

# CONTEMPORARY HIGHER EDUCATIONAL ESTABLISHMENT: PRODUCT-ORIENTED VS. CUSTOMER-ORIENTED

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The article under consideration covers such economic issue of higher educational establishments existence as the choice of strategy. The principal strategies adopted by businesses are usually oriented on a customer or on a product. Being very peculiar business unit, the university is oriented on a student in both cases, but customer-oriented strategy considers the student as a customer, and the syllabi and programs become the products in this case. The product-oriented strategy supposes the student to be a product, and the customer in this case is an employer. The article observes the advantages and disadvantages of both approaches to the student and offers the ways of transition from one strategy to another. At the same time it covers the cardinal difficulties and problems the higher educational establishment might face in the process of changing strategy.

**Keywords:** product-oriented approach, customer-oriented strategy, syllabi, finance, profit-gaining approach, short run, long run

## 1. Customer-Oriented and Product-Oriented Strategies

The article examines two approaches the company can follow. The first one is customer centric, and it puts the valuable customer in the centre of its interests. The second one is oriented on exclusive product creation and practically it brand-creating approach. There are many companies which are supposed to be customer-oriented and a lot of companies famous for their brand goods. It is practically impossible to judge abstractly which strategy is better suitable for certain situation. These two strategies are considered in their application to the industry of higher education.

The educational system of Latvia was changed in 1991. These changes were implemented at all levels of the educational systems, but this paper considers only the changes in the industry of higher education. The most impressive change was the possibility to receive the education in the commercial educational establishments but not only the state ones. The Law on the Higher Educational Establishments allowed using the different models of running the higher educational establishments, choosing the strategy of development and the system of the higher educational establishments management, defining the number and level of staff [1]. Since that time there appeared the standards of education corresponding to the European ones. And it was the time when the higher educational establishments faced the issue of choosing the strategy for the first time.

This problem is supposed to be serious not only for the author of this paper but for many outstanding scientists. A very good review of this issue was presented by Jeffrey J. Bailey and Byron Dangerfield [3]. The fact that they work on the basis of one of the Moscow Business Schools makes their research even more actual, because after the reform of the educational system and cessation of the government support of the education, the educational establishments face similar problems in all post-soviet countries.

## 2. Customer-Oriented Approach

Many higher educational establishments suppose the student to be the customer of the university, and this maxim brings its own advantages and disadvantages.

If the student is supposed to be the customer, it means, he is always right. The students are “buying” the course; they have the right and the responsibility to state what they want from the course and how they think they should get it [5, 6]. The tutors fight for the students’ attendance and according to Frantz, the classes become popularity contests, and pedagogy becomes entertainment [4]. Sacks supposed this approach makes the students “hand-held and spoon fed”, and less prepared for their work in real life situation and makes the education of a low-quality [9].

Nowadays this idea is very close to many of Latvian universities. They try to fix their syllabi with the needs and demands of the students and the cardinal principle of the university is to ensure that the expectations of the customers are met.

The number of students in Latvian higher educational establishments increases (see Fig. 1) [11, 12].

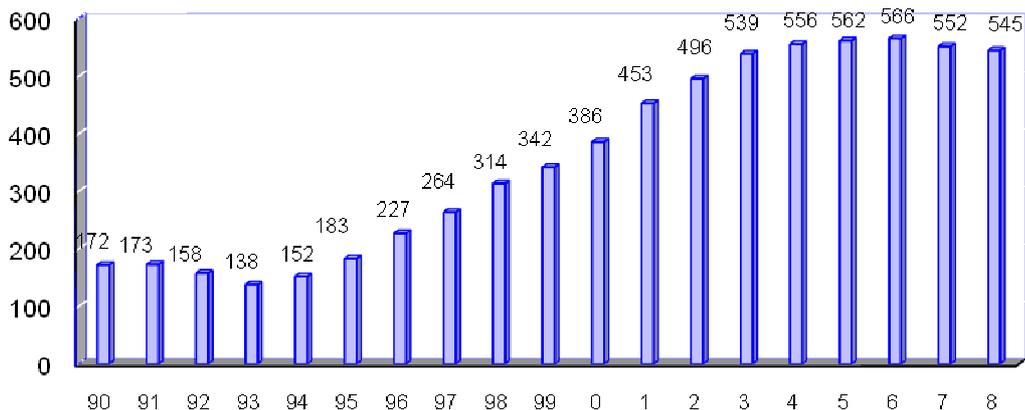


Figure 1. Number of students per 10000 of population

Starting from year 2001 the statistical bureau shows that the increase in the students' number happens only due to the private HEEs. Certainly, the amount of students, financing their education in the state universities, increases as well, but in a smaller rate than the amount of students in private HEEs (see Fig. 2) [11, 12].

