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Creative Destruction of Higher Education Institutions

Ronald B. Johnson

Abstract

Creative destruction is the phenomena of constant change through technological and/or process innovations in any given industry. Without strategy and commitment to continuous development, the process of constant change threatens any firm's ability to establish and sustain competitive advantage over competition. Creative destruction can turn the biggest *giants* of today into tomorrow's *distant memories*. Institutions of higher education cannot escape the tentacles of creative destruction as they are now witnessing their own industry rapidly changing. Some institutions of higher education have responded by strategically adapting while others have remained fiercely intransigent. Dr. Michael E. Porter's *five forces analysis* provides a unique mechanism to convey the competitive landscape, competitive rivalry, and technological advances rapidly increasing creative destruction and change within higher education. This paper will analyze each of the five forces while uncovering the powers driving creative destruction in higher education.

Keywords**:** creative destruction, changing institutions of higher education, the future of higher education, five forces analysis

Introduction

In 1942, Austrian American economist Joseph Schumpeter coined the phrase, *Creative Destruction* in his work entitled, "Capitalism, Socialism, and Democracy." Creative destruction represents the "incessant product and process innovation mechanism by which new production units replace outdated ones" (Caballero, n.d.). In essence, old products, processes, and services are forced to step aside for new and emerging replacements. Change is recognized as the one *constant* in capitalism which accounts for the creative destruction in all free enterprise economies (Alm & Cox, 2008). General and technological innovations have drastically changed most industries forcing firms to adapt or face extinction. For example, Blockbuster video stores (and others like it) once littered mini-strip malls in virtually every town across the country. However, the turn of the century brought about newly emerging technological and process innovations which decreased Blockbuster's value proposition.

By 2004, a McDonald's backed company called, Redbox, began renting DVDs and videogames to consumers through kiosks in all over the country. Redbox surpassed Blockbuster in the total number of locations by 2007 and quickly reached the achievement of 1 billion rentals a few short years later (Wikipedia, n.d.). As of today, most Blockbuster store locations have closed down and the company is struggling to implement a service structure similar to that of Redbox. However, Redbox's competitive advantaged has largely been threatened by the emergence of online-video-streaming technology offered by companies like Hulu. Redbox's kiosk sales have matured and the company now finds itself attempting to imitate the service structure of Hulu (and others) to maintain market share and remain competitive in the changing market. Change is constant, inevitable in capitalism, and a driving force behind creative destruction.

In this paper, I will explore the realm of *higher education* in the United States of America (U.S.) while proposing the notion that creative destruction is rapidly changing this industry. Scholars around the world have already proposed and studied the concept of creative destruction in their nations' higher education systems. Authors in the United Kingdom (U.K.) like Andrew McGettigan, Roger Brown, and Helen Carasso have written books discussing the marketization and future of U.K.'s higher education. In June 2013, over 80 educational leaders from various nations including Brazil, China, France, Germany, India, Australia, the U.K., and the U.S. met to discuss shared educational challenges while analyzing the rapidly shifting environment, the new obstacles in sustaining quality, and how to remain internationally relevant (Association of Universities and Colleges of Canada, 2013). Much like these educational leaders, I will evaluate the environment and landscape of higher education in the U.S. while focusing on the forces driving creative destruction in this industry. I will use Dr. Michael E. Porter's *five forces analysis* to convey the competitive landscape, competitive rivalry, and technological advances rapidly changing higher education in the U.S. In doing so, I will consider: (1) threat of new entrants, (2) threat of substitute products and services, (3) bargaining power of customers (students); (4) bargaining power of suppliers (colleges and universities), and (5) intensity of competitive rivalry.

Threat of New Entrants

Higher education in the United States was viewed as having a monopolistic competitive market structure with low barriers to entry, slightly differentiated offerings, and, somewhat, limited control over the tuition rates charged. Higher education has grown significantly over the past century and is still viewed as one of the top educational systems in the world housing over 50% of the top 100 universities in worldwide rankings (The Economist, 2012). This notable achievement is largely due, in part, to the characteristics (mentioned above) commonly found in a monopolistic competitive environment. Because of low barriers to entry, the threat of new entrants into the market is relatively high.

