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## Universitas 21 Global

Tarunya Chopra escaped the crowded streets and suffocating heat of her native Mumbai by slipping into the quiet confines of her favorite Internet café. After unloading the heavy collection of textbooks she had carried from her apartment, she logged onto the website of Universitas 21 Global. She expected email from her three teammates, who were located in Shanghai, Kuala Lumpur, and Singapore. A group paper was due the next day in her entrepreneurial finance class, in which twenty-five students from across Asia were enrolled. In addition to finding a draft of the group paper in her inbox, she found a message from her professor, located in England, who was responding to a question that she had asked the day before.

Ms. Chopra was over halfway to her MBA degree, a program she had begun a year earlier, in Spring 2003. She had been one of thousands of qualified applicants turned down by the top university in India. While her contemporaries in North America and Europe could fall back on numerous “second tier” choices, Ms. Chopra had few such options in India. Personal and financial constraints prevented her from pursuing her degree abroad. After lengthy discussions with friends and family, and conversations with an agent representing Universitas 21 Global, she had decided to enroll in the online university’s first class.

The program had proven a good fit for Ms. Chopra’s needs. The ability to study anytime, anywhere suited her hectic schedule. She found that while the high-speed connection in Internet cafés was preferable, the University’s simple website design was acceptable even over her home dialup connection. She also enjoyed the feeling of being connected to others around the world with similar interests, and felt that it would serve her well as she prepared for a career in international business.

Ms. Chopra also valued the tremendous choice she had in determining the total course load at any one time, and the start date of a given course. The University operated on a rolling schedule, and new sections of each course started every few weeks. Since matriculating, she had varied her course load as demands from her part-time job and other commitments required, taking at various times anywhere between two and five concurrent courses. (There was limited flexibility *within* a course, because once it began, it proceeded with regular deadlines for assignments and tests just as in traditional universities.)

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After she completed editing her group's paper, she turned to studying for an operations management exam, which she had to take within a few days. She reviewed the professor's posted responses to several frequently asked questions, and studied sample problems from the textbook. Several hours later, on her way home, Ms. Chopra walked past the computerized testing center where she would be taking the proctored exam.

## Is This Real?

As of the date of this writing, October 2002, Ms. Chopra is only a figment in the imagination of Mukesh Aghi, the CEO of Universitas 21 Global (U21G). While a great deal of study and market research seemed to confirm that there were not just one but many thousands of people like Ms. Chopra that would gratefully accept the opportunity to pursue an MBA online, Mr. Aghi acknowledged the unknown: "I call next year terra incognita. We just don't know how the market will react to our offering."

Mr. Aghi had recently completed hiring his direct reports. U21G's office in downtown Singapore was abuzz with activity late into each evening. Launch was scheduled for early 2003.

While Mr. Aghi aspired to provide education of a quality comparable to traditional universities, he also wanted to create an institution with significantly different values.

"Educational institutions are the worst at dealing with customers. They maintain a culture of exclusivity and elitism. But we will be in the business of providing a solution. And we will emphasize the provision of top-quality services, twenty-four hours a day, 365 days per year."

## The Origins of U21G

U21G formed as a joint venture of the Thomson Corporation and Universitas 21, a global consortium of universities (See Figure 1). When Mr. Aghi joined U21G in the middle of 2002, a board of directors drawn from the two parents had already shaped the emerging institution significantly.

One board member was Alan Gilbert, Vice Chancellor of the University of Melbourne. Seeing a problem, he had created Universitas 21, the younger of the two parents, in the mid 1990s:

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“In the United States, with its superpower status, internationally dominant culture, and massive domestic markets, the interests and concerns of the rest of the world are often well over the horizon. But from Australia, the world looks a lot different. We know a great deal about the world, but it needs to know little about us. In a geopolitical sense, Australia is largely insignificant. When it became clear to me that the world of higher education was going to globalize and go online, it was also clear that unless Australia led, Australia may not even get an invitation to initiatives launched elsewhere.”

Alan Gilbert started by inviting nearly 20 university presidents from around the world to Melbourne to talk about globalization and networking. To signal the seriousness of its intentions, the University of Melbourne paid for all travel expenses, including first class fares. At the meeting, Gilbert inspired his guests by setting a long-term goal of establishing a global network of Universities able to act as a single entrepreneurial entity. From the outset, the U21 network agreed on four central principles of governance: 1) All participants were equal; 2) Liability was limited; 3) Membership was non-exclusive, with any member able to participate in any other network; and 4) Institutional brands would be protected, with all member logos required to be used together or not at all.