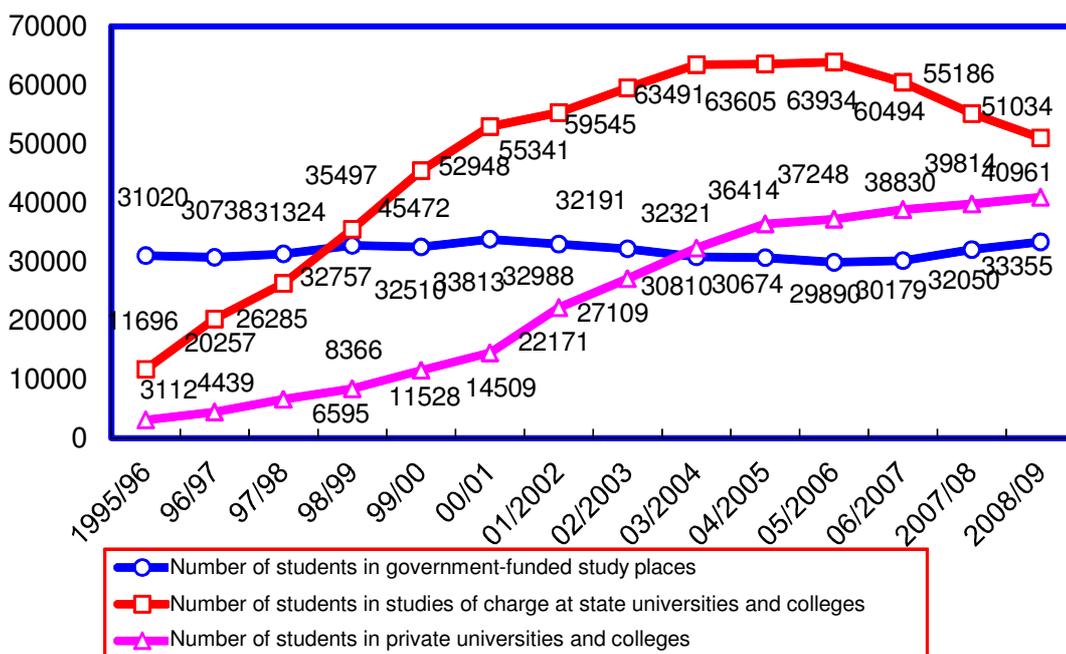


Figure 2. Number of students studying at the state and private HEEs for state and private funding

The private universities are subjected to the economic pressure in a higher degree than the state universities since they have no financial support. It becomes the real necessity for them to fight for survival. The tendency of students' contemporary choice meets the interests of the private educational establishments in Latvia.

As it is stated on Fig. 3 [11, 12] about 60% of all students study the social sciences. Natural sciences and agriculture students are so few that it is really crucial for these sciences. The situation is not really better in such fields as Education and Engineering study. This fact is "speaking" – from one hand, they do not see the social importance of these sciences, and from the other – they suppose them to be more difficult for study and demanding than the social sciences. At the same time, the real situation shows that today students do not have enough knowledge and skills in natural sciences, and it is a real challenge for them to study there. They are afraid of entering these specialities. As a result, it is practically predetermined for the commercial HEE to

teach the social block of sciences, since these higher educational establishments always follow the market demand. From the other hand, the sciences of this block are not demanding from financial point of view. They do not really demand heavy investments in technological and technical equipment of the university, not demand special facilities and special laboratories. It means the university does not experience the additional financial burden of delivering lectures to the students of this direction. Another side of this choice is the fact that the students are not able to be employed in accordance with their qualification, but this problem is realized post-factum, after obtaining the diploma.

