

## Chapter Three

### THE BUSINESS

#### 3.1 Overview

As a service company, KDU's business consists of lecturing and training activities that are supported by administrative activities. The lecturing and training activities utilise lecturers, teaching materials and technology resources that necessarily need to be consumed by all schools in order to generate income for KDU (see Figure 2).

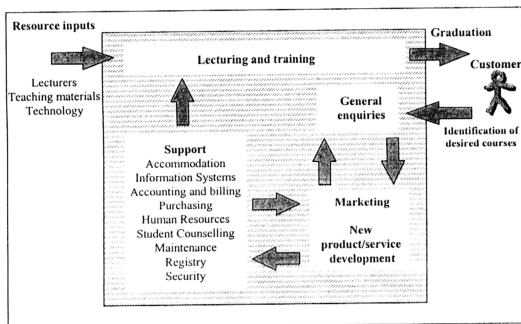


Figure 2. Overview of KDU academic and administrative processes.

The schools are supported by the general counselling activity that serves to identify the students' needs. Once the desired course of study has been ascertained, the Registry staff will inform them of the fees that need to be paid. At this point they can also arrange for accommodation if they are outstation or foreign students. They will go to the Bursary to pay their fees, after which they may choose the particular modules that they wish to take at

the respective schools. Upon finalising their module selection, classes will then commence, and continue over several semesters until the course is completed. The students' needs are met when they complete their studies and graduate from the college.

Between the general counselling and support activities, marketing activities such as customer contact and promotion in the form of school visits and education roadshows, are carried out continuously throughout the year. In addition, "Open Days" are a popular method among IHLs to make their programmes known to the general public. Sometimes, new courses are created with the assistance of the marketing staff who provide market intelligence and competitor information to the respective schools.

### **3.2 Academic and Administrative Processes**

The academic process primarily involves the lecturing and training activity, while considering its inputs of lecturers (human resource aspect), teaching materials (financial aspect) and technology (technological aspect). However, it is also important to be mindful of the administrative support without which the academic process would be incomplete. It would be difficult to discuss one process without acknowledging the effects of the other. Therefore, both processes will be discussed in tandem.

Since, the most important goal of any IHL is to maintain high levels of academic standards, the following aspects of management will reveal how such standards are currently maintained.

#### **3.2.1 Financial Aspect**

##### **3.2.1.1 Cost Measurement**

Since service companies carry no inventory, the cost of providing the service is expensed entirely in the period the service is provided (Warren C. S. et al, *Financial and Managerial Accounting*, 1994, p.669). Thus, the costs incurred

by KDU usually consist solely of amounts spent or allocated to the period to deliver the services. Furthermore, a large portion of KDU's costs are related to non-volume activities, such as the consumption of electricity, that is variable with respect to the number of lecture rooms being utilised and the size of these rooms, regardless of the actual number of students attending a particular lecture.

Nevertheless, the unit of service for KDU is a student. This means that revenue is earned on student enrolment. Most of the remaining costs are charged to the respective schools and these charges are dependent upon the number of lecture hours or room size. The rental of the lecture rooms will cover the costs of the air-conditioning and lighting, i.e., power consumption. As a result, the college must be careful to optimise room usage so as to ensure full utilisation of existing resources.

#### **3.2.1.2 Revenue Forecast**

Forecasting future revenue remains the most challenging facet of financial management. The forecasted number of new students is based upon the actual and forecasted numbers of new students a year earlier, as the break-even point for each programme needs to be determined. At best, this method is highly subjective with its basis in heuristics and at the very worst, it is pure guesswork.

Should the forecasted number of students for a new course be too high and therefore appear to be unrealistic, the course fees may need to be raised to a more acceptable figure to make the new course more economically viable. If, however, the fees for an existing course are competitive but the overheads are simply too high, the particular course may be discontinued.

While the 1999 forecasted profit is RM10 million, this is based solely on KDU being allowed to conduct "3+0" academic programmes. If this does not materialise, the figure will be lower by about 35%, i.e., RM6.5 million (KDU Budget 1999, *Managers' Conference*, 19-21 October 1998).

### **3.2.2 Human Resource Aspect**

#### **3.2.2.1 Human Resource Development**

High academic standards require that only those lecturers with at least a Master's degree, if not a PhD, teach final year students. One way to achieve this is to hire only Master's and PhD degree holders.

However, existing staff will also need to upgrade their qualifications. Currently, KDU is running MSc in IT, MBA and LLM degree courses for the general public. A 30% discount is given to eligible staff as part of the staff benefits. While some have taken advantage of this, KDU is not yet providing full sponsorship across the board to anyone and will consider all such requests on individual merit.

It is also worth noting that staff undertaking degree courses offered by other public and private IHLs do not qualify for any form of sponsorship. Despite the management's claim that it would like all academic staff to upgrade themselves, it is not making a genuine effort to provide financial assistance to the staff who are currently doing so. Furthermore, some of the lecturers are pursuing the Master's in Education (M.Ed.) programme at Universiti Malaya, a programme that is highly pertinent to their profession. As a result, many staff perceive this as a lack of sincerity on the part of the management.