In the early years, U21 established a set of collegial activities of a kind that the participating universities were already familiar with, such as student and faculty exchange programs, and the alignment of course requirements to allow students to transfer more easily from one institution to another. The idea was to assist students from, for example, Lund University in Sweden to transfer to Fudan University in Shanghai.

Having established a certain level of familiarity and trust over the first few years, U21 expanded its activities. The group began providing privileged access to resources across the network on a cooperative basis, establishing, for example, a database with thousands of online “learning objects” which all U21 universities could use, without compromising the ownership of intellectual property. Some of this cooperatively available courseware was very valuable. One learning object, for example, was a digitized anatomy resource based on 70,000 microscopic slices of the human body.

By the late 1990s, prompted by Alan Gilbert, U21 began pursuing a bold vision of an online, global university. Gilbert and his colleagues negotiated first with Microsoft and News Corp, but each negotiation faltered. Meanwhile, however, Gilbert met Bob Cullen, a senior executive at the Thomson Corporation, and the two discovered a shared vision.

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## The Thomson Transformation

The Thomson family founded the Thomson Corporation in 1934 as a single newspaper in Timmons, Ontario. Over the next six decades, the company grew to a multi-billion dollar industrial conglomerate, and competed in industries as diverse as oil and gas, travel services, and textbook publishing. From 1997 to 2002, under the leadership of CEO Richard J. Harrington, the company pursued a major restructuring, divesting business valued at roughly \$6B, while acquiring businesses worth nearly \$10B. Through this period, revenues remained essentially flat, near \$8B. But by 2002, the year which Thomson listed on the New York Stock Exchange, the company had achieved a sharp focus on the global provisioning of information products and services, in four major market groups: financial, learning, legal and regulatory, and scientific and healthcare. Approximately 60% of the company's revenues were derived from electronic products and services, nearly double the proportion of five years earlier.

The U21G initiative was only one part of this grand transformation. Thomson Learning, one of the four market groups, was the group directly involved in the U21G joint venture. Thomson Learning provided a variety of products and services for the higher education and lifelong learning markets, for both traditional and online learning environments. The group owned nearly twenty subsidiaries, including NetG, which delivered mixed-environment programs customized to corporate business objectives; Gale, which maintained over six hundred reference databases for libraries and businesses; and Prometric, which offered technology-driven testing services.

In the course of its transformation, Thomson acquired more than 200 small companies, most valued at less than \$25M. Thomson had developed well-defined processes for identifying acquisition targets. Heads of business development for each market group played the key roles, talking with investment bankers, reading industry press, and staying connected within the industry. They looked for opportunities in which Thomson could efficiently combine assets under a single management, or help a promising business by providing greater access to resources. Once a target was identified, Thomson completed a "make or buy" analysis to ensure that they weren't better off building the business from scratch on their own. Although Thomson generally operated on a full-ownership model, they also made some minority investments in Internet companies during the dot-com boom, to hedge against major changes in the structure of their industries. Most of these investments were subsequently written off. With the exception of U21G and a few minor initiatives, Thomson had returned to the principle of full ownership in 2002.

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## Financial Management at Thomson

While the Thomson Corporation was beginning to create a more integrated approach to strategic planning, branding, and operations, the company had historically been managed as a holding company. Thomson had a rigorous financial planning process, using standardized templates. The templates were primarily forward looking, though once a business had some history, planners used past data to accurately forecast trends and cycles. Senior managers judged subordinates based on whether they achieved the goals in their plan. Managers were expected to identify discrepancies between plan and actual as quickly as possible, and formulate corrective action.

Thomson had developed practices that allowed younger ventures to be treated differently from mature businesses. Senior executives tended to spend proportionally more time in guiding younger ventures, frequently debating divergent interpretations of operating results. For some Thomson executives, the results of new ventures were excluded from bonus calculations. This was intended to prevent the incentive system from becoming an impediment to attracting talented Thomson executives to risky ventures. Some Thomson executives viewed the promotion environment as difficult, and viewed involvement with new ventures as risky.