As a direct result stemming from the passage of the Servicemen's Readjustment Act in 1944 (a.k.a., the "GI Bill"), the U.S. typically witnesses surges in post-secondary education enrollments during and immediately after periods of war involving the U.S. (Edwards, Moyen, & Thelin, 2011). Not surprisingly, the U.S.'s decade-long military involvement in the Middle East has triggered a surge in the enrollment numbers of U.S. colleges and universities. From 2000 to 2010, enrollment in degree-granting institutions increased by 37% totaling roughly 21 million college students in 2010 (U.S. Department of Education Institute of Education Sciences, n.d.). As it generally happens in a market economy, the increase in demand prompted an increase in the supply of degree-granting institutions.

The emergence of *for-profit educational institutions* as new entrants into the market has had noticeable impacts on the enrollment percentages of institutions of higher education. From 2005 to 2010, enrollment in public institutions as a percentage of all students decreased by 2.6% while enrollment in for-profit institutions as a percentage of all students increased by 4% (Jaschik , 2011). By 2010, the percentage of all institutions that are for-profit rose to 26.2% of the market (Jaschik , 2011). The largest degree-granting institutions (by enrollment figures) are the University of Phoenix's Online Campus (307,965 students) and Kaplan University's

Davenport Campus (77,966 students); both of which happen to be for-profit institutions (U.S. Department of Education Institute of Education Sciences, n.d.).

Originally, most for-profit institutions found their niche in differentiating their educational offerings to accommodate the *busy professional*. This differentiation strategy included differentiators like online, recorded, evening, weekend, and/or accelerated class structures to help students graduate faster and entice them to simultaneously pursue multiple degree options. Institutions of higher education were somewhat reluctant to adopt these same offerings while, instead, relying on superior accreditations as their competitive differentiator. Soon, however, some employers began expanding their acceptance of accrediting bodies thus recognizing degrees from previously, lower-accredited universities (in lieu of the higher accredited institutions). As a result, institutions of higher education have, seemingly, lost their competitive positioning in regional markets and have been scrambling to implement the various offerings necessary to accommodate the busy professional. Thus, the threat of new entrants into the market has *sped up* the creative destruction process regarding higher education's instructional delivery methods and accommodations.

Threat of Substitutes

Substitutes in the form of alternative educational offerings have further continued the creative destruction process of higher education. Historically, employers sought job candidates with bachelor and/or master's degrees in various general concentrations (i.e. finance, management, marketing, etc.) to fill their staffing needs. However, the increasingly competitive landscape in the market has elevated the need for more specialized, concentrated educational programs. In a number of cases, two-year specialization programs with awarded certifications are preferred, by employers, over a four-year general degree. Businesses have formed alliances with local education institutions offering these kinds of programs to better meet their growing employment needs of specialized candidates. For example, Alabama's Regional Health Care Network has partnered with Central Alabama Community College, Gadsden State Community College, and the University of Alabama at Birmingham to offer a Health Information Technology (HIT) specialization to support the needs of rural healthcare providers.

Other institutions of higher education have responded by offering non-degree certificates to satisfy the local and regional demands of the business community. For instance, Auburn University now offers a *Movement Skill Analysis* certificate to teach participants (coaches, teachers, instructors, choreographers, or marching band directors) how to use Dartfish software and how to study physical movement and abilities (Auburn University College of Education, n.d.). To accommodate, universities must reallocate institutional resources, rethink their long-term strategic positioning, and overhaul their traditional methods of instruction and delivery.
In other cases, working professionals have become more likely to take specialized credentialing assessments rather than pursue an advanced or second degree at an institution of higher education. For example, tenured professionals, in the world of human resources, might choose to sit for the Professional in Human Resources (PHR) or Senior Professional in Human Resources (SPHR) certification examinations rather than return to school for an advanced HR-related degree. PHR and SPHR certified professionals are highly recognized and valued in the world of human resources as over 25% of managerial HR roles require these kinds of certifications (Lyons, Mueller, Gruys, & Meyers, 2012). In response, some colleges like Curry College in Milton, Massachusetts, have begun offering preparation classes for individuals wanting to take the SPHR certification exam (and other examinations) (Curry College, n.d.). Many additional

universities are following suit and offering preparation classes for various examinations and other classes for professional development credit opportunities.

