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NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

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THE STRATEGIC GAINS OF ORGANIZATIONAL VERTICAL INTEGRATION: A STUDY ON SOME EDUCATIONAL INSTITUTIONS

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ABSTRACT

Vertical integration is a common practice in different industries and educational institutions are not also out of it. Some organizations go for forward linkage vertical integration and some other go for backward linkage integration to get some extra benefits. Through vertical integration organizations can be sure about a minimum percentage of sale or buy. This study attempted to find out the strategic gains of organizational vertical integration through analyzing scenario of some private universities and colleges; i. e., Ideal School & College, Motijheel, Motijheel Model High School & College, Shaheed Bir Uttam Lt. Anwar Girls' College, Rajarbag Policeline School & College, SOS Hermann Gmeiner School & College, Stamford University, Bangladesh, Manarat International University (MIU), Bangladesh University, University of Development Alternative (UODA), Bangladesh University of Business & Technology (BUBT) etc. The study found that above universities gained average 20.52% students through their backward linkage and colleges gained average 44.86% students through their backward linkage, which is significant. Moreover, brand image of the institutions also increases for their vertical integration. Colleges and universities without vertical integration are not having these types of advantages.

KEYWORDS

Strategic Gain, Vertical Integration, Educational Institutions

INTRODUCTION

trategy is the creation of a unique and valuable position, involving a different set of activities, making tradeoffs in competing, and deciding what not to do. Strategy also involves "creating fit among a company's activities" (Porter, 1996). A valid strategy must find a balance among ends, ways, and means consistent with the risk one is willing to accept (Yargar, 2000). Famed management guru, Peter Drucker was fond of saying that strategic planning deals with the futurity of present decisions, rather than with future decisions. Any achievement through setting fruitful strategy is called strategic gain. In business, it has been said that business strategy is all about competitive advantage. The sole purpose of strategic planning is to enable a company to gain as efficiently as possible and a sustainable edge over its competitors. Corporate strategy thus implies an attempt to alter a company's strength relative to that of its competitors in the most efficient way.

Vertical integration is the process whereby different aspects of a business, "upstream" and "downstream" -- ranging from sourcing raw materials and production to marketing -- are brought together. In the oil business a company which is primarily engaged in the production of crude petroleum may decide to engage in vertical integration by acquiring downstream refineries and distribution networks. Similarly, a company strong in its downstream operations may try to engage in vertical integration by investing more in exploration and development and acquiring a greater stake in the production process. Vertical integration may also occur when complementary companies make long term contracts with one another or joint ventures, or if they decide to merge. Vertical integration should not be confused with horizontal integration, or movements toward greater oligopoly or monopoly within an industry. However, vertical integration may encourage tendencies toward oligopoly by offering the integrated companies a competitive edge against their less integrated rivals (http://www.utexas.edu/cola/). Vertical integration is the degree to which a firm owns its upstream suppliers and its downstream buyers (http://en.wikipedia.org/wiki/Vertical_integration).

Vertical integration has been one of the driving forces for consolidation within the aggregates and broader construction materials industries. Most major companies have been active participants. Rinker Materials are an excellent example of a company that uses a vertical integration strategy involving downstream expansion into the manufacture of higher value products and control of its distribution channels. Rinker is Florida's largest supplier of building and construction materials, including aggregates, cement, ready-mix concrete, masonry products, and building products. From the perspective of an aggregates producer, the firm has vertically integrated downstream into the production of higher-value products. Alternatively, if viewed from the perspective of a building materials company, the firm enhances its competitive position and profits by controlling its supply of quality aggregates and its distribution network. For example, the company maintains a network of facilities and sales offices throughout the state. Through its rail distribution system, it can competitively ship aggregates from its FEC Quarry in Miami to Jacksonville. Cemex — the second largest distributor of cement and one of the largest ready-mix producers within the U.S. — is another noteworthy example of a vertically integrated firm. Cemex's network includes 12 cement plants, 60 distribution terminals, and nearly 100 ready-mix concrete plants. In 2000, Cemex purchased Southdown's network of cement manufacturing plants and distribution terminals. By contrast, the company has sold off aggregate quarries within the United States that were not strategic to its cement operations (http://www.aggman.com/circulation/newssubform.htm).