## An Unexpected Partnership

Bob Cullen, the president and CEO of Thomson Learning's International Group, was well aware of Alan Gilbert's activities. He visited Gilbert in 1999 to have a general conversation about the direction of higher education. Gilbert soon shared his efforts to negotiate a partnership with Microsoft or News Corp to launch an online university. Mr. Cullen asked, "Have you ever considered working with a textbook publisher?" The two continued to talk, and soon Gilbert and his colleagues saw that Thomson was able to bring a wide variety of skills and expertise to the venture that the other partners under consideration could not.

Mr. Cullen knew that he would have to win approvals both from the Universities involved and his colleagues at Thomson to go forward. But he felt there was little to worry about with Thomson:

"I have been with Thomson for 18 years, and I have yet to present a good idea that they didn't find money for. Thomson is not resource poor. They are always willing to fund promising ideas, recognizing that not all succeed."

With the universities, Mr. Cullen focused first on building trust:

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“Most Universities have at least a bit of a natural fear of commercial entities. I knew if we couldn’t establish trust, we couldn’t go forward. With joint ventures, if you can’t work together before the agreement is signed, you definitely won’t be able to afterwards.”

In 2000, Thomson hired the Parthenon Group, a consultancy, to study the opportunity in detail and create a business plan. Through the process, Mr. Cullen kept an internal venturing board at Thomson informed of progress, ensuring the venture would be approved when it was formally submitted. The completed plan indicated that unmet demand for higher education in Asia well exceeded \$100B. Dave Shaffer, CEO of Thomson Learning, explained the significance of the estimate:

“In China alone, there will be such a demand for higher education that the Chinese would have to build 200 institutions the size of large US state universities to supply the knowledge workers that their economy needs. Clearly a quicker path is preferable to a project of such magnitude. Just as Latin America skipped to cell phones rather than laying down miles of new wire, Asia is ready to leapfrog to the next-generation approach to education.”

The business plan called for an investment of \$25M by each partner, and included cash flow projections for multiple scenarios through 2010. The break even date was 3-6 years out, with the cash payback a few years later. Enrollments were projected in the tens of thousands, and revenues in the hundreds of millions of dollars.

Courtney Morris, one of the consultants involved in the study, commented:

“The biggest uncertainty is whether online learning will truly be accepted as credible. Can you convince the business community that a student who graduates from Universitas 21 Global is as skilled and as valuable as somebody who graduates from the National University of Singapore?”

Online learning is a nascent industry. So far we have seen a lot of failures and only pockets of success. We think it’s important to go outside of the United States. In the U.S. there is always an alternative, from Harvard to the local community college. In Asia, supply falls far short of demand.”

To bolster the credibility of U21G, each member university agreed to link their own institutional brand to that of U21G. U21 also proposed the creation of a separate,

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wholly-owned company, U21 Pedagogica, to provide accreditation and quality assurance on course materials.

In January 2001, Mr. Cullen had what he later termed a “career defining moment,” in which he presented the plan to the sixteen university presidents. The Thomson Corporation showed its full support – Mr. Harrington, Mr. Shaffer, and several CEOs of Thomson Learning subsidiaries were all present.

For the six months following the successful meeting, the partners negotiated and agreed to final details. In addition to agreeing that U21G would only offer courses approved by U21 Pedagogica, they agreed to a series of quantified milestones (based on courses accredited, number of students enrolled, total cash flows, and revenues) that had to be achieved to trigger additional financing on specific dates through the next few years. Each partner had the option to exit if the milestones were not achieved.

By this time, the dot-com bubble had collapsed. Several startups were coming to Thomson, asking to be acquired. (Thomson had passed on acquiring several of the same companies prior to the collapse – Thomson had deemed the valuations too high.) Despite a wide range of attractive investment opportunities, Thomson remained committed to U21G. The venture was an important part of Thomson’s future and core mission. The agreement was signed. Mr. Shaffer explained:

“We think that there is an extremely compelling business model here. The bricks and mortar institutions will never be able to handle all of the unmet demand. The only way to do it is through electronically delivered education. This is not an idea coming from a bunch of very young kids trying to change the world overnight. There are sixteen world-class universities participating in this joint venture.”