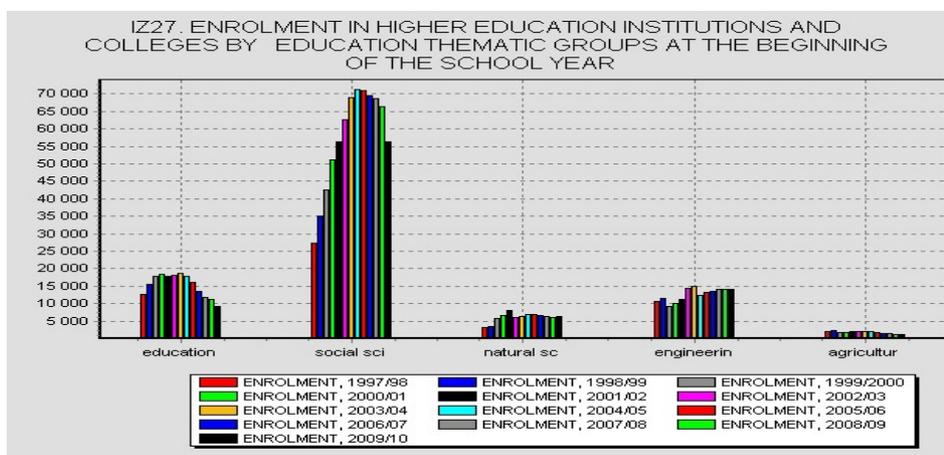


Figure 3. Directions of Study

So the maxim of customer-oriented strategy fully corresponds to the idea of obtaining the economic advantage in the short term, since the students-“customers” are satisfied, and the approach becomes the profit-gaining approach.

But any university is to weigh out the cost of this approach. 80% of all students prefer easy tasks, short and not demanding material and good marks. As a result, this approach requires the universities to appreciate not the real success of the students but only some visual indicators: the fact of the lectures attendance, the handed-in papers and researches are evaluated for been timely, but not for their content, the really demanding and challenging topics are crossed out of the syllabus, and so on. The students perceive this fact for granted, they are sure they buy not only tuition itself, but also guaranteed result – graduation with quite good marks, without any relevance to their real performance. This approach usually supposes that the students assess the lecturers, and it is obvious, these 80% will give their preferences to the lecturers working in accordance with the above described scheme [3].

The contemporary conditions dictate that it is necessary for survival, because money goes after the student, and lecturers wishing continue their employment and receiving salaries or fees, show indulgence towards the students’ ambitions. As a result, the level of marks consistently goes up, and the level of challenge in tasks consistently goes down. For customers – students – the process of learning becomes less valuable than the fact of completing their education with good marks and on time. This approach gives rise to one issue. The maxim, that the client is always right, provokes students in all controversial and disputable cases to discuss the problem with the chief but not with the lecturers themselves. As a result, the tutors do not want to face the problems and again satisfy the students’ wishes and claims [3].

It is obvious in the long run the situation loses the note of certain necessity it has in the short run, and the sad truth appears: the students dictate what to study and how to study, what marks to put, how to solve the occurring problems. While they set the objectives and solve the issue of efficiency evaluating from the position of these 80% of students, the quality of education falls, and as a result, poor reputation decreases the rate of the university, and the flow of students decreases. They want to have the diplomas of a prestige university! The vicious circle is closed.

### 3. Product-Oriented Approach

Any higher educational establishment has to anticipate the needs of the contemporary business world concerning the Labour qualification. The universities should turn the young people having no special knowledge and skills into well-educated, well-trained and well-qualified employee. It can be done by applying the facilities of the university itself. And certainly the programs have to correspond to the time requirements; they have to be scrupulous, thorough and accurate.

The product-oriented approach allows achieving these aims. And the students in this process cease being the customers, but become the product of the university. Notturmo wrote, that the product oriented approach in the higher educational establishment settings is "...the deliberate attempt to design a system whereby students begin as natural inputs and work their way through a program of study from which they emerge as more knowledgeable and capable individuals" [8].

The following facts show that the students can be really considered as the university products: first of all, the university focuses all the resources it has for transforming the university entrant into the qualified specialists, and in case the transformation of input has happened, we can speak about the product occurrence; another side of this transformation process is the consumer – and under this approach the consumer is not a student, but an employer. Employer is a person/organization who is to evaluate the level of the higher educational establishment from the position of possibility to employ the graduates of it in the nearest future. In this respect the university is interpreted as a resource (Labour) supplier and the student – as a product of this supplier.

