

# CHAPTER 1

## SOLUTION TO SOUTH AFRICAN CASE STUDY EXCELSIOR UNIVERSITY



(Topics covered include: budgeting; control; operating environment; value chain concept; operating leverage and cost-volume-profit-analysis)

**Author:** David Rosenberg, Associate Professor in Accounting, Rhodes University, South Africa.

### QUESTIONS FOR DISCUSSION

- 1 What are the major strategic challenges and risks facing the university going forward? Be sure to make your answer as comprehensive as possible.
- 2 Using value-chain analysis, identify areas where the university can improve its operations. Keep in mind the changing environment in higher education within South Africa.
- 3 What impact do you think the internet will have on the way universities generally present their courses in the future?

### SOLUTIONS TO DISCUSSION QUESTIONS

During the past two decades many organizations including universities have faced dramatic changes in the environment in which they operate. In the context of South Africa there is increasing competition for quality students which is being exacerbated by the arrival in the country of overseas universities, the rapid development of new IT technology and communication systems which has increased the reach of competitors both foreign and local - also price competition has begun to manifest itself for the first time.

To compete successfully in today's competitive environment universities will have to make student satisfaction an overriding priority and the courses and programmes offered by universities will have to be responsive to the skills required by the market place - offering degrees and diplomas which simply educate students without giving them the requisite skills to compete for positions in a highly competitive job market would seem to be an exercise in futility.

Some of the strategic challenges facing Excelsior University at this juncture can be summarised as follows:

- The schooling system in South Africa is poor and declining and the credibility of the school leaving certificate is questionable - although there is a surfeit of students applying to universities only a

small fraction of them have mathematics as a subject and many of those only have modest passes in this subject. The upshot of all of this is that competition is growing for quality science, commerce and law students for example.

- Given that there are reportedly 600 000 unemployed graduates in the country almost all of them graduates in the humanities, Excelsior, with 50% of its student body being in humanities, would need to drastically change the composition of its student body since it is producing graduates who are highly likely to simply join the ranks of the unemployed - needless to say this is a waste of scarce resources particularly since the government contributes about 60% percent of the tuition costs of students in South Africa.
- As Excelsior is one of the most expensive universities in the country and competition for quality students is increasing very close attention will have to be given to the cost structure of the university so that fees are reduced, not increased in the future or at least fee increases are severely curtailed - two worrying statistics are that the university has the lowest student to staff ratio in the country while the fact that the cost of administrative staff at the university is equal to the cost of academic staff raises questions as to whether the university is not overstaffed as regards both academic and administrative staff.
- The advent of the internet together with advanced communication and delivery systems (the I-Pad) gives universities generally the ability to offer courses on a distance basis - this has forever changed the competitive environment - from Excelsior's standpoint these changes are even more relevant since it is situated in a rural area and is almost completely dependent on residential students - see 3 below where the impact of the internet and technology is discussed in more detail.
- The university should give consideration to semesterising a number of its courses so that new students are able to commence their studies either at the beginning of the year or mid-year - this might attract a few more quality students and given that each additional student recruited gives rise to an additional contribution of about R76 000 (the university has a contribution ratio of about 97%) every additional student recruited is financially very important to the university - the university does not offer bursaries and it has unutilised facilities so it seems logical that it should offer bursaries to high quality students to induce them to attend the university since the marginal cost of one additional student is only R1 500 and the government contributes about R48 000 per annum to the cost of educating a student.

The problem with universities is that for a very long time they have been insulated from competition and have been operating in a cocoon with no real incentive to change their modus operandi - universities have been led largely by academics with limited financial skills and little or no management training. Given rapid changes in the environment and the fact that the budgets of some large universities run into several billion Rands the governing bodies of universities might have to re-think what sort of person they want to lead their universities into the future.