Further, it appeared that competition could take many years to develop. Don Babcock, who would subsequently join U21G as Provost, explained:

“It is difficult for conventional institutions to develop distance learning programs for a lot of reasons. The technology is changing so rapidly that you have to make a bet, and if you bet wrong, it can be very costly. Universities don’t have access to venture capital. Further, universities just don’t conceive of distance learning as part of their core mission. Then, there are messy questions about faculty rights and intellectual property protection. Some universities have tried to pursue distance learning much like executive or continuing education, paying faculty directly for their participation, and planning to recover costs by charging high tuitions. But there are a lots of additional costs

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associated with distance learning, and even the most talented faculty aren't necessarily skilled in interactive media.”

## **Building the U21G Organization**

Conceptually, the partners in the venture were equals. Thomson brought management expertise, content, and technology platforms to the table, while the universities contributed academic credibility, brand reputation, accreditation, and quality assurance. The board of directors would ultimately include three representatives from each partner plus the CEO, Mr. Aghi. Directors from Universitas 21 included Alan Gilbert, Shih Choon Fong from the University of Singapore, and Graham Davis from the University of Glasgow. Directors from Thomson included Mr. Cullen, Mr. Shaffer, and Eric Shuman, the CFO of Thomson Learning.

The board was very active through 2002. The directors focused on making key hires, selecting some critical technology components, and preparing for an initial marketing and branding effort.

Mr. Babcock was an early hire. A career academic, he had started out as a junior faculty member at the University of Massachusetts in the late 1960s. He quickly moved towards administrative responsibilities, and oversaw tremendous expansion of the university in the 1970s. In the 1990s, Mr. Babcock spent five years building distance-learning facilities at the university, and later worked with Harcourt, a textbook publisher, building their distance learning products. Consistently a proponent of new technologies, Mr. Babcock jumped at the chance to work with U21G, excited to once again build and shape a new and growing institution.

The board also invested heavily in a search for an outside executive to fill the position of CEO. The search was difficult. Some attractive candidates were unwilling to move their families internationally in the post-September 11<sup>th</sup> environment. In addition, the board looked for an unusual combination of experiences. Mr. Cullen described the hiring criteria:

“We looked for a general manager with experience in technology, learning, and international markets. In the perfect world, we also would have found somebody who had managed a startup within a corporation.”

The board hired Mukesh Aghi. He had extensive knowledge of Asia, having run IBM India. And, he had managed global expansion for Ariba, a supplier of e-commerce

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software, through the dot-com mania. As Ariba grew quickly, Mr. Aghi created partnerships around the world. He described the key lesson learned from the experience:

“A startup has to work with the right partners early on. If you let yourself get bogged down in negotiations, a bigger rival that already has a global presence can easily pass you by.”

Mr. Aghi worked with the board to quickly fill out the remainder of the senior management team. Their strategy was to create as diverse a team as possible by hiring the best possible talent, regardless of where they came from. Employees from Thomson or the member institutions of Universitas 21 were given no special consideration.

Mr. Aghi enticed two past colleagues, Derek Hunter and Debbie Woon to direct sales channels and marketing, respectively. Mr. Hunter had worked in a similar position at Ariba, and Debbie Woon had many years of experience in marketing for a technology company, managing both established brands and new ones.

The board filled the position of Dean with Chandru Rajam, a professor of business strategy from the National University of Singapore, who wanted to continue his career in management education and was excited by the new frontier of e-learning. Mr. Rajam described his position as similar to that of a Dean of a University’s MBA program, with oversight of the programs and faculty.

Chiu Sheng Yang was located through an international search to manage technology development. Though born in Asia, he had spent twenty years working in the technology industry in the Untied States, and had earned a PhD in Computer Science from the Massachusetts Institute of Technology. His experiences ranged from projects related to the early development of the Internet, to a silicon valley startup, and most recently an online university. Mr. Chiu described part of his rationale for taking the position:

“Education is a noble endeavor. Particularly in Asian societies, a person’s education is valued extremely highly, as it should be. People do not have sufficient opportunity because existing universities are overcrowded. In addition, this is a homecoming. I am grateful for the opportunity to return to Asia.”