Vertical integration describes a company's control over several or all of the production and/or distribution steps involved in the creation of its product or service. Let's assume XYZ Company, which manufactures frozen french fries, wants to vertically integrate. By purchasing a potato farm and a potato processing plant, XYZ could engage in upstream integration (also known as backward integration) and control the quantity, cost, and quality of the product's raw materials. Likewise, XYZ Company could engage in downstream integration (also known as forward integration) to control the distribution of the company's products by purchasing a packaging plant and a fleet of delivery trucks. Ultimately, XYZ could also use balanced integration, which incorporates both upstream and downstream integration, to control the cost and quality of the entire production and distribution process. One of the biggest advantages of vertical integration is that it often creates economies of scale and lowers production costs because it eliminates many of the price markups in each production step. Vertically integrated companies also achieve cost efficiencies by controlling quality at each step, which reduces repair costs, returns, and downtime. In addition, vertically-integrated companies do not have to allocate resources to pricing, contracting, paying, and coordinating with third-party vendors.Vertical integration can ultimately create barriers to entry for potential competitors, especially if the company controls access to some or all of a scare resource involved in production. This is why in some cases a company may control so much of the market or supply of raw materials that vertical integration can raise antitrust concerns (http://www.investinganswers.com/financial-dictionary/businesses-corporations/vertical-integration-871).

Several issues have prompted interest in vertical integration in Australian general practice, including: increased medical student intake across universities and subsequent demand for community placements, interest from state health departments in general practice as a place to train junior medical officers corresponding with the shift of chronic disease management to the community, federal funding for PGPPP posts — it is thought that PGPPP encourages doctors to consider general practice as a career, provision of high-quality training in education for practitioners at all levels of experience, from prevocational medical officers to specialist GPs, and greater work satisfaction for GPs who work as educators. The benefits of vertical integration can include: Providing trainees at all levels with experience in teaching — "teaching how to teach" transcends level of training, therefore this is an efficient use of education resources, to be able to teach requires a revision of one's own knowledge — therefore, this is a very useful exercise in continuing professional development for registrars and specialists, and development of intraprofessional communication skills at all levels (Stocks et. al., 2011).

OBJECTIVES OF THE STUDY

The broad objective of the study was to find out the strategic gains of organizational vertical integration through analyzing scenario of some private universities and colleges.

More specifically the study has following objectives:

- To find out some vertically integrated colleges and universities.
- To find out inputs from backward linkage of these colleges and universities to forward linkage.
- To find out competitive advantages of these vertically integrated colleges and universities.

METHODOLOGY

RESEARCH DESIGN

The first stage of this research was exploratory research. The methods of exploratory research were survey of experts and pilot survey. To conduct the pilot survey a questionnaire was developed and it was less structured with more open ended questions. After the exploratory research population and sampling frame were defined more clearly, and questionnaire was made more structured. The second stage of this research was descriptive under conclusive research; the insights gained from exploratory research were verified to assist the decision maker in determining, evaluating, and selecting the best course of action to take for private universities and colleges.

SOURCES OF DATA

The study was done based on primary as well as secondary data. In this study the main target population was the vertically integrated private universities and colleges in Bangladesh. Sampling frame was the private universities and colleges of Dhaka city. Sampling technique of the study was convenient sampling under non-probability sampling. Sample size of this study was 10 (5 colleges and 5 universities), i.e., Ideal School & College, Motijheel, Motijheel Model High School & College, Shaheed Bir Uttam Lt. Anwar Girls' College, Rajarbag Policeline School & College, SOS Hermann Gmeiner School & College, Stamford University, Bangladesh, Manarat International University (MIU), Bangladesh University, University of Development Alternative (UODA), Bangladesh University of Business & Technology (BUBT) etc. Primary data were collected from employees of the institutions. The methods for collecting information were personal interview, conversation, survey and observation. Secondary data were collected through different reports, papers and prospectus of the institutions.

DATA PRESENTATION AND ANALYSIS

Data analysis performs in different statistical techniques such as summary statistics, i.e., frequency distribution and cross-tabulation.

DISCUSSION OF THE FINDINGS

Following are the results of vertical integration between university and college and college and school.

VERTICAL INTEGRATION BETWEEN PRIVATE UNIVERSITIES AND COLLEGES

In Bangladesh there are about 100 private universities (http://en.wikipedia.org/wiki/List_of_universities_in_Bangladesh), of which very few are vertically integrated. Out of those vertically integrated universities only five were considered for this study.

Stamford University, Bangladesh

Stamford University is situated in Dhanmondi area of Dhaka city. Owners of the university at first established its backward linkage Stamford College and then university. Following table shows the number of students who admitted to Stamford University from Stamford College. Table also shows the contribution of the backward linkage in different disciplines of the university from 2004 to 2005, which is ranged between 7% to 15% (33 to 56) of total students, is enough to recover cost and for starting profit. University got this portion of students with a minimum effort and institution can be sure about a certain minimum number of students from insource. Other students of the college went for other universities (public and private) and colleges (public and private) because Stamford is not one of the top ranked universities (considering education quality) of the industry. On the other hand, in Bangladesh students give first priority to public universities and colleges because of low cost and nice campus.

Program	Year	Semester Insourcing & Outsourcing		Total no. of	% of insource of total students	
			Insource	Outsource	Students	
		Spring	89	790	879	
	2004	Summer	95	850	945	11%
		Fall	79	463	542	
BBA		Spring	110	875	985	
	2005	Summer	105	546	651	14%
		Fall	82	344	426	
		Spring	56	359	415	
	2004	Summer	62	462	524	12%
		Fall	35	330	365	
CSE		Spring	41	417	458	
	2005	Summer	38	377	415	8%
		Fall	27	298	325	
		Spring	29	503	532	
	2004	Summer	43	442	485	7%
Film & Media		Fall	28	445	473	and the second se
10.0		Spring	64	427	491	
	2005	Summer	56	313	369	15%
		Fall	47	202	249	

TABLE 1: RESULTS OF VERTICAL INTEGRATION OF STAMFORD UNIVERSITY AND COLLEGE

Manarat International University (MIU)

Manarat International University is situated in Gulshan area of Dhaka city. Owners of the university at first established its backward linkage Manarat College and then university. Following table shows the number of students who admitted from college to university. Table also shows the contribution of the backward linkage in different disciplines of the university from 2004 to 2005, which is ranged between 18% to 33% (12 to 17) of total students. University got this portion of students with a minimum effort and institution can be sure about a certain minimum number of students from insource, which is enough to recover cost and for starting profit. Though this university is not also one of the top ranked universities (considering education quality) of the industry, most of the students of Manarat college are very loyal to the entrepreneurs of the college and university. For that reason percentage of insource students admitted to the university is more than previous university.

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					Total no. of	
Program	Year	Semester	Insourcing & O	Insourcing & Outsourcing		% of insource of total students
			Insource	Outsource	Students	
		Spring	25	95	120	
	2004	Summer	19	64	83	19%
		Fall	16	40	56	
BBA		Spring	21	118	139	
	2005	Summer	17	54	71	18%
		Fall	12	52	64	
		Spring	08	34	42	
	2004	Summer	11	23	34	33%
		Fall	16	12	28	
CSE		Spring	18	38	56	
	2005	Summer	14	25	39	31%
		Fall	09	28	37	
		Spring	11	24	29	
	2004	Summer	05	24	29	23%
English		Fall	08	30	38	
		Spring	15	29	42	
	2005	Summer	07	27	34	24%
		Fall	09	43	52	

Bangladesh University

Bangladesh University is situated in Mohammadpur area of Dhaka city. Owners of the university at first established its backward linkage preparatory college and then university. Following table shows the number of students who admitted from college to university. Table also shows contribution of the backward linkage in different disciplines of the university from 2004 to 2005, which is ranged between 8% to 28% of total students. University got this portion of students with a minimum effort which is a strategic gain. Other students of the college went for other universities (public and private) and colleges (public and private) because this university is not one of the top ranked universities (considering education quality) of the industry. But those students who do not get chance to other better institutions or are not eager to move to any institution far from their residence stay in the same campus or same area.

TABLE 3: RESULTS OF VERTICAL INTEGRATION OF BANGLADESH UNIVERSITY AND PREPARATORY COLLEGE

Program	Year	Semester	Insourcing & O	sourcing & Outsourcing		% of insource of total students	
			Insource	Outsource	Students		
		Spring	06	76	82		
	2004	Summer	05	70	75	9%	
		Fall	09	55	64		
BBA		Spring	04	91	95		
	2005	Summer	08	75	83	8%	
		Fall	07	49	56		
	2004	Spring	09	60	69		
		Summer	04	44	48	10%	
		Fall	05	52	57		
CSE		Spring	07	65	72		
	2005	Summer	09	50	59	13%	
		Fall	07	35	42		
	2004	Spring	18	27	45		
		Summer	09	49	58	28%	
English		Fall	12	23	35		
		Spring	11	53	64		
	2005	Summer	08	43	51	15%	
		Fall	06	36	42	and the second second	

University of Development Alternative (UODA)

University of Development Alternative is situated in Dhanmondi area of Dhaka city. Owners of the university at first established its backward linkage College of Development Alternative and then university. Following table shows the number of students who admitted from college to university. Table also shows contribution of the backward linkage in different disciplines of the university from 2004 to 2005, which is ranged between 8% to 21% of total students. University got this portion of students with a minimum effort which is a strategic gain. Normally average level or below average level student study at this college. After passing H S C level some of the students go for further study and some of the students enroll in different colleges. As a result few students go to enroll in different universities. Out of these few university students very few take admission at University of Development Alternative because of new university and less quality services.

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TABLE 4: RESULT OF VERTICAL INTEGRATION OF UNIVERSITY OF DEVELOPMENT ALTERNATIVE (UODA) AND COLLEGE OF DEVELOPMENT ALTERNATIVE (CODA)

Program	Year	Semester	Insourcing &	& Outsourcing	Total no. of	% of insource of total students
			Insource	Outsource	Students	
		Spring	95	529	624	
	2004	Summer	54	480	534	12%
		Fall	42	385	427	
BBA		Spring	64	718	782	
	2005	Summer	61	631	692	8%
		Fall	46	503	549	
		Spring	68	200	268	
	2004	Summer	75	201	276	21%
		Fall	29	229	258	
CSE		Spring	76	239	315	
	2005	Summer	25	251	276	20%
		Fall	57	171	198	
		Spring	15	50	65	
	2004	Summer	11	56	67	18%
English		Fall	09	56	64	
		Spring	17	62	79	
	2005	Summer	13	56	69	19%
		Fall	07	38	45	

Bangladesh University of Business & Technology (BUBT)

Bangladesh University of Business & Technology is situated in Mirpur area of Dhaka city. Owners of the university at first established its backward linkage Dhaka Commerce College and then university. Following table shows the number of students who admitted from college to university. Table also shows contribution of the backward linkage in different disciplines of the university from 2004 to 2005, which is ranged between 23.5% to 50% of total students, which is highest among the above universities. University got this portion of students with a minimum effort which is a strategic gain. This is the beginning scenario of the university. When university was established, their backward linkage college level BBA students were compelled to take admission at BBA program of this new university. But scenario was changed later when HSC passing students of the college started to come. Very few HSC passing students took admission to BUBT. Commerce students of Dhaka Commerce College are very meritorious; as a result at first they look for different reputed public universities, colleges and private universities. Those who do not get chance in the above institutions only they take admission here. As a result very few students come from insource.

TABLE 5: RESULT OF VERTICAL INTEGRATION OF BANGLADESH UNIVERSITY OF BUSINESS & TECHNOLOGY (BUBT) AND COMMERCE COLLEGE

Program	Year	Transfer/Intake Insourcing & Out		& Outsourcing	Total no. of	% of insource of total student	
			Insource	Outsource	Students		
		Transfer-1	21	6	27		
		1st Intake	15	13	28		
	2004 to	2nd Intake	7	6	13		
BBA	2005	3rd Intake	21	15	36		
		4 th Intake	23	19	42	50%	
		5 th Intake	9	13	22		
		6 th Intake	29	40	69		
		7 th Intake	12	21	33		
		1 st Intake	4	10	14		
	2004 to 2005	2 nd Intake	0	3	3	23.5%	
English		3 rd Intake	2	7	9		
		4 th Intake	2	6	8		

VERTICAL INTEGRATION BETWEEN PRIVATE COLLEGES AND SCHOOLS

In Bangladesh there are huge numbers of public and private colleges. Out of which some are vertically integrated. Only five vertically integrated colleges were considered for this study. Following tables show the number of students who admitted from school to college. Tables also show contribution of the backward linkage in different groups of the colleges from 2001 to 2005, which is ranged between 27.18% to 65.26% of total students. Colleges got this portion of students with a minimum effort which is a strategic gain and which is enough to earn profit. Study found that students entrance rate from school to college is more than from college to university. Vertical integration at private university level is a new culture and yet people have some doubt about private universities. But in case of college it is old and established culture and people look at forward linkage of school positively. As a result colleges are getting huge number of students from backward linkage schools.

	T	ABLE 6: RESULTS OF VERTICAL	INTEGRATION OF	IDEAL COLLEGE AI	ND SCHOOL, MOTIJH	EL
Name of the	Year	Group	Insourcing & Outsourcing		Total no. of	% of insource of total
degree			Insource	Outsource	students	students
	2001	Sci, Arts & comm	308	225	533	57.79%
	2002	Sci, Arts & comm	380	284	664	57.23%
HSC	2003	Sci, Arts & comm	417	319	736	56.66%
	2004	Sci, Arts & comm	521	354	875	59.54%
	2005	Sci, Arts & comm	532	380	912	58.33%
	TABL	E 7: RESULTS OF VERTICAL INT	EGRATION OF MO	TIJHEEL MODEL H	IGH COLLEGE AND CO	DLLEGE
Name of the	Year	Group	Insourcing & Out	tsourcing	Total no. of	% of insource of total
degree			Insource	Outsource	students	students
0	2001	Sci, Arts & comm	128	343	471	27.18%
	2002	Sci, Arts & comm	121	311	432	28%
НЅС	2003	Sci, Arts & comm	132	337	469	28.14%
	2004	Sci, Arts & comm	156	379	535	29.16%
	2005	Sci, Arts & comm	177	418	595	29.75%
	2000			110	000	2011/07/0
т	ABLE 8: RES	SULTS OF VERTICAL INTEGRAT	ION OF SHAHFED B	BIR UTTAM LT. AN	WAR GIRLS' COLLEGE	AND SCHOOL
Name of the	Year	Group	Insourcing & Out		Total no. of	% of insource of total
degree	rear	Group	Insource	Outsource	students	students
468.66	2001	Sci, Arts & comm	257	345	603	42.62%
	2001	Sci, Arts & comm	248	367	615	40.33%
нѕс	2002	Sci, Arts & comm	223	451	674	33.09%
1150	2003	Sci, Arts & comm	162	371	533	30.39%
	2004	Sci, Arts & comm	196	379	575	34.09%
	2005	Sci, Arts & Comm	190	379	575	34.09%
	тле	BLE 9: RESULTS OF VERTICAL IN				1001
Name of the	Year	Group	Insourcing & Ou		Total no. of	% of insource of total
degree	Teal	Group	Insource	Outsource	students	students
uegree	2001	Sci, Arts & comm	122	178	300	40.67%
	2001	Sci, Arts & comm	122	188	305	38.36%
НSС	2002		117	191	305	40.31%
1150		Sci, Arts & comm				
	2004	Sci, Arts & comm	135	204	339	39.82%
	2005	Sci, Arts & comm	138	207	345	40%
		E 10: RESULTS OF VERTICAL IN				
Name of the	Year	Group	Insourcing & Ou		Total no. of	% of insource of total
degree			Insource	Outsource	students	students
	2002	Science	60	35	95	63.16%
	2003	Science	62	33	95	65.26%
HSC	2004	Science	59	41	100	59%
	2005	Science	62	38	100	62%
	2005	Science	63	42	105	60%

CONCLUDING REMARKS OF THE STUDY

It is found existence of vertical integration in different industries. Establishing forward or backward linkage integration companies can earn competitive advantages. As for example, in Bangladesh beximco textile and squire textile are vertically integrated and they are enjoying huge competitive advantages. RGM sector of Bangladesh has mainly two sub-sectors, i.e., woven and knit. Knit sector is improving significantly day by day because of its backward linkage or vertical integration. But woven sector is not that much good because of lack of backward linkage. This culture is now established in other sectors also and academic sector is not out of it but culture is not well established at every stage of academic sector. At college level study strong backward linkage is found and significant number of students is entering from school to college. But at private university level it is a new culture and insignificant number of students are going from college to university. Related institutions and bodies should take necessary steps to establish vertical integration strongly at this level. If it can be establishes that would be helpful for the education sector as well as for the related institutions of the country.

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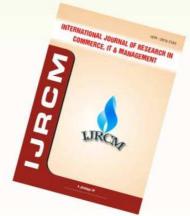
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