#### **3.2.2.2 Human Resource Demand Forecast**

KDU's recruiting practices have been made stricter by requiring a minimum qualification of a master's degree for academic staff and a basic degree for other administrative staff. To this end, the human resource demand forecast is carried out with a view to decreasing

- the lecturer-to-student ratio will help the College attract more talented students from domestic and overseas markets, and

- the administrative staff-to-lecturer ratio as much as possible to increase teaching productivity.

While the number of lecturers hired should be correlated to the number of students enrolled, the lecturer population would not change whether a particular class has 15 or 35 students. However, more teaching staff would definitely be required should the student population increase dramatically, or when new courses or modules are introduced.

However, the number of administrative staff may not have to contend with the same constraints. For example, the number of bursary staff is independent of the number of students lining up to pay their fees. Neither does the marketing staff population depend on the student population. However, it is important to recognise the correlation between the support staff and student populations but the latter does not always cause the former to increase or even to decrease.

### **3.2.3 Technological Aspect**

#### **3.2.3.1 Investment Protection**

One of the most important management issues is the high capitalisation of technology assets. The optimisation of computers and their short life remain the major challenges.

For instance, the actual life cycle of a typical Intel microchip is said to be no more than six months, after which it is considered mature technology. This translates to computers that have barely a one-year shelf life, after which it is considered old technology - it still can be used but it is nothing to shout about. This is especially problematic as students these days are more sophisticated and demand that the laboratory computers be "the latest". Another issue is the increasing number of older computers that have little or no market value, as there is a limit to the number of parts that can be scavenged for repair and maintenance purposes.

Furthermore, the purchasing of computer equipment (hardware and software) is one of the most expensive activities. Computer equipment depreciates over just three years using the straight-line depreciation method to reflect the short life span of technology that matures very quickly. In comparison, non-computer equipment (furniture, refrigerators and air-conditioners) are depreciated over 10 years to reflect the more stable technology involved.

As an alternative to purchasing the computer equipment outright, KDU entered into a leasing agreement with ORIX Rentec in July 1998, in which KDU will lease 80 units of Pentium computers for 24 months at approximately RM18,000 per month. In doing so, the college hopes to protect itself from technological obsolescence.

### **3.2.3.2      Enhancement of Productivity**

KDU is attempting to exploit technology in a constructive manner in order to avail itself of the many advantages of computerised information management, e.g.,

- the Academic Management Systems are maintained for all the schools in managing the examination results and monitoring the students' performance throughout their stay in the college.
- the student enrolment reports are provided to all departments and schools on a daily basis to enable the management to monitor the college's performance.
- the students' personal and financial profiles are maintained in an integrated and centralised database to facilitate accurate fee collection.
- the Marketing Department is also a beneficiary of technology in that it can collect, analyse and interpret enquiries from potential students so as to determine the success of certain marketing initiatives.

Therefore, the proper management of information systems is critical to the efficiency and effectiveness of the business as it aids in the managerial

decision-making process.

### **3.2.3.3 Technology Demand Forecast**

The need to maintain effective communications among all levels of the organisation hierarchy has made electronic mail (email) a ubiquitous communications tool. With the exception of the security and maintenance staff, all college staff have access to email facilities. An increasing number of staff are already scouring the Internet for current and pertinent topics to include in their teaching materials so as to sustain the high quality of education. To this end, the continuous provision of cutting edge computer equipment and infrastructure are critical to both academic and administrative staff.

The electronic revolution will not stop here. Distance learning is a key initiative in the education industry. All the major players are viewing it as a highly feasible avenue to gain competitive advantage. The successful delivery of educational content through web-based techniques will propel an IHL to the forefront of its industry. This is in line with national aspirations of putting the country on the map as THE hub of educational excellence ([www.moe.gov.my](http://www.moe.gov.my), *Creating a Regional Education Hub*, 1997).

## **3.3 Outstanding Issues**

KDU has lost much ground to its competitors owing to the "3+0" debacle. Furthermore, accreditation of its academic programmes by the LAN is still outstanding. While it may believe that it has the right programmes and infrastructure, its policies have not always been effective.

The decision to require lecturers to have at least a Master's degree is to be lauded. However, the existing pool of basic degree holders who would like to upgrade themselves may not necessarily want to obtain MSc. In IT, MBA or LLM, courses offered by KDU to the general public. Many actually prefer the M.Ed. as a qualification that relates directly to their profession. Since the

college will not offer any kind of financial assistance to non-KDU courses, it would appear that it is stinting on proper human resource development. This is potentially damaging as KDU risks losing market share, staff commitment and business relationships built over more than a decade.

Another issue is the effective deployment of technology to earn competitive advantages over its competitors. The college must seriously consider exploiting electronic commerce issues (e.g., security and privacy) and web browser-based distance learning to its advantage. It must also employ more innovative and cost-effective means of maintaining its IT investments through outsourcing and leasing, while ensuring that its human resources receive proper IT-based training with the goal of retaining its well-skilled staff.