

The global university

The risks and challenges faced by higher education institutions with an international agenda

Higher education
sector briefing

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Introduction and context

International students represent a significant source of income to the UK higher education sector. In 2013/14 of the £25.6 billion of total income, non-EU fee income alone was £3.3 billion. The dependence on overseas fee income varies significantly from zero to approximately 1/3 of total income for some institutions.

This briefing document highlights the key issues and risks institutions should consider when thinking about working internationally. The concept of internationalisation will be familiar to most, but having effective operational and risk management, governance and control in this area can be more of a challenge.

The global market for higher education has become increasingly competitive, due to the development of provision in other parts of the world, changing trends in delivery models, and other political and economic factors. Student demand is reflected in the risk registers of most institutions, as well as the compliance requirements of the Home Office's UK Visas and Immigration ("UKVI") team. Approximately 446,000 international students entered the UK in 2013 (source: British Council). Around 20% of these students came from China, and the remainder from other countries such as the USA, India, Germany, Nigeria and South East Asia.

We are also seeing institutions continuing their investment in overseas activity, whether through recruiting international students, investing in overseas campuses or branches, or alternative forms of transnational education which the UK government is encouraging the growth of.

Transnational education is an area which continues to evolve, with key channels to market focused around partnerships between institutions, distance learning, and overseas campuses.

The graphic opposite illustrates some of the broader economic developments worldwide and growth of the 'E7' group of nations¹. By 2030 for example, we estimate that the E7's purchasing power will overtake that of the G7. Over time they will contribute an increasing share of supply and demand for higher education.

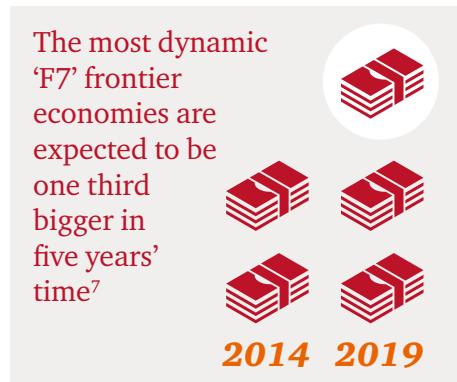
UK HEIs therefore need to be clear on their internationalisation strategies, have effective day to day management of the supporting functions, while being agile (both at a governance level and operationally) and responsive to change.

Shift in global economic power

Did you know?



In 2030, we predict that the E7 will overtake the G7 in their size and purchasing power (in market exchange rate terms)¹



<http://www.pwc.co.uk/issues/megatrends/issues/shift-in-global-economic-power.jhtml>

The above predictions come from the following sources:

- 1 PwC World in 2050 Projections (2015)
- 2 PwC analysis based on OECD, UNESCO, the Chinese National Bureau of Statistics, NASSCOM (2010-2013)
- 3 PwC analysis of OECD projections (2010)
- 4 PwC analysis based on data from UNCTAD (2013)
- 5 PwC's 17th Annual CEO Survey (2014)
- 6 '2013 Asia Business Outlook Survey'
- 7 PwC analysis based on projections from IMF World Economic Outlook (2014)

Key

G7: US, Japan, Germany, UK, France, Italy and Canada
E7: China, India, Brazil, Russia, Mexico, Indonesia and Turkey
F7: Nigeria, Colombia, Peru, Morocco, Vietnam, Bangladesh and the Philippines

‘Off the radar’ – the broad scope of international

The internationalisation agenda for many institutions has broadened in recent years. International doesn't just mean recruitment of international students anymore, the scope of how institutions operate globally is much wider as illustrated below.

Overseas activities are mostly ‘off the radar’ of institutions’ typical risk, governance and control structures. Our experience is that senior management are aware of the activities at a strategic level but often fail to get a grip on the operational issues and risks. A full understanding of the issues and what the appropriate assurance is to

take against those risks can be lacking, and consequently, is where we regularly see gaps.

All of the activity areas in the diagram below have been the subject of adverse media attention for some institutions, as well as a number of others which have occurred more privately.

