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**AUSTRALIAN UNIVERSITIES IN A PANDEMIC WORLD: TRANSFORMING A  
BROKEN BUSINESS MODEL?**

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# **AUSTRALIAN UNIVERSITIES IN A PANDEMIC WORLD: TRANSFORMING A BROKEN BUSINESS MODEL?**

## **ABSTRACT**

### **Purpose**

This paper critiques the accounting and financial orientation of Australian universities' business model in order to identify the future university financial management and accounting role in universities' strategic trajectory responding to COVID-19.

### **Design/Methodology/Approach**

Informed by Habermasian perspectives on change, it employs published research into university commercialisation and media commentaries on COVID-19 impacts.

### **Findings**

Australian universities have aggressively pursued an accounting-based private sector business model. Their revenue generating reliance on international student revenues has been undermined by the COVID-19 crisis. Nonetheless university management clings to their commercialised university identity and role colonised by the accounting structures. Fundamental change requires a reversal of this relationship.

### **Research Implications**

Future research must observe and evaluate university strategic crisis reactions and their impacts on national and societal well-being with a view to identifying alternative futures.

### **Practical Implications**

Universities face decisions concerning their ongoing role in society and their future approach to balancing operational strategies and the accounting influence.

### **Social Implications**

This study raises the issue of whether universities should continue being seen as an export industry supporting the national economy or as knowledge, educational and social resource for their national and regional communities.

### **Originality/Value**

This paper integrates research into universities over several decades into a strategic critique of their current reaction to an unprecedented global pandemic.

### **Keywords:**

Business model, university, financial crisis, commercialisation, corporatisation

# **AUSTRALIAN UNIVERSITIES IN A PANDEMIC WORLD: TRANSFORMING A BROKEN BUSINESS MODEL?**

## **Introduction**

As of 14 August 2020, the global coronavirus (COVID-19) pandemic had caused more than 20 million confirmed cases and almost 750,000 deaths reported to the World Health Organization (WHO, 2020). Its future duration is unknown but is anticipated to stretch for at least 18 months to two years (Pitovsky, 2020). For the higher education sector, this has led to Australian border closures affecting international students, university campus shutdowns and major transitions to online teaching delivery in many universities (THE, 2020). In Australia and New Zealand, 'social distancing' and avoidance of physical contact has been required of their populations to minimise the community transmission risks, and while many restrictions have been progressively relaxed, already in the state of Victoria a resurgence of transmission has caused reimposition of such restrictions there (Australian Government Department of Health, 2020; New Zealand Government, 2020). The shutdown of universities across Australia has had dramatic effects on their operations, enrolments and financial viability (Karp, 2020).

This paper analyses and critiques the Australian universities' business model and the accounting and accountability involvement in its onset of financial crisis and pressures for turnaround. It addresses two related research questions. First, what has been the university business model and accounting involvement that has contributed to this strategic crisis? Second, from an accounting and accountability perspective, what strategic responses are on the table for the Australian universities? These questions are addressed through a Habermasian organisational change lens with relevant evidence sourced primarily from the author's published research into university commercialisation and corporatisation and from recent web-sourced discourse and reports relating to COVID-19 impacts on Australian universities.

The paper commences with a brief outline its theoretical perspective followed by a summary of the Australian universities' financial crisis. It then addresses university corporatisation and commercialisation, and their current crisis. This is followed by the financial orientation and involvement of financial management and accountability systems. Finally, future strategic trends and options are critiqued options.

## **Habermasian Change Diagnosis**

This paper's analysis is informed by Laughlin's (1991) and Broadbent and Laughlin's (1997, 1998) Habermasian reading of organisational change processes. From that perspective, universities' response to major external shocks involve their striving for a new equilibrium point. The two predominant pathways of first and second order change exhibit different routes through three dimensions of the university organisation - its interpretive schemes (or lifeworld), its design archetypes (or steering media) and its subsystems (or systems). University interpretive schemes include their core values and views of their world and role. Their subsystems are comprised of physical components (e.g. infrastructure, equipment, staff, finances) and interactions between these. A university's design archetypes include its organisational structure, decision procedures and communication channels that try to make the systems compliant with the university's interpretive schemes.

COVID-19 impacts on universities can induce first order (morphostatic) change when they adapt by either rebutting the external shock altogether or reorienting to some extent. So, the

design archetype and systems may change and reorient while interpretive schemes do not. Alternatively, rebuttal allows the design archetype to change, but little else changes and the former status quo may be recovered subsequently. Second order (morphogenetic) change may involve a more fundamental shift when the university changes its interpretive schemes. This occurs when the external shock is taken seriously and induces evolutionary change in the organisation's core values. Alternatively, in response to the shock, the university design archetypes may change and force changes in (i.e. colonise) the university interpretive schemes.

These fundamental elements of the Habermasian perspective can assist our understanding of university strategies and their financial management and accountability orientation both before and subsequently during the COVID-19 crisis.

