

CHAPTER 1

SOUTH AFRICAN CASE STUDY

EXCELSIOR

UNIVERSITY

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

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LEARNING OBJECTIVES After reading this case study and answering the questions, you should be able to:

- Explain the impact that e-learning will have on universities in the future
- Explain why it is important to understand changes in the operating environment
- Explain the value chain concept
- Explain supply chain management
- Describe the limitations of incremental budgeting and the advantages of zero-base budgeting
- Explain the limiting factor concept
- Describe operating leverage and cost-volume-profit-analysis
- Explain why managing quality is of paramount importance
- Describe the implications of introducing a performance management system

The Council of Excelsior University have requested your firm of consultants to help them plot the way forward for the university for the next five to ten years. This has become particularly important in the light of challenges faced by the country in its schooling system - the number of scholars achieving school leaving certificates enabling them to enter university is static or even declining and the quality of the education received by these scholars is questionable. Furthermore the number of scholars who graduate from high school with mathematics and science as subjects is low, giving rise to a dearth of what one might term quality students who can cope with the more rigorous courses offered by universities. Rapid technological changes giving rise to the internet and video conferencing increasingly being used as a medium of instruction is gathering momentum. The largest university in the country has been a distance learning institution since its inception many years ago and is clearly well placed to capitalise on the

internet revolution. The Council has in fact requested that your firm review the entire value chain of the university from the recruitment of students through to their graduation, and to review the operations of the university to see if resources are being used efficiently.

Excelsior is a small university situated in a small city in rural South Africa - it has about 12 000 students drawn from all over the country inclusive of about 2 000 foreign students mainly from the African continent. The university has a good reputation and has been in existence for many years - it does not however have either a medical school or an engineering faculty while about fifty percent of its students are in the humanities faculty. South Africa has 600 000 unemployed graduates mainly in the arts, humanities and social sciences while the private sector has 800 000 vacancies in management, engineering, law, finance and medicine, areas which are critical to the future economic growth of the country.

Given its location, Excelsior is primarily a residential university and the students are accommodated in residences on the campus or in rented accommodation in the city in close proximity to the campus. Excelsior is one of the most expensive universities in the country but for the moment it has been able to show steady growth in student numbers. In addition to the fees paid by students the government grants universities a subsidy for each student based on a multitude of criteria - the subsidies are significant amounting to about one hundred and fifty percent of student fees.

The university operates on a two semester basis but very few of its courses are semesterised so that undergraduate students are only able to commence their studies when the university opens each year in February. Postgraduate students whose studies do not include course work are generally able to commence their studies at any time during the academic year depending upon the availability of academics to supervise their theses.

Other relevant facts concerning the university are summarised as follows:

- The university has ample lecture facilities and tutorial rooms but bottlenecks do occur particularly as regards large lecture venues - lectures are mainly held in the morning and tutorials in the afternoon, and no lectures take place in the evening.
- There is no formal internal quality control system in place. However, the department of accounting is able to gauge the quality of its teaching by seeing how well its students perform in the national qualification examination held each year for aspirant chartered accountants - the department of accounting has significantly improved its performance in the national examination in recent years.
- All students have ready access to computers.
- The university does not have a formalised cost improvement programme in place and student fees tend to escalate more or less in line with inflation.
- The budgeting process of the university is based largely on the prior year's cost per line item plus inflation.
- The university allocates general fixed overheads (such as the cost of running the library) to departments based on the number of students in each department - fixed overheads comprise by far the largest part of the total costs of the university.
- The university has the lowest student to lecturer ratio in the country.
- Personnel costs for academic staff and administrative staff are virtually the same.
- The library is frequented mainly by students from the humanities and students from the science faculties and students from the law department.
- Student fees are on average R30 000 per annum and variable costs per student amount to about R1 500 per annum.
- The university does not offer any bursaries and it does not have any satellite campuses.
- Excelsior does not have a performance management system in place nor does it have a standardised work load formula in place to ensure that work loads are evenly distributed amongst academic staff within departments.
- Government has set no limit as to how fast universities may grow and universities are free to offer distance learning programmes if they so wish.

- The philosophy of the university is to balance its operating budget each year - any major capital expenditure is financed through loans.
- The residences of the university are operating efficiently with a hundred percent occupancy rate and are self sustaining - the Council sees no need for your firm to review the operations of the residence system.
- The university does not have a formalised supply chain management system in place.
- The recruitment arm of Excelsior has no particular focus - students are recruited as widely as possible from schools but mainly from the areas surrounding where the university is located. Results from the latest matriculation examination written reveal that only about 110 000 scholars per annum in the country do well enough to be accepted into university and many of these scholars come from prestigious government schools and increasingly from private schools which are proliferating in the country due to problems with the government schooling system.
- There is a shortage of academics in the country in certain key subjects.

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?