Institutions should ensure that the issues and risks associated with these activities are fully understood, and proper risk, governance and control arrangements established. We also recommend independent assurance is sought.



Risks for institutions to consider

Overseas operations present significant opportunities but there are also important issues around risk management, governance and control which Audit Committees need to be assured over. Governing bodies and senior management should be able to answer:

- What are the key risks regarding your institution's international strategy?
- Do you receive sufficient breadth and quality of assurance over these key risks?
- Do you fully understand the range of international activities undertaken by your institution?

Risks	Considerations for the institution
1 Lack of strategy	<p>The concept of international working is now a presumed norm for most institutions.</p> <p>Most will recruit students from overseas and offer their home students overseas exchange programmes. Curriculum content has become increasingly globalised with free flow of information across the internet.</p> <p>Our experience however is that the quality of international strategies varies significantly. For some institutions the concept of international is broader than student recruitment and well understood by key stakeholders.</p> <p>We have also seen a number of institutions take a more naive and scattergun approach to international. Ultimately this lessens the chances of success and exposes the institution to increased risk.</p> <ul style="list-style-type: none"> • What is your institution's strategy as regards internationalisation? • Is it broader than simply recruiting overseas students to the UK? • Is this strategy consistent with the broader institutional and other supporting strategies? • Are your key management and staff aware of the strategy and their role in making it happen? • Have you fully assessed all the risks in connection with doing business overseas, and how do you horizon scan for emerging issues which impact on that assessment? • Have you got the right organisation, resources and other enablers in place to achieve your strategy? • How are you operationalising your strategy?

2 Doing business overseas – the unknown factors

Internationalisation for many institutions involves setting up overseas campuses, offices and in some cases even overseas entities.

We have worked with a number of institutions who have done this. Our experience shows that while there are significant potential opportunities for growth, the 'unknown' factors of doing business overseas can pose greatest risk.

We have reviewed a number of business plans for overseas investments, which at face value were favourable. However, when taking account of local economic, taxation and other regulatory factors, the plans looked less viable.

In some cases this led directly to the institutions deciding to not pursue those investments. This shows the value of appropriate due diligence being undertaken prior to any overseas decisions being made.

- Are you aware of the incorporation requirements for setting up overseas investments?
- What are the tax, transactional, legal and regulatory requirements for operating in your key overseas markets?
- Are your business plan assumptions reflective of local circumstances around demand and costs?
- Have you tested your business plan assumptions and undertaken sensitivity analysis to understand the impact of 'downside' scenarios?
- Have you undertaken appropriate due diligence?
- Have you identified all stakeholders and a suitable local partner for any overseas ventures?
- Have you met all immigration requirements?

3 Declining student numbers

A number of institutions have experienced a reduction in overseas student applications and enrolments from individual countries as well as in overall terms.

In some cases these have been institutions who have been historically successful in recruiting overseas students.

These downturns in student enrolments can have a significant financial impact, and also impact longer term course viability.

- What is your institution's target market regarding international, and how well segmented is the institution's marketing of its offering?
- Who are your institution's key competitors and does your institution have a sufficiently unique selling point to attract prospective students?
- How effective are your institution's underlying enablers for international, including governance and oversight arrangements, organisational structure, systems and people?
- Do you have a realistic understanding of your institution's brand value in the international marketplace?

Risks**Considerations for the institution**

4 Fraud and / or loss of funds

The nature of international operations, franchised provision, or overseas projects funded by institutions means they are often at arm's length to senior management.

With these activities operating potentially 'off radar' there is an increased and inherent risk of fraud and loss of funds. For example, in some international projects, there can be a higher level of personal expenses, unfamiliar business environments, facilitation fees or a need for relying on agents.

We have seen examples of overseas projects that have been the subject of significant frauds, often involving senior members of staff and in some cases these have been perpetrated over prolonged periods of time, going unnoticed, until identified by whistle-blowers or through retrospective investigations. These are often from operating in environments where corruption is more acceptable than in the UK, which increases the risk.