The final addition to the management team was the CFO, Steve Settle, a long term Thomson financial manager. As the academic partners viewed disciplined management of finances and accounting as a key skill that Thomson contributed to

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the partnership, they were keen to add Mr. Settle to the team. Mr. Settle appeared ready to implement the financial discipline that the Universities were looking for:

“You’ve got to make your plan. That is the basic psychology of the organization. We are in a grace period because we are just spending, and not spending more than planned. Once revenues are anticipated, the honeymoon is over. It’s delivery time.”

At the same time, Mr. Settle acknowledged the uncertain nature of some of the requirements of Thomson’s financial templates:

“We are so early on in the venture. How can I possibly project revenues for 2004 or 2005 when I don’t even know what the revenues are going to be for 2003? I can tinker around with the knowledge we are gaining on the expense side, but I really can’t do anything significant in terms of forecasting where the business is going to be in the long term. So we’ve just adopted the 2004, 2005 & 2010 figures straight out of the original business plan.”

All of the new hires reported to Mr. Aghi. The Dean, Mr. Rajam, also had a dual reporting relationship to Mr. Babcock, who had direct oversight of course delivery and student services.

Mr. Cullen observed that there were many distinct cultures within the Thomson Corporation, with the only unifying themes being “people oriented” and “performance driven.” As such, he expected U21G would develop its own culture. Mr. Aghi aspired to create an atmosphere that was aggressive, fun, and abhorrent of hierarchy and bureaucracy.

At the outset, however, what was most notable about the team was its diversity. There was ethnic representation from China, India, Australia, the United States, and the Caribbean. Perhaps more dramatic, however, was the combination of the cultures of academia and business. Ms. Woon described it:

“New technology comes in every day, and we run with the ball. In academia, they think a lot. They debate issues. They analyze. When we have deadlines, we might hear ‘OK, I’m thinking it through.’ They are very articulate, and very thoughtful – we just have to make sure it get puts into action within the timelines.”

Mr. Hunter also commented:

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“ Right now, as the team is coming together, and the diversity makes things interesting. But when we get to the point where we really have to rely on one another, then we’ll find out how well the organization can perform.”

Mr. Chiu was unconcerned:

“We are running into each other a little bit, but we are coming together. There may be some tensions between academics and businesspeople, but it’s hardly a top-five issue for us.”

As Thomson’s financial processes were to be adopted by U21G, so were their compensation systems. As these systems allowed for a great deal of customization and flexibility, Mr. Aghi established the incentives he felt were best suited to U21G’s needs. Believing he would likely surpass the budget he inherited from the board, he established bonuses based on accomplishing milestones with less expenditure. Although the measures used in the compensation system were flexible, there was less flexibility in the size of the maximum bonus relative to salary. Performance bonuses at Thomson ranged from 10% to roughly 50% of salary. A greater proportion of compensation was dependent on performance at senior levels.

## **Establishing U21G Operations**

To get to market quickly, and to enable rapid growth, the U21G management team planned to establish as many partnerships as possible. Mr. Settle commented on the realities of this approach:

“Everybody has ‘manager’ in their title. Most everyone, in some way, is taking on the task of managing relationships with outsourcing partners. We are outsourcing everything – course development, sales, services...it is just very different. It is unusual for companies. I’ve seen companies outsource, but not from the beginning, starting with nothing.”

Although distance learning was a new industry, there were many companies that offered outsourced services to traditional universities, and many could make an easy transition to an online university. Online libraries, bookstores, examination centers, pre-enrollment counseling, career services, admissions, alumni relations – U21G planned to enlist partners for each.

An early priority for the U21G board, prior to even hiring the management team, was establishing a credible technology platform for the venture. The board negotiated an

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agreement to use an existing platform owned by another online learning company in North America with which Thomson Learning already had a relationship. Modifications were subsequently made to the platform to give it more of an Asian focus, to allow more student collaboration, and to accommodate a modified learning pedagogy.

Among the management team, sentiment was mixed on whether the arrangement was the best possible option for U21G. Over the long term, Mr. Chiu foresaw the possibility of moving U21G to entirely new learning platform. Mr. Chiu scheduled usability testing of the existing platform with prospective students for late 2002.

The management team was most concerned about the quality of student collaboration that could be enabled over the internet. Mr. Chiu gave an elevated priority to getting clear feedback from users – too often, in his experience, technology products were defined by what was possible, not what was wanted. Further, it was only through in-depth understanding of customer needs that U21G could build a competitive advantage over other online programs, particularly those with the backing of large technology corporations.