Like all other commercial companies, the university is to ensure the quality of its product. Every stage of the product manufacturing should be controlled, and university implements this control. Usually faculties monitor the procedure of the product manufacturing – starting with the syllabi projection and finishing with the graduating ceremony and post-graduation feedback from the graduate himself and the graduate's employer. In the frameworks of this process it is important to mention all the procedure components: the course design, the course content, the way of this course delivering, the ways of controlling how successfully the students master the designed courses. If the product – the student – does not correspond to the quality criteria – his performance is lower than the acceptable variants – this product is to repeat the procedure of processing – either to take an exam for the second time, or even to repeat the course.

This approach assumes that the students realize the necessity to transform, that the lecturers can mould, model and reshape not only their knowledge, but the process of thinking itself, and the abilities to perceive the concepts, transform them in knowledge and skills, and then employ these skills and knowledge to meet the criteria of the market. Under this approach the students agree to adhere to all the existing conditions of the faculty and university. They agree to keep to the program strictly because they believe, in the future they will be prepared to face any challenge the real life gives them.

But this approach imposes the definite obligations and commitments on the lecturers as well. And the very first and the very important of them is specifying the objectives of the course. These objectives should correspond to both sides – the students' abilities to master this course, and the market requirements for the Labour preparation level. The course must be accessible, clear, accurate, and at the same time the tasks must be challenging and demanding.

But the procedure of recognition of the strategy the university keeps to, is not as simple as it seems to be.

This approach decreases not only the students' satisfaction but enrolment as well. Implementing this approach the university agrees to experience the lower level of profit or benefit. But in the long run this approach is capable of creating the strong educational brand, and this fact can cover all the disadvantages the higher educational establishment feels in the short run.

#### **4. Determining the Approach**

The most important issue concerns the fact of adopting the syllabi corresponding to the students' wishes but not to the market requirements. The university today does not require special knowledge or skills in any field; they are not determined by the entrance exams. The low requirements or school results a priori lower the quality of education. Having inadmissibly low level of knowledge but admissible mark at school the students start their study at the university, and the situation demands the full change of the tuition process in the university [7, 10]. As a result, the higher educational establishments change the level of requirements and adopt the syllabi to the level of knowledge the students have. For many years the lecturers in Sciences say that the level of school-leavers is inadmissibly low and they have no possibility to deliver lecture at the necessary level [7, 10]. If compared to the syllabi of Russian higher educational establishments of the same profile it becomes obvious the level of education is much lower. The students of departments of Economics, or Finance, or Management are to master the great mathematical apparatus to study at Russian universities but the syllabi in Latvia are adapted to the level of Latvian school program in Math. It is only one example but it allows judging that the level of requirement follows the students' aptitudes, and so the students influence the syllabi, but not the market or enterprise buying then the new Labour. As a result the new specialists have no idea how to compute the flow of money or how to receive the statistical or econometric results of the survey.

Another problem which seems to be hot is the relationships of the lecturers and students. The possibility to choose lecturer is rather low, and it is possible only in case of conflict. For solving the conflict it is

admissible to attract the university authorities, and the fact, it is possible to change the lecturer makes clear the tutors will try to avoid the situation when the authorities are involved in conflict. It means, the tutor will try to solve the problem himself, and it means he will not stand against the students' trend.

But much more serious and dangerous is the fact that the students have possibility to evaluate the lecturers. From one hand it is logical, that the top management of the commercial university wants to know the degree of students' satisfaction with the lectures' work. From the other hand, the most demanding tutors are in risk to receive low marks, as far as students do not like lecturers who put them low marks or demand serious work. Then, if students are able to assess the level of tutor's aptitude to deliver the subject, it is impossible for them to evaluate the level of mastering the subject itself. The students do not have enough knowledge and competences for it. It means, the lecturers who want to have good results of the students' poll, will try to deliver the lower level of material for everybody to understand them. And it is obvious the level of education goes down drastically.

## 5. Changing the Strategy

To avoid the situation when the quality of education falls to the inadmissible level, the university is to change its priorities and its approach to the students. It becomes of primary necessity for the industry of higher education, since this industry has to adjust itself for the future changes of the market. The time lag between the real changes on the market and sensing this fact by the higher educational establishment is at least 5–6 years, as the higher educational establishment has not only to sense the future market changes and to seize the opportunity to change, but also reorganize the resources it has. After all these procedures the higher educational establishment has to prove the necessity and future prospects of this new product – the specialist or the syllabi – to the future students, to create these syllabi, and then for the period of 4 or 6 years to educate the specialists. This great time lag discriminates the higher educational establishment from all other companies operating on the market. It gives the special importance to sensing and predicting, and analytical analysis becomes of primary importance for the higher educational establishment which wants to survive and develop.

