The Business of International Branch Campuses: Four Australian Case Studies

Grant McBurnie

Grant McBurnie is executive officer international, Monash University 3800, Australia. Tel.: 613 9905 2094. Fax: 613 9905 5340. E-mail: <grant.mcburnie@adm.monash.edu.au>.

Transnational education (TNE) is a key example of the international trade in higher education. A small but growing subset—particularly since the late 1990s—the international branch campus, aimed at servicing fee-paying students in their country of residence. It normally involves a traditional bricks-and-mortar presence, with library and support facilities and face-to-face teaching.

TNE often falls outside the routine government data collection aimed at domestic programs, and universities tend to treat the details of such "business ventures" as confidential. An exception is the recent report on four "Case Studies of Selected Associated Entities and Joint Ventures of Victorian Universities," conducted by the Auditor General of Victoria, Australia. The report examines the financial, structural, and operational aspects of the branch campus operations of two leading providers of TNE, Monash University, in Malaysia and South Africa, and the Royal Melbourne Institute of Technology (RMIT) University, in Malaysia and Vietnam. It opens a rare window onto business aspects normally deemed "commercial" in confidence.

Malaysia

Both Monash and RMIT established branches in Malaysia, following the introduction of a raft of legislation opening the country to foreign branch campuses after 1996. In line with legal requirements, the universities entered into partnerships with local companies. The companies provided capital and physical infrastructure, and the universities were responsible for the intellectual and educational component: curriculum, teaching, assessment, academic quality assurance, and credentialing. In return, the universities received royalty income or service fees.

In 1996, RMIT partnered with property developer Adorna to establish the Adorna Institute of Technology in rural Penang. It offered bridging courses and advanced diplomas in technology fields. Due to the Malaysian parent company's losses in the late 1990s Asian economic crisis, the campus was forced to close at the end of 1999. The university wrote off the AU$2.3 million in service fees it claimed to be owed by Adorna.

Monash partnered with Sungeiway, a manufacturing and property development company, that had for years operated Sunway College, offering twinning programs with several Australian and U.K. universities. Located outside the capital, Kuala Lumpur, Monash University Malaysia commenced in 1998, offering degree courses in disciplines including arts, business, engineering, and IT. While it has not reached the forecast numbers, growth has been steady. From a financial perspective, the outlay and the return have both been modest.

South Africa

The Monash University South Africa campus opened to students in February 2001. Unlike previous Monash offshore operations, it was wholly owned by the university and located outside the traditional Australian "comfort zone" of Asia. The financial picture has fallen short of planned expectations, chiefly due to lower student numbers and greater costs than envisaged. As a result, establishment and operating costs more than doubled in the first year. Although the university faces far greater financial risk than in its partnered operation in Malaysia, it owns land and capital works that should cover potential losses in the short term.

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Vietnam

In April 2000, the Vietnamese government granted RMIT the first investment license for the establishment of a foreign branch campus there. RMIT commenced teaching operations in Ho Chi Minh City in January 2001, and plans to build a permanent campus in South Saigon by 2004. Like Monash in South Africa, the campus will be fully owned by RMIT. The university learned several lessons from its experience in Malaysia, including the need for a reliable financial base and the importance of realistically gauging student demand. In addition to RMIT funding, the university has secured loans from the Asian Development Bank, the International Finance Corporation of the World Bank, and a donation from Atlantic Philanthropies. The plans were subject to due diligence by the ADB and the IFC. Following the overestimation of demand in Malaysia, RMIT is staging its approach in Vietnam: the initial operation is serving to test the market prior to the commitment of a permanent campus.

Lessons

While the audit noted that the success of the campuses was "mixed," it concluded that the universities had in place adequate planning and monitoring procedures. The audit report suggested that there had been four "lessons learned": universities regularly overestimated student demand and "need to take a more conservative approach" in judging the financial viability of ventures; the importance of location in attracting students (the obvious observation that remote campuses are less attractive than central ones, while city campuses face greater competition from other providers); the benefit of selecting a partner experienced in education and the related need for the university to retain academic control; and the need to achieve an appropriate balance between local and expatriate staff.

Critics and proponents of TNE are inclined to focus on academic issues and to assume that the business aspect is robust. The case studies illustrate that there is a steep learning curve in dealing with the financial and business aspects of education as an export industry. In the case of international branch campuses, matters are further complicated by sovereign risk and regulatory regimes which may be significantly different from the domestic environment. Under the General Agreement on Trade and Services there may be further expansion of TNE, including international branch campuses. The work of the pioneering countries and institutions in this field underlines the need for appropriate regulation and monitoring in the interests of students, the host government, and the exporting country (specifically the taxpayer, in the case of public institutions). The prosaic operational and financial details, if mishandled, will inevitably impact upon academic quality and the educational experience of students. ■

Singapore Stings: Tales of International Malfeasance in Higher Education

The writer is an education consultant living in Asia.

I received an interesting invitation the other week, to attend a reception as "guest of honor" at the Washington Business School. . . . No, not Washington, D.C.—this was in Singapore. It was on the third floor of a shopping mall, sandwiched between a karaoke bar and an amusement arcade. One of the many commercial schools that have flourished in this part of the world through their franchise arrangements with British, American, and Australian universities.

All you need to open up a school in Singapore is approval from the Ministry of Education. You can't call yourself a "university," "college," or "institute." These titles tend to confer an aura of respectability. You can, however, use the title "school." Hence, most of them are called variously "schools of business" or "management centers." Even if technically speaking they might not teach business or management, it sounds respectable. All are privately owned. They are set up, often as a speculative venture, with the minimum level of investment. Apart from the usual red tape, the minimum the ministry requires is two rooms and a reception area and evidence that you are empowered to offer programs on behalf of a university or professional institution.

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Southeast Asia's commercial school industry is a good example of what economists Brittain and Freeman termed "*R* and *K* strategies." *R* strategists focus on setting up in industries that require little investment or are experiencing a temporary boom, like the commercial school industry. If it doesn't work out for them, they can simply pull out and go and do something else. In contrast, *K* strategists invest in the expectation that they will build up a reputation and eventually become a market leader. In Southeast Asia there are probably no more than three groups of schools that could be described as *K* strategists. Because they are committed to establishing themselves within the market they also tend to be the more reputable ones. The others are all most definitely *R* strategists.

So how do the schools go about recruiting students? Some time ago I was invited to a recruitment evening. With some difficulty I found the school, located down a side street over a club. I had to push my way through a bar crammed packed with young Filipino girls to gain access. The marketing people had obviously done a splendid job and had managed to pack in 50 or more potential MBA and B.Com students. First came the usual sales pitch from the school's business manager. Now I know what is meant by a sharp suit! Then came "meet the Prof time." Enter a John Harvey-Jones look-alike, specially flown all the way from the U.K. for the occasion. The professor gave a vivacious presentation—although I did spot a few reckless oversights (e.g., the university was "one of the oldest in the U.K."). Sorry, but I seem to recall that it was a poly up to 10 years ago. But, then again, it does have some oldish-looking buildings.