Many institutions won't have experienced issues as serious as this, but the challenge for governing bodies is how they can be assured that there is no significant fraud or irregularity in connection with any of their overseas activities.

- Are the right enablers in place, including governance and oversight, organisational structure, systems and processes?
- Are governance, control and oversight arrangements sufficiently robust and designed appropriately to manage the institution's current overseas activities?
- Does your institution's governing body through its Audit Committee, receive appropriate assurance over the governance and control arrangements for its overseas activities?
- Has a fraud risk assessment been undertaken to assess potential weak spots where fraud or other irregularity could occur?
- Are your staff using their own bank accounts for business purposes as a short cut due to difficulties setting up overseas bank accounts?

5 Legal/ regulatory sanctions

There is a significant volume of laws and regulation associated with the internationalisation agenda. This is not just when working overseas, but also in the recruitment of international students and staff.

The requirements of the Home Office UK Visas and Immigration ("UKVI") team have been in force for a number of years now.

We have seen a number of high profile tier 4 license breaches which have resulted in institutions having their license to recruit overseas students revoked. We have also seen institutions who have had to address significant internal issues to avoid their licenses being revoked.

There are other risks around understanding of laws and regulations of overseas territories complying with money laundering and other legislation such as the Bribery Act. Not understanding these can result in unintentional breaches.

Maintaining compliance with laws and regulations is therefore a business critical activity, as is keeping pace with the frequent changes in the regulations.

Key considerations in this area include:

- Are your team fully aware of the regulatory requirements, and is this awareness kept regularly up to date?
- Are your policies appropriately written to reflect the correct regulatory requirements and have you sought independent assurance as to whether they meet current UKVI compliance requirements?
- Are your systems fit for purpose to maintain compliance in this area, for example around attendance monitoring which is a common area of weakness?
- Are you seeking assurance over the operational effectiveness of key controls in this area?

Risks**Considerations for the institution**

6 Reputation / brand erosion

As with any new business activity, expansion overseas involves interacting and contracting with new organisations and individuals.

Often there is a visible public profile for these organisations and individuals, but in many cases, the true reputational and financial background cannot be easily ascertained.

There have been a number of high profile cases where institutions and other organisations have formed business relationships, or entered in to transactions, that have resulted in reputational damage. These include instances where the background of third parties have not been subject to proper due diligence, or commercial decisions have been naïve.

We have worked with a large number of institutions and other organisations to undertake reputational and other due diligence background checks on third parties. As a result of our findings, this has sometimes resulted in withdrawal from potential engagements, or in other cases, provided appropriate assurance to management.

- How well do you know the agents or third party organisations you are working with overseas, and has appropriate due diligence been undertaken?
- How comprehensive is the scope of the reputational and financial due diligence you have undertaken?
- For more high profile individuals and organisations, have you drawn in external support for undertaking due diligence, which may be more appropriate to the scale of activity or transaction?
- Are you considering issues in broader terms and from a number of perspectives? For example, are significant potential donations contingent on your institution doing things which it would not normally do?
- Are potential new ventures or business relationships considered from a taxpayer or member of the public viewpoint?

7 Value for money

New investments and existing operations should be regularly subjected to the value for money challenge. Institutions are required by their funding bodies to form annual conclusions over arrangements to secure economy, efficiency and effectiveness.

Internal and external audits are also required to form opinions respectively around value for money and the use of public funds being in accordance with the relevant financial memoranda with funding bodies.

There have been publicly reported cases of UK institutions making significant investments overseas or in other regions within the UK which have not recouped their initial investment costs.

While institutions should think and act commercially, robust business plans for expansion should be undertaken and informed by meaningful market research.

Institutions should also have clearly understood exit arrangements in place in the event of any live investments or activities falling into financial decline.

Institutions should also consider:

- What level of scrutiny and governing body approval do your institution's new investments and ventures receive?
- Is your institution's scheme of delegation appropriately written to control the authorisation of new commercial ventures?
- How rigorously challenged are the assumptions underpinning your business plans?