Another substitute unveiling the creative destruction of higher education is the growing presence of free online courses delivered by prestigious universities and business entities. The Massachusetts Institute of Technology (MIT) was one of the early movers in offering *free* open courses to non-paying students through their OpenCourseWare (OCW) platform. MIT's OCW offers thousands of free undergraduate and graduate classes, audio, video, supplemental readings, etc. to anyone willing to participate. A recent survey of undergraduate and graduate MIT student populations indicates that the OCW program does competitively enhance the university's position to attract students (Carson, Kanchanaraksa, Gooding, Mulder, & Schuwer, 2012). Another one, the Massive Open Online Course (MOOC), is an online course designed for large-scale involvement and open access via the internet (MOOC, n.d.). Coursera (www.coursera.org) maintains a MOOC-like structure with over 80 partners from top universities including Duke, Stanford, Vanderbilt, Yale, etc. Although these offerings generally do not lead to college credit, universities across the country must rethink their strategy and consider offering free classes and resources such as these to attract consumers. In 2013, Georgia Tech announced their plans to implement a MOOC –only master's degree program in Computer Science that costs each graduate roughly $7,000 to complete (as compared to the $40,000 it normally takes) (Backus, 2013).

Bargaining Power of Buyers (i.e. students)

Tuition rates have consistently risen over the past decade without negatively affecting demand but the bargaining power of buyers (i.e. the students) is gradually beginning to increase. Regional institutions of higher education are no longer the exclusive provider of post-secondary education options in their corresponding markets. Today, numerous available substitutes exist for students seeking higher education degree options, credentialing, and/or professional certificates. The Internet's distance learning capabilities has broken down barriers once limiting consumers' education options and increased access to a plethora of selections. As a result, buyers (students) now have increased bargaining power because they can choose from the multitude of post-secondary options that accommodate their preference, lifestyle, schedule, budget, and more.

Previous Chancellor of Southern Illinois University Carbondale, Walter Wendler firmly believes, "Little relief is in sight for universities unwilling to simultaneously hold onto the traditional values of the university experience, enlightened teaching and engaged faculty and staff, while also looking at alternative methods to reduce the total costs and increase the effectiveness of the university experience" (Wendler, 2013). In response, some universities like Lipscomb University in Tennessee are reducing the number of credits required for graduation from 132 hours to 126 hours (Ellis, 2012). Institutions of higher education should acknowledge this transfer in bargaining power as a threat to competitive advantage and develop a strategy that accommodates a broader audience for long-term competitive sustainability.

Furthermore, the student loan industry has, indirectly, shifted a great deal of bargaining power to students through the availability of cash (for school). During periods of economic hardships (like the one we've experienced over the past six years), states often divert more funding towards K-12 education versus post-secondary education during these difficult times. Even during economic hardships, students expect capital budgeting projects to exist on campus for newer things like student recreation, housing, restaurants, parking, athletics, etc. Many states opt to divert funding away from in-state higher education capital expenditure efforts in lieu of more pressing issues. Therefore, institutions of higher education often become reliant on enrollment numbers and gifts to remain financially solvent. The readily accessible cash for students seeking higher education degrees equips these students with a higher level of bargaining power over the *cash-strapped* institutions. From 2005 to 2011, the private student loan industry in the U.S. grew from $55.9 billion to $140.2 billion (Johnson, Van Ostern, & White, 2012). This excess cash has increased competition abroad and created a frenzy in which educational institutions are seeking ways to differentiate and better accommodate student preferences. The rapidly and widespread changing demand of the consumer student populous has certainly thrown higher education for a *loop*.

Bargaining Power of Suppliers (i.e. institutions of higher education)

The general bargaining power of higher education is quickly eroding. Before the presence of distance learning, institutions of higher education had regional monopolies over the local market. Either citizens moved away to attend another institution or they enrolled at their local university. Today's competitive environment is certainly more *open* as citizens have the ability to remain at their current residence while enrolling in universities across the globe (who offer distance learning options). As mentioned earlier, state funding is becoming a larger issue of concern for institutions of higher education as they are now faced with budget cuts amidst increasing operational expenditures. Funding pressures are also exacerbated by students' demand for lower tuition and fees. Therefore, universities must respond to the changing market's demands for tuition freezes, diverse instruction and delivery methods, campus life experiences, business alliance programs, etc. The University of Charleston in West Virginia, implemented a 22% cut in tuition as a response after seeing their enrollment decline for the first time in a decade (Ellis, 2012). As a result of the tuition cut, the University of Charleston in West Virginia announced his highest enrollment numbers since 1974 last year.