The situation Latvia is in, is supposed to be very difficult for predicting. Usually the crisis is assumed as the beginning of the new spiral of development and the time of renewal for the production capacities, but situation in Latvia is different, because the country does not develop any new industries and loses its position on the existing markets and in the existing industries. The situation with Labour is critical. This paper does not set the task of economic analysis of the national economy, but certainly the economic situation affects all the decisions taken within the industry of higher education. If to speak about the renewal of the production capacities, it is easy to forecast that the industry of higher education is to switch to new products. To begin with, it is the quality and qualification of the specialists graduating from the higher educational establishments. The author supposes, the most important task for the universities today is switching from the student-customer to the student-product.

In this connection the university is to decide what assets it can use as they are, what resources are to be transformed to face the new demands, and what resources/assets are to be taken as the new ones. Another issue, demanding more courage from the university management, is the problem of getting rid of resources unable of creating any value any more. Since we speak about the main higher educational establishment resource – people – this issue becomes a real problem for the management. Usually the young tutors are ready to transform and adapt their knowledge and skills for the rising necessity, but the old, experienced lecturers are less mobile, and the university has to lose very valuable in its nature but not able to transform resource. Moreover, there is no any certainty that this resource in its non-transformed form will not be in demand after several years. But after several years people will lose their qualification because the process of tuition requires the work on the constant basis, or will feel offended. And the university again will feel the need to invest in transformation or buying new resources. That is why this process is so difficult for the universities and they try to keep the lecturers as long as it is possible.

In the view of the above mentioned the problem of switching to the student as a product can be discovered from the following point of view.

The steps, necessary for changing the product are as follows:

1. Students' competitive selection.
2. Tutors' competitive selection and their development on a regular basis.
3. Graduates' employment assistance and regular feedback from the employers.
4. Renewal of the inner university resources different from the human capital.

The above-listed steps are placed in accordance with their importance for the process, but the logical order should be different. Number 4 becomes the first step in this long and difficult route. It is necessary to forecast the future market needs and reorganize the existing university resources. It concerns the curriculum,

programs and syllabi first of all. The whole university infrastructure should be changed for corresponding to the new conditions. This is a difficult process, and the main responsibility of the management is to involve the interested staff in this process. If personnel are interested in the changes, the process of reorganizing the tutors' structure will be much easier; the tutors will understand their new goals, objectives and tasks. Changes in syllabi and programs can result in necessity to change the equipment, technologies and other material resources. So, if people are ready to start this reorganization, the main burden will fall on the financial structure of the higher educational establishment, since any of the above noted changes require the investment, sometimes massive investments.

When the process of changing the syllabi and programs has finished the university faces the problem of supplying the new syllabi with corresponding tutors. Partially this task has been overcome in the process of the first stage fulfilling. Also the tutors can be invited on the competitive basis. But there is another problem. It is natural that the academic staffs are selected on the basis of their scientific degrees. But sometimes the degrees have been received so many years ago that the person does not correspond to the objectives of the university. At the same time, many young and up-coming lecturers do not have so many regalia or degrees, or even scientific researches, but they are ready to transform, interested in the process and capable of changing their interests for the ones necessary for the university. According to today practice, the university chooses the people with scientific degrees, and it is the rational decision, as the academic staff and scientific research create the rating of the higher educational establishments, but it is not the best decision in the view of the set issue. The higher educational establishment has to find the proportion between the ratings and own needs in case it wants to develop the new product – the student.

When the syllabi and tutors are ready, the process of the students' competitive selection starts. In case the programs are ready and tutors know what level of knowledge and what specific skills and competences they want to see in their students, the competition itself becomes clear.

But again the university faces the financial problem. If it is a really competitive selection, the potential students should have the incentive to enter this university. Stockholm School of Economics can serve as an instance in this case. First years of their functioning in Riga they created the incentive of education free of charge. On this condition it is possible to have the really competitive selection. The state universities in Latvia also have so-called selection, but it is not a real competitive selection, because it is done on the basis of school certificates competition, and at school children can have brilliant results in areas which are not interesting for the university and very low competences in subjects important for the syllabi. In any case, the incentive for the competition is free study. It is obvious it will be a real burden for the private university if it does not have any additional financing support, as the state universities or SSE do.

