



Could State Accreditation Reduce 'Lemon' Markets in the Private Higher Education Sector?

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Outline

- The conceptual framework
- Development of Polish tertiary education sector
- Market and non-market characteristics of private education sector
- The role of PKA and its impact on education quality in private sector

Reasons for choosing economic framework of analysis

- Massification, privatisation and commercialisation of Polish higher education.
- Naive proposals to use pure market forces as a main mechanism of education quality improvement
- Pressure to create a market for quality assurance agencies and to introduce system of recognition- by PKA - of accreditation decisions of other domestically operated agencies
- Fear that during the current financial crisis government may reduce the expenditures on higher education and introduce more market oriented solutions to the higher education system.

The attributes of good market for education

(Brown 2009; Becker and Round 2009)

- Free entry to the higher education market
- Freedom of setting up the prices for education (fees, tuition).
- HEIs ability to react and adapt to the market signals
- Students' power to decide what, where and how to study
- Markets transparency - free and easy access all market actors to the information on HEIs and to quality of their services
- High mobility of students and academic staff
- Competition by entry, services and geographical area
- Tuition as a main financial source for covering costs of HEIs' operation

Idea of market of higher education vs. reality

- Higher education final product as a specific good
 - with positive externalities – limitations to market entry for private providers
 - *‘unknowability’* – *‘people simply don’t really know what they’re buying’*, (Winston 1997); a ‘post-experience’ good (‘credence good’)
 - a “customer-input technology” – quality of education depends on customers i.e. students
 - no formal guarantee of the quality
- Asymmetry of information
 - adverse selection
 - moral hazard
 - price discrimination
 - **‘lemon markets’**

Akerlofs' idea of 'lemon' markets and higher education

- Uncertain and asymmetrically distributed information about quality of HEI and offered programmes
- False signals about prices of education and its relation to the quality of education
- Markets are driven to mediocrity
- Users of education output like students, employers, government, society and HEIs offering top quality education are harmed, because the 'customers' cannot distinguish between low and high quality education;
- Copernicus/Gresham law: bad providers crowd out good providers
- Suboptimal investment in human capital

Akerlofs' idea of 'lemon' markets and higher education

- Liberal view: private market can overcome asymmetry information and 'lemon' market problems
 - by building brand names, as a symbol of high quality education, credible and trustful institution.
 - or by applying third party for quality evaluation
 - However discouraging effects of financial markets rankings and audits
- Reality:
 - on providers side: fraud and incentive to abuse
 - on buyers side: students cannot afford to invest time and money to reduce uncertainty over the quality of education
 - quality assurance (evaluation) system cannot be build without a reliable information

Implications for state regulation

- Protection of public interest
- Correction of private decision failures
- Providing reliable, public information on quality of education
- Ensuring public confidence in market system
- Fostering the optimal allocation of resources invested in tertiary education
- State intervention can help users of education and some i.e. honest providers
 - Low quality providers will lose and will be against any intervention like external evaluation of educational programmes or institutions
- Market cannot properly function without a proper regulatory framework - mix system in higher education sector

Idea of market of higher education vs. reality

- Limited evidence of well functioning market system in higher education, even in the American model
 - US: significant increase in tuition
- Lack of rigorous analysis of the higher education market (Becker and Round 2009):
 - *„educationalists as well as economists...have failed to cast their analysis in the context of carefully defined markets...”*
 - *„...a single overarching policy based on the implied existence of one giant monolithic market will be economically misguided, and indeed would be likely to lead to inefficient decisions and numerous kinds of social inequities*