With the technology infrastructure in place, the next step was to create degree programs. Research had shown that the MBA and MIS degrees were in greatest demand, though the management team foresaw other degrees in the future. Actual course materials were developed in such a way that didn't simply replicate what was already available in textbooks, but supplemented textbooks with interactive content and an environment that facilitated online interaction. Mr. Shaffer commented:

“Books are being reinvented as ‘learning solutions.’ Traditional books carry on a one-way facilitated conversation with the learner. Learning solutions in the future will be highly interactive tools that help students solve problems, often through interaction with an instructor, mentor, or fellow student.”

Creating the course content required a combination of the talents of instructional design firms, graphical design firms, and subject matter experts, or SMEs, who were often active university professors. Mr. Babcock reflected on the challenges of getting the three working well together:

“In previous positions I have worked with as many as 6 different companies developing courses. The ones which were the most successful were the ones which really built strong teams. The ones which were least successful were the ones that tried to shortchange one or another of the elements. I learned that people hear what you ask them to do in terms of what they have done before. For example, we

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had a partner with a background in multi-media graphic design. We asked for good graphic quality that was connected to the instructional design principle. Well, the first time around we got back a lot of nice graphical elements, but they may or may not have been related to the instructional content or pedagogy. I know of another company with whom I did not work that had a background in educational video but ran into trouble when they tried to apply the same principles to a multimedia environment. I think that we, U21Global, are trying to create an educational product that is different from anything that has ever been made before. So we have to be vigilant in ensuring that we get what we ask for.”

An additional struggle was ensuring that the SMEs adhered to strict deadlines. Many were accustomed to having a great deal of control over their schedules. Nonetheless, several courses were near completion in late 2002, and they were being screened by U21 Pedagogica for final approval. The member universities took the screening process extremely seriously, as all credits could be transferred to any of the participating institutions.

At that time there was also a massive ongoing effort to recruit and screen faculty. Mr. Babcock anticipated that there would be plenty of interest in the new positions. Some would be young faculty who knew that technology was part of their future, while others were older, perhaps out of universities, but wanted to get back into teaching.

U21 Pedagogica approved all hires, and a PhD was the basic minimum requirement. New hires could take on one or more sections – each was expected to require roughly fifteen hours per week. Positions were available on a full time or part time basis, and U21G tried to create as much flexibility as possible in the contracts, since there was so little certainty regarding first year enrollments. Mr. Babcock elaborated on the hiring strategy:

“The key criterion is whether they have been successful teaching in a conventional classroom. If so, they are also likely to succeed in our environment. That is the best predictor of success. I can imagine that there might be a person who is very uncomfortable in the classroom but would blossom in the virtual environment, but it is not very likely.”

Members of the U21 consortium received no special consideration in filling the positions, but many member universities encouraged their faculty to consider the

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possibility. It was a low-risk approach to dabbling in what might become a big part of the future for educational institutions.

There were still key elements of the relationship with faculty that had yet to be defined. The management team planned to set standards for faculty for staying abreast of the latest in distance-learning theory, for example. They also intended to define mechanisms through which U21G faculty could use their online experience to advance their careers, but had yet to specify what it would mean for a faculty member to be promoted.

As all of the elements were coming into place for serving the first students, the marketing team worked diligently to ensure they attracted as many students as possible. Through 2002, Dana Prestigiacomio, a Thomson Learning executive, worked to define the specifics of the value proposition, and to specify the target customer profile by geography, age, and internet habits. In-depth interviews were conducted with universities to understand the profile of their applicants. The research indicated that the likely customers looked much like those for traditional MBA programs – people early in their careers, 25 to 35 years old, needing a degree to move up. However, a somewhat older demographic – people who missed the chance to get a degree and now had too many demands on their time to accommodate classroom learning – represented a greater opportunity than had initially been expected.

Although the Thomson corporation viewed moving towards a more integrated company with a single brand identity as an important element of their transformation, U21G was allowed to develop its brand independently. Ms. Prestigiacomio commented:

“The Thomson brand should not constrain them (Universitas 21 Global) whatsoever. They are a separate entity. They need to build their own reputation and equity.”