And at last the stage of employment assistance is the most problematic for Latvia nowadays. But it is clear, it is an absolutely necessary condition for success. The level of unemployment, the economic situation in general and the degree of the economy development make this stage absolute utopia for the country today. But the world consists of not only Latvia; Europe suffers of aging, and they are happy to increase their population with the educated, intelligent and creative young people. The richest and well-developed countries tried to solve the problem of aging inviting the young people from Middle East, Africa, Turkey, but nowadays it is obvious these programs have failed. So if the university is able to find the way to employ its graduates in Europe, it will be the great solution for the problem.

## **Conclusion**

The article is devoted to the issue of choice of strategy by higher educational establishment. This choice becomes of special importance under condition of full financial independence of the university. The financial independence considers the ability of the university to cover all the costs connected with delivering lectures and practical classes, as well as the costs of scientific work.

Practically the universities have two ways of development – to orient on the student as a customer or as a product. There are pros and cons for every approach, and the article demonstrates the advantages and disadvantages of them. The customer oriented approach becomes the profit-gaining strategy in the short run, but creates a lot of problems for the university in the long run. On the contrary, the product oriented strategy helps create the educational brand in the long run but brings losses in the short run.

The business environment in the country and situation in national economy have great impact on the universities. Such factors as low level of school education (especially in sciences area), low demand on the market, general ambiguity and uncertainty make contemporary students choose the social sciences branch, and this choice creates the problems for the national economy, but becomes very profitable for Latvian higher educational establishments. This direction is not demanding from the financial point of view. Then, this direction makes the choice easier – and Latvian universities choose the customer oriented approach, losing the possibility to create a strong educational brand.

The article considers the ways of transiting to the product oriented strategy, states the possible problems occurring in the process of changing the strategy and suggests the possible ways of their solution.

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## Popova, J. MŪSDIENU AUGSTSKOLA: ORIETĀCIJA UZ PRODUKTU VAI KLIENTU

Rakstā tiek apskatīta tāda mūsdienu augstskolas eksistences problēma kā stratēģijas izvēle. Galvenās stratēģijas, kuras izvēlas firmas tirgū, ir orientācija uz klientu vai orientācija uz produktu. Tā kā augstskola ir ļoti specifiska biznesa vienība, tad tā ir orientēta uz studentu jebkurā gadījumā, taču uz klientu orientētajā stratēģijā students tiek apskatīts kā klients, bet par produktu kļūst programmas un mācību plāni. Uz produktu orientētajā stratēģijā students tiek uzverts kā universitātes produkts, bet par klientu šajā gadījumā kļūst darba devējs. Rakstā tiek analizēti gan kā vienas, gan tā arī otras stratēģijas pieņemšanas plusi un mīnusi, ka kā arī ir piedāvāti veidi pārejai no vienas stratēģijas uz otru. Tāpat rakstā ir parādītas grūtības, kas var rasties stratēģijas maiņas procesā, un piedāvāti ceļi kā šīs grūtības pārvarēt.

**Atslēgvārdi:** Uz produktu orientēta pieeja, uz klientu orientēta stratēģija, programmas, finanses, peļņu nesoša pieeja, īsais un garais periods

## Попова, Е. СОВРЕМЕННОЕ ВЫСШЕЕ УЧЕБНОЕ ЗАВЕДЕНИЕ: ОРИЕНТАЦИЯ НА ПРОДУКТ ИЛИ НА КЛИЕНТА

Статья рассматривает такие проблемы существования современного высшего учебного заведения, как выбор стратегии. Основными стратегиями, принимаемыми фирмами на рынке, являются клиентоориентированные или продуктоориентированные стратегии. Поскольку вуз является очень специфической бизнес-единицей, он ориентируется на студента в любом случае, но клиентоориентированная стратегия рассматривает студента как клиента, а продуктом становятся программы и учебные планы. Продуктоориентированная стратегия воспринимает студента как продукт университета, а в качестве клиента при этом выступает работодатель. Статья рассматривает плюсы и минусы принятия как одной, так и другой стратегии, а также предлагает способы перехода от одной стратегии к другой. Статья также показывает основные трудности, которые могут возникнуть в процессе смены стратегии, и предлагает пути их преодоления.

**Ключевые слова:** продуктоориентированный подход, клиентоориентированная стратегия, программы, финансы, подход, приносящий прибыль, короткий и длинный периоды