To a lesser extent, many institutions of higher education have lost bargaining power that was once was founded on the most prestigious accreditations available. For example, employers who accept degrees from schools accredited by the Southern Association of Colleges and Schools, generally, accept degrees from other regionally accredited institutions. While this methodology might seem sound, some regional accreditations are easier to obtain and sometimes *speculative* at best. For example, Grand Canyon University maintains its only campus in Phoenix, AZ yet is fully accredited by the Higher Learning Commission which is a commission member of the regionally accredited body, the North Central Association of Colleges and Schools. Therefore, an online degree through Grand Canyon University which is located in the southwest part of the country is regionally accredited by the body overseeing the north central part of the U.S. This *loophole* in accreditation has, to some extent, diminished the bargaining powers of traditional institutions that hold firmly to their *prestigious* regional accreditation. While this notion is sensitive in nature, institutions of higher education must acknowledge the peculiar accreditation alignments and agreements that exist today.

Intensity of Competitive Rivalry

In my opinion, what were once rivalries to produce the most forward-thinking and brilliant minds have now turned into a slugfest for the highest number of enrollments, the most published professors, and which university has the prettiest campus structures. The intensity of competitive rivalries amongst the institutions of higher education has led to full scale marketing efforts including print, radio, television, and the Internet to attract applicants and donors. As a university, you must implement some measure of strategic marketing to grow your brand name and imagery. Universities with strong athletic programs such as football and basketball have the luxury of almost year-round continuous promotion through sports networks, magazines, merchandise, etc. Therefore, traditional institutions lacking athletic dominance must understand the psyche of today's audience and implement a strategic marketing plan to communicate the universities' diverse offerings and advantages to remain competitive in a *cutthroat* industry. The competitive rivalry between two-year colleges and four-year universities has also heated up. Economic conditions have prompted many college students to begin their collegiate careers at a two-year college and then transfer to a four-year institution to finish their bachelor's degree. In most cases, students can save well over $10,000 by completing their *core classes* at a two-year college versus taking them at a four-year institution (King, 2012). While some have questioned the necessity of core classes in each degree path, most still agree that core classes help enable students to flourish in an "increasingly competitive world by providing them with basic knowledge that they can use in a wide variety of fields" (Thompson, n.d.). Those that argue against the necessity of core classes will often cite the financial ramifications of dropout rates at universities and the numerous major changes a student may undergo during their college experience. In response, some universities like Ohio's Baldwin-Wallace College have introduced programs that guarantee a student will graduate in four years as long as the student keeps his or her GPA above a 2.0 (Ellis, 2012). If the student maintains a 2.0 GPA and, for some reason, goes over the allotted four years, the school will pay for the additional tuition required for graduation (Ellis, 2012). Competitive positioning responses like this one are create, effective, and forward-thinking in today's competitive landscape.

Conclusion

Creative destruction in higher education is rapidly increasing as consumers are monitoring their disposable income more intensely. Dr. Michael E. Porter's five forces analysis serves as a useful mechanism to unravel the creative destruction process and highlight the forces driving change. Higher education has witnessed a boom of new entrants (for-profit and non-) offering degrees, credentials, certificates, professional development, and more. Substitutes for higher education are becoming more prevalent and widely accepted by consumers and, more importantly, employers. The bargaining power of buyers (students) has increased while the bargaining power of suppliers (institutions of higher education) has decreased. Finally, the intensity and rivalry amongst institutions of higher education is as at an all-time high. These institutions are fighting for applicants, donations, state funds, and market share (local, regional, national, and global).

The current culture and social expectations value efficiency, differentiation, and forward-thinking organizations. Creative destruction is forcing institutions of higher education out of their *norm* and into a new, uncharted era of innovation and competition. As a response, some have cut tuition, decreased graduation track requirements, formed alliances with credentialing bodies, and placed emphasis on the other growing diversified demands of students and industry. While many have embraced change with strategic plans to pioneer ambitious movements, others have fiercely remained intransigent. Regardless, creative destruction is driving change in higher education whether it is welcomed or not. As stated before and, more or less, to serve as a caution to institutions of higher education, creative destruction can turn the biggest *giants* of today into tomorrow's *distant memories*.

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