement practices encourage physicians to spend less time with patients and then readmit them if there is a continuing problem.

### **Redefining competition in higher education**

The ideas put forth by Porter and Teisberg raise interesting questions regarding competition in US higher education. By redefining the particular dynamics of competition, it might be possible to reduce some tensions regarding higher education's rising costs and challenges of access, particularly for low-income students.

First, is it possible for institutions to compete over costs that are transparent? Students and their families, like all consumers, are cost-conscious. They look to maximise the investment of their tuition dollars, while maximising their returns. However, the actual cost to attend college for students often is different from the posted tuition and fees (i.e. true costs versus "sticker price"). Institutions offer many students discounts on tuition (sometimes deep discounts) as enticements to enrol, and use financial aid packages to recruit particularly desired students.

Second, how do current operationalised definitions of quality affect competition? Students and their families seek the highest quality institution. Yet, quality is often defined with little attention to how much students learn or the impact of the students' education on their personal, professional and civic lives. Instead, quality is represented by surrogates that may not be illustrative of a student's experience, such as the student-faculty ratio, per student expenditures, reputation among peer institutions or the number of internship experiences available. What other indicators of quality might better help students make wise choices in where they enrol at either the institution or academic programme level?

Third, is the right information available to help students make wise choices? The difficulty in addressing the first two points above is that students and their families lack relevant information to make meaningful comparisons. Finances are opaque at best and are moving targets, and quality is unclear. Regarding quality, prospective students often rely on rankings in the popular media, such as the *US News & World Report*, that may reveal little of the quality of education a student receives. However, because these rankings influence student choice, institutions continue to participate in them, and engage in strategies that may move them up in the rankings but do little to affect the actual experiences of students (Ehernberg, 2002). The National Survey of Student Engagement is a relatively new yardstick that may eventually supplant popular press rankings; however, as of yet its information about each specific institution typically is controlled by that institution, not allowing for comparisons between institutions. Furthermore, the likelihood of a single source or standard of information adequately capturing the quality of a student's experience at the diversity of institutions is slim at best. Too many variables – including, but not limited to the student's background and objectives, institutional mission, and differences in majors and academic programmes – are involved to take on this matter lightly. And comparisons between unlike institutions may downplay the strengths of some that might add tremendous value to a particular student's experience. Not all students seek the same thing from a higher education, nor should all institutions provide the same thing.

Fourth, how might institutions, and in turn students, benefit from specialisation and not breadth? Porter and Teisberg suggest that value is increased by expertise and tailored facilities, and costs go down and quality increases through specialisation and practice. While certain colleges or universities may offer niche programmes or pursue niche missions, the current environment encourages institutions to compete on breadth of programmes. Most end up having a broad array of academic majors that are the same if not similar to those offered by their competitors. In many ways, expectations of what is essential to a university demand this. Can a research university really be an outstanding research university without an undergraduate history programme or a physics department? What happens if other such programmes of higher "quality" (however defined) exist locally? (Of course the realities of closing academic programmes are a completely different and difficult challenge [see Eckel, 2003].)

On a related point, what might be the implications if colleges and universities competed at the individual course level instead of competing on the whole academic programme or undergraduate experience? With distance learning and refined transfer and articulation agreements, students can now make decisions to enrol in an institution on almost a course-by-course basis.

Institutions might pursue increased specialisation and expertise in certain majors or even at the course level. On one level, institutions would find this level of competition troublesome, as institutions try to steal away their students on a course-by-course basis. However, from another perspective, such expertise might allow institutions to make investments in particular areas, as others would provide the broader course coverage.

Competition for the most part is taking place on a local level, but how might distance learning alter the geographic landscape? Today's students, unless highly mobile, typically choose between institutions in a particular region, although the size of their region may vary (i.e. all institutions in a particular city or all liberal arts colleges in two neighbouring states). However, distance learning creates the possibility of making geographic location in some cases irrelevant.

Finally, what would be the implications of alternative incentives for institutions that placed a high value on educational outcomes, student learning, serving low-income students or preparing graduates for pressing state needs? Current incentives encourage institutions to invest in amenities (among other things) that appeal to talented and often wealthier students, such as new residence halls or recreational facilities, which may increase costs and do little for quality. Scathing critiques such as the article in the *New York Times* titled, "Jacuzzi U?" (Winter, 2003), or efforts by four Texas universities to build climbing walls higher than one another (McCormick, 2005) are symptomatic of the situations institutions find themselves facing. The difficulty of changing incentives in the winner-take-all market is that no single competitor (or even small group of competitors) has the ability to alter incentives without risking becoming irrelevant given the current rules of the game (Frank and Cook, 1995). Instead, an outside agency must create and enforce an "arms reduction agreement", as is the case in professional sports and other similar competitive environments.

## Conclusion

Competition in US higher education is much more complex than discussed here (see for example, Ehernberg, 2002; Frank and Cook, 1995; Winston, 2003). This paper does not attempt to be comprehensive. Instead, it simply seeks to approach the issue through a different perspective and provoke higher education leaders and observers to think in other ways about competition and how tensions between being successful in the winner-take-all higher education arena and meeting public purpose objectives might be mediated before we create a situation too difficult to alter constructively.

At a recent conversation on competition, market pressures and public purposes, college and university presidents got no further in broaching



solutions. They readily acknowledged the changing environment and the challenges of meeting public purposes at a time of declining public resources and increased competition that often reward priorities and choices inconsistent with public objectives. Some of the presidents believed that competition can and should be altered to be more constructive, but others did not agree. As one president said, "If students want climbing walls, let them have the damn climbing walls.", only to be countered by another president who said, "I get concerned when competition takes resources away from something important, when the climbing wall takes resources away from class size". The conversation remains unfinished.

Finally, meaningful change will require challenging changes throughout the sector to occur. And given the current dynamics in US higher education, those best positioned to lead such change are the very same institutions that are benefiting the most from the current system of competition.

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