Risks**Considerations for the institution**

8 Management distraction

Due to the higher inherent risks with some overseas operations, they can take up a disproportionate amount of management time.

We have seen examples of this occurring where management have been so focussed on establishing new overseas ventures, that other risks have materialised, such as declining home student enrolments.

- Is there sufficient capacity within your management team to deal with the issues operating overseas presents?
- Are arrangements in place to manage risk in its entirety while new or overseas operations are being progressed?
- Have you considered increasing management and staff resources to support this agenda?

9 Security of staff and business continuity

Institutions are recognising the significant growth opportunities of doing business in overseas territories which are less developed.

In some cases we have seen institutions sending their people to territories where there is political instability, corruption, or a higher threat of crime or terrorist activity.

While these risks can be managed to an extent, we generally see mixed practices around institutions proactively managing risks in this area.

- Have you assessed the risk levels and advice from government agencies and media sources prior to your staff going overseas and is this regularly monitored?
- Do you have systems in place to monitor the whereabouts of all your staff who are travelling or based overseas?
- In riskier territories, do your staff travel with appropriate security personnel?
- Are there well understood arrangements for withdrawing your staff from overseas territories quickly and safely?
- What would your institution do if a high profile or senior member of staff was taken hostage by criminal agencies or terrorists?
- Have you considered the business continuity aspects of continuing with business as usual in the event of overseas difficulties?

Risks***Considerations for the institution***

10 Employees working overseas

Institutions are experiencing increasing numbers of “employees” with an international angle – the visiting lecturer from overseas, the UK employee recruiting students in an overseas market, the examiner who works from home where home is not the UK and the direct hiring of employees locally in foreign countries to work on overseas projects, to name a few regular examples.

In some cases we have even seen employees performing their UK duties while abroad without the institution even being aware they were outside of the UK.

In all such cases, overseas workers can significantly increase the employer’s complexity around ensuring compliance with payroll, income tax, social security and other statutory obligations.

As tax authorities become ever more focused on employer compliance around these matters, the risk to the institution, both financial in terms of tax and penalties, and reputational increasingly are at a level where doing nothing is no longer an option.

- Do you have a system in place to monitor and manage employees working overseas?
- Have you done due diligence for each such employee and do you understand the cross-border issues from their particular scenario?
- Do you understand your employer compliance requirements in both home and host country such as payroll, tax, social security, employment law and local statutory requirements?
- Do you know the employee’s individual tax and social security compliance obligations in both home and host country?
- Are you aware of any corporate tax risks such as permanent establishment?
- Have you considered any immigration risks?
- Have you assessed the risk levels and do you regularly review and audit employment tax compliance?
- Have you put in place a proper policy to ensure that employees working overseas will not be in a financially advantaged/disadvantaged position and ensured that employees will assist the employer to maintain compliance?

Key messages

These risks and challenges mean institutions need to take action now:

- Ensure your internationalisation strategy is understood across the institution and your key stakeholders and senior management are engaged with it
- Use market intelligence, on-demand levels and forms of delivery to make new investments evidence-based
- Undertake reputational due diligence and risk assessments. It is critical to understand who you are engaging with before entering into any new business arrangements
- Assess the financial impact of new and existing overseas activities to make sure they will positively contribute to your institution's financial performance
- Understand the practicalities of doing business overseas, cultures, legal and tax requirements – this can vary significantly between territories
- Ensure exit arrangements are in place for all overseas business relationships
- Ensure key enablers are in place; governance/oversight, organisational structure, systems and strategy. Absence of these enablers can mean your best people may still struggle to deliver
- Identify and manage fraud risk appropriately as these risks can be higher when working overseas
- Maintain compliance with regulatory requirements, including UKVI, as non-compliance can have pervasive impacts on your activities
- Understand the immigration and taxation implications of your employees travelling and/or working overseas
- Seek assurance over key risk areas – don't just assume everything is as it should be. This should be as important to senior management as it is for the Audit Committee

Contacts

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