### **From Commercialisation to Financial Crisis**

As early as the beginning of this century, universities' trend towards adopting a corporate model of strategic focus, structure and operation was becoming evident. This included branding, terminology, marketing and a move towards an entrepreneurial philosophy. Their interpretive schemes began to evince a focal concern with financial success, vocational relevance, industry partnering, customer responsiveness, favourable public profile and significant market share (Parker, 2002). In other words, the private sector corporate focus on economic success appeared to be overtaking community education, fundamental research, civil society critique and change, as dominant characteristics of the university interpretive scheme.

Prominent among university design archetypes was a shift in decision-making structures towards highly paid (average annual salary exceeding \$1 million [Aus]) vice-chancellors (Sainsbury, 2020) rebadged as chief executive officers and university presidents, university councils slimmed down and professionalised, with a proliferation of senior executives making all strategic decisions and controlling implementation through a top-down authoritarian hierarchy. This reinforced the change in interpretive schemes whereby for senior management, revenue growth, brand recognition, university prestige and profit became the dominant ethos (Parker, 2011). This drove Australian universities to reach a situation where today between 20-50% of a typical university's student enrolments are fee paying international students and can constitute 30% or more of the total revenue stream (Hewett, 2020). Thus, international student revenues delivered over \$39(Aus) billion to the Australian economy in 2019 (Lansdown, 2020). The risks of this transformation of university interpretive schemes (and hence identities) and design archetypes (e.g. evidenced in their strategies) has been brought into sharp focus by the COVID-19 crisis.

The Covid-19 crisis has exposed the emerging contradiction at the heart of Australia's public university system; that it is both a network of learning institutions and a string of highly competitive, profitable and often rapacious businesses."

(Sainsbury, 2020, p.2)

The shift in Australian university interpretive schemes and design archetypes over the past 20 years was arguably a case of initial university morphogenetic change in reaction to diminishing funding (in real terms) from Federal government. Student numbers rose, staffing resources remained relatively static, government funding sources for maintaining adequate infrastructure were limited, and government became addicted to university export earnings while demanding value for money and employable graduate output (Parker, 2002, 2011). This was reinforced by associated design archetype changes that subsequently colonised university interpretive schemes. However, that hitherto financially successful business model has now been laid waste

by the onset of the global COVID-19 pandemic. With the virtually complete loss of international fee-paying students, individual universities face revenue shortfalls from target across 2020-21 of between \$200 million (Aus) and \$600 million (Aus) (Bolton, 2020). This has arguably been a consequence of educational massification whereby universities pursued a low-cost mass production graduate output strategy (Parker, 2013).

### **Financialised University Strategies**

“The insertion of accounting into the accountability equation within universities has arguably been pernicious.”

(Parker, 2011, p. 447)

In absorbing the commercial business model into its interpretive scheme, university management has adopted profoundly financially oriented strategies, aided and abetted by accounting and accountability systems and language. Thus, university design archetypes have been profoundly transformed. University strategic foci include corporate image, branding, and product marketing. The language of globalisation, internationalisation, industry partnering and customer (student) satisfaction have emerged as codes for their dominant commercialised financial objectives (Parker, 2012). These are typically pursued through a range of financialised strategies such as aggressively generating international student fee revenue, industry research funding, research commercialisation, corporate partnering and sponsorships (Parker, 2013; Narayan et al, 2017; Jacobson, 2017; Alexander and Couto, 2019).

Internally, the university strategic orientation has been focussed on revenue returns and cost efficiency. Indeed, this has emerged not only as an Australian but a global phenomenon for which Parker (2012) identifies evidence to varying degrees across the UK, Europe, North America, Asia and Australia/New Zealand. Specific financial strategies include cultivation of alumni donations and benefactions, joint ventures with corporations, contract research, sponsor-named professorships and buildings, sporting program sponsorships, sale of university badged merchandise, profit sharing with on-campus enterprises, executive and adult fee-paying education services, and fee-paying student tuition fees. Cost efficiencies have included larger class sizes, higher full-time staff teaching loads, greater proportions of casualised and contract teaching and administrative staff, reduced library and support services, decreased maintenance services, reduced budget allowances for staff conferencing and travel, and discontinued low enrolment subjects and programs (Parker, 2002; 2012; 2013). Thus, over two decades, subsystems have also been significantly affected in terms of the casualisation of the academic workforce, the constraints on operating costs such as maintenance, cleaning, staff support costs and the like (Parker, 2002).

Accounting's complicity in this strategic model has been all too evident. Its prominence within the university design archetype can be seen in the forms of tight budgetary control of internal operations; recurrent audits of teaching 'quality' controls, (minimised) course pass/failure rates, (upward promotion of) student satisfaction scores, and graduate employment success rates; benchmarking of a myriad of key performance indicators against competitor universities; and quality branding compliance audits by accrediting bodies such as European Quality Improvement System (EQUIS) and the Association to Advance Collegiate Schools of Business's (AACSB). Reflecting their private sector mimicking and thereby transformed interpretive scheme, management has centralised decision-making power at higher levels of the university hierarchy, so that budgets and capital expenditures become central players in the design archetype and are controlled at top management and faculty/college management levels. This extends not only to teaching program management, but to research as well, whereby

research performance has been quantified and evaluated in terms of research funds won, doctoral graduate numbers, quantum of publications, ranking of journals, discipline research ratings and more (Parker, 2011).