Ms. Prestigiacomio developed a brand and logo just as the management team in Singapore was coming together. The brand included the following value proposition:

“Universitas Global prepares future leaders for success in the global economy by providing access to leading edge knowledge, a tailored education experience, and a globally recognized credential.”

Once the management team was in place, they argued for giving the brand more of an internet flavor, emphasizing an anytime, anywhere, seamless experience. Ultimately, they won a compromise, including a name change. Mr. Aghi noted that the struggle was not just about the specifics of the brand:

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“We wanted to assert ourselves as an independent company. We are moving away from the parents. We just have to be careful not to be assertive and then make mistakes, because once you take a strong position, people watch for mistakes.”

Ms. Woon continued to investigate customer needs, and concluded that career services could become a critical differentiator:

“We will try to counsel the students and help them find jobs in different countries, as they request. We will work with services like Monster.com, which is in most of the countries we will be working in. We are also working with the member Universities to figure out how to tap into their alumni networks.”

While career services appeared most important, U21G intended to provide high quality services to meet a variety of student needs. In many cases, services were to be arranged through Thomson Learning subsidiaries, including Gale (on line libraries), Prometric (testing centers), and others. The partnership agreement between Thomson and U21 included a clause that required that Thomson Learning subsidiaries would have an opportunity to match any bid from an outside firm.

The team planned to launch the business simultaneously in Hong Kong, Singapore, Malaysia, and Shanghai, and then in five additional countries several months later. As the marketing team prepared the initial communications blitz, there were still some complex decisions to be made regarding pricing. Costs were still difficult to estimate. Further, the pricing structure and/or financial aid structure had to account for the wide variations in purchasing power from one country to another.

Concurrently with the rollout of the marketing plan, Mr. Hunter arranged partnerships with sales agents, a channel through which he expected to draw roughly 70% of new students. Academic agents generally worked for several schools, and received a commission for their services. As one of U21Gs biggest concerns was a high dropout rate, Mr. Hunter endeavored to find agents who had the capability to continue counseling students once they were enrolled in U21G. In addition, he structured their commissions as a fraction of ongoing tuition payments, so that agents had an incentive to keep students enrolled.

In the long run, U21G also expected to draw students through corporations that were interested in retaining their employees after they earned their degree. However, establishing such relationships were difficult – it required a long sales cycle – so this channel was to remain a second priority until the University was more established.

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## Evaluating Progress to Date

Through the fall of 2002, the board remained very optimistic about the venture's prospects. They felt that the management team was working well together. In fact, the team was so motivated that they were working late or very late on most nights.

Alan Gilbert commented on the October 2002 board meeting:

“It was exhilarating for two reasons. First, it was great to see how well everyone worked together. Even before the agreement was signed, the key negotiators on both sides agreed that, as someone put it, ‘Regardless of whether this venture succeeds or fails, we are grateful for this relationship. We appreciate the honesty and integrity with which our prospective partners have conducted the negotiations, and are excited by the boldness of the vision we are trying to turn into reality.’ Second, the board is driven by an appreciation of just how far the joint venture has come in the past year. In the big picture, I suppose it wouldn’t matter much if we missed our targets by three months or six months. But it was important to us to aim high. We’ve built a team that is committed to realizing our objectives. We are still on target for a launch in early 2003.”

There were no serious regrets about any of the business planning decisions that had been made to date – only an appreciation that, as with any startup business, some of those decisions may need to be revisited as the venture grows.

Mr. Shaffer acknowledged that they had been very lucky in negotiating a favorable agreement to license a technology platform, without which they would have almost certainly fallen behind schedule. If anything had been underestimated, it was the amount of time required to hire the management team. The CEO search had taken a lot of time and energy, and as the team grew, there was some concern that the hiring of an HR director and staff was too low on the priority list.

After launch, U21G would have to focus on meeting the financial milestones specified in the joint venture agreement. Of the initial \$50M commitment, only a portion had actually been provided by the fall of 2002. To receive the next installment, U21G had to complete a specified fraction of the development of the MBA and MIS degree programs, and have all necessary staff and systems in place. The subsequent financing trigger required completion of both degree programs, an enrollment milestone, and a revenue milestone. Additional milestones and funding amounts had been scheduled through the next few years, until the venture was projected to be self-funding.

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Either partner could exit the business if the milestones were missed. In such a situation, the other partner would have the option to buy the exiting partner's share.

Mr. Cullen commented on the milestones:

“Ultimately, this business isn't going to be serving tens of thousands of students, but hundreds of thousands of students. The milestones are achievable. We think that we can blow them away. The funding has been very robust to make sure we can get this up and running in the first couple of years. We have tempered expectations internally and externally.”

The milestones that had been established as part of the joint venture agreement would be the primary yardstick by which the venture's performance was evaluated internally. While Thomson had sought some press about the venture, they had made only limited statements to Wall Street analysts, except to mention it as part of an overall strategy for e-learning. Thomson was guarded about setting specific external expectations about the venture, and had received little pressure to be more forthcoming.

Despite the overall confidence in the business model, Mr. Cullen would have preferred to judge the progress of the venture based on a more flexible set of objectives, rather than proceeding with such specific milestones:

“Joint venture agreements really are divorce agreements. We wanted to make sure that if we weren't meeting certain milestones that we weren't going to have to invest more money. The universities wanted that assurance as well. That is why we asked for specific funding milestones.”

Nonetheless, the board had already demonstrated willingness to amend the milestones as the venture progressed and more was learned. For example, while the initial plan had called for concurrent development of the MBA and MIS degree programs, the board later agreed to sequential development.

Still, there were many assumptions in the business plan that could not be tested until after the program was launched. Examples included the average dropout rate, the average time to complete a degree program, the average number of hours required per course per professor per week, and the rate at which a faculty member's productivity would improve as he or she gained experience in online teaching. Each of these factors were direct and significant cost drivers. Of course, an even bigger unknown was simply student and recruiter acceptance of the U21G offering.

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A common concern among the board and management team was that if they were too far off on their estimates, and financing needs turned out to be higher than anticipated, Alan Gilbert would be put in the very difficult position of asking each U21 member institution to provide more funding. Thomson had been excruciatingly careful in developing their estimates, knowing that Universities were fiscally conservative. Still, Mr. Shaffer acknowledged that Thomson was probably no better than other corporations at forecasting, and that new ventures were inherently uncertain.

The Universities were experiencing some resistance to their efforts, generally from faculty who were upset that the commercial nature of the venture was antithetical to the purer mission of Universities to create new knowledge. There were also some operational conflicts to resolve with the Universities, including diverging opinions over the relative prominence of the U21G brand versus the member University's brands. The management team also anticipated some challenges in building effective operational links with admissions offices, and in developing processes for resolving conflicts over relationships with corporations.

Mr. Shaffer and Mr. Cullen did not anticipate that there would be significant tensions or conflicts within Thomson. For example, they felt that they could get full support from the Thomson subsidiaries. U21G represented a superb long term opportunity for companies like Gale and Prometric.

Mr. Aghi had readily accepted the expectations built into the joint venture agreement upon taking the new position, as there was little basis for questioning them. He simply worked on achieving them. His biggest concerns were: 1) ensuring a quality product was ready quickly, 2) making sure all operations were ready to go and ready to grow, 3) taking care of employees through the stress of the startup.

Mr. Rajam, while optimistic, knew that joint ventures always presented challenges:

“As a business school professor, I have read enough about all of the difficulties that come up in international joint ventures. So this needs to be managed carefully. So far it has been going really well, I'm happy to say. The nightmare of every JV is what if somebody pulls the plug. But at the moment there is absolutely no indication.”

## Discussion Questions

1. Identify the important decisions made by the U21G board in implementing this new venture. Consider issues of staffing, culture, structure, planning

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approach, and control systems. What alternatives could U21G have chosen instead?

2. Evaluate the advantages or disadvantages of forming a new venture as a joint venture between a network of organizations and a corporation with a history as a diversified conglomerate.
3. What difficulties do you anticipate for U21G, if any?

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## Figure 1

### The Universitas 21 Consortium

- University of Birmingham
- University of Edinburgh
- University of Glasgow
- University of Nottingham
- Lund University
- University of Friburg
- University of Melbourne
- University of New South Wales
- University of Queensland
- University of Auckland
- Fudan University
- Peking University
- University of Hong Kong
- National University of Singapore
- University of Virginia
- University of British Columbia
- McGill University