Now the dominant element in the design archetype, accounting has been the vehicle and language for this avowedly financial focus of both university objectives and strategies. It may be true that in the early years of accounting's prominence in universities, improved management control and accountability, as well as internal resource allocation within university faculties and departments, did occur. However as financial targets and budgets and their related internal management discourse have in more recent times moved to occupy centre stage, their dysfunctional consequences including the marginalisation of academics from university decision-making and leadership have become all too evident. University KPI systems and scorecards are pervasive and often reported on their websites as a strategy for attracting and maintaining stakeholder support. They range across KPIs for reputation, learning and teaching, research performance, community engagement, market share, student numbers, university status rankings, number of publications, facilities expenditure, capital fund raising and many more. Performance "quality" is a term that implicitly represents a code for quantity, speed, growth, cost management and profits, and has been referred to by some critics as the McDonaldisation of higher education (Parker, 2013).

Of course, it is also the case that academics themselves have been complicit in this process. Gray et al (2002) were already arguing this almost 20 years ago when they observed academics' complicity in the institutionalisation of what passes for academic quality and performance, and the commodification of both teaching and research. Particularly in the accounting discipline, they argued for academics' compliance with university managements' headlong rush to expand international student fee revenues, to focus on a value for money orientation, and to pursue quantified performance indicators for marketplace corporate branding.

Arguably what began as a transformation of the university design archetype by an appropriation of the business model within the university interpretive scheme has now come full circle: the accounting and finance design archetype has now colonised the university interpretive scheme, inducing the entire university community, from top management to junior faculty and administrators, to embrace a financialised philosophy and core values concerning their identity and roles as a university and its members. However, as Dodd (2020) now contends, with the onset of the COVID-19 crisis, Australian universities have lost a large amount of financial resources they have traditionally expended in pursuing their marketing and global ranking strategies. The question then becomes how universities will react both during and post-COVID-19?

### **The Forward Trajectory**

There is strong evidence and a common view amongst contemporary media commentators that the Australian university business model is broken. Universities have failed to manage the design archetype risks of over-exposure to and over-reliance upon the international student market, and the corporatised distortion of their interpretive schemes.

"Universities should have seen this coming. The growth in domestic students was bound to hit its natural limit, while the overseas market is naturally unstable.....Some of our bolder universities might focus on excellence, not the mealy-mouthed version that finds its way into mission statements....."

(Cater, 2020)

Accounting has played a central role within universities' now commercialised design archetypes that have arguably colonised university interpretive schemes. Yet in some respects, such as universities' general failure in financial risk management and related reporting (Carnegie and Guthrie, 2020), adequate attention to accounting and management control has been sadly lacking. The concern for the future of university interpretive schemes is that as Sainsbury (2020) argues, the evidence of this COVID-19 triggered financial crisis suggests university managements have learned little from their previous experience with the impact of the 2008-9 Global Financial Crisis.

This author questioned as long ago as 2002, "Can academic 'paradise' be regained? The answer is probably not." (Parker, 2002, p.613). Today, this question persists. From participant observation across the university sector today, it would appear that despite the evidence in Australia of the longer-term disappearance of the international student revenue base and the unwillingness of government to further resource the higher education sector, university managements are clinging to the hope of reviving their broken business model. This includes resorting to financial revenue generating strategies of revising course and program offerings in an attempt to re-attract students, and the online teaching switch not only for current course continuance but to penetrate hoped-for new revenue generating markets. It also includes traditional accounting cost reduction strategies of slashing operating costs, halting international student marketing-oriented capital expenditure infrastructure projects, and major salary and wage cost reductions through discontinuance of casual and contract staffing and continuing staff redundancies (Cater, 2020; Davies, 2020; Hewett, 2020; Maslen, 2020). The internal university design archetypes of top-down authoritarian management decision-making, accounting-laden language of commercialised communications, revenue and profit focussed strategies all appear to persist. The current university reaction to this pandemic shock appears to be exhibiting the hallmarks of being restricted to morphostatic change whereby at best there might be some concession to minor reorientation of design archetypes while preserving the current commercialised interpretive scheme intact.

From a Habermasian perspective, it is time for a significant interpretive scheme change from the broken business model whereby universities reassess and dramatically alter their core values, operating philosophy and identities, *subsequently* reorienting their design archetypes to support their changed interpretive schemes. What the new interpretive scheme should be, requires a discourse that includes all academic and community constituents and is no longer restricted to university professionalised top management. It need not be a protracted exercise (Parker, 2002). It offers the best, most creative possibility for refocussing and positioning Australian universities who can arguably emerge smaller in size, recovering a national societally service-focussed role, offering restored quality education and research, and slowly redeveloping their reputation with national and international communities alike. The accounting role in the fundamental change required of Australian universities is a movement from its currently colonising role, to one of service and support to a new interpretive scheme: one that is broadened in its process and outcomes focus, and integrated within a healthy and vibrant ongoing discourse between those stakeholders responsible for rebuilding that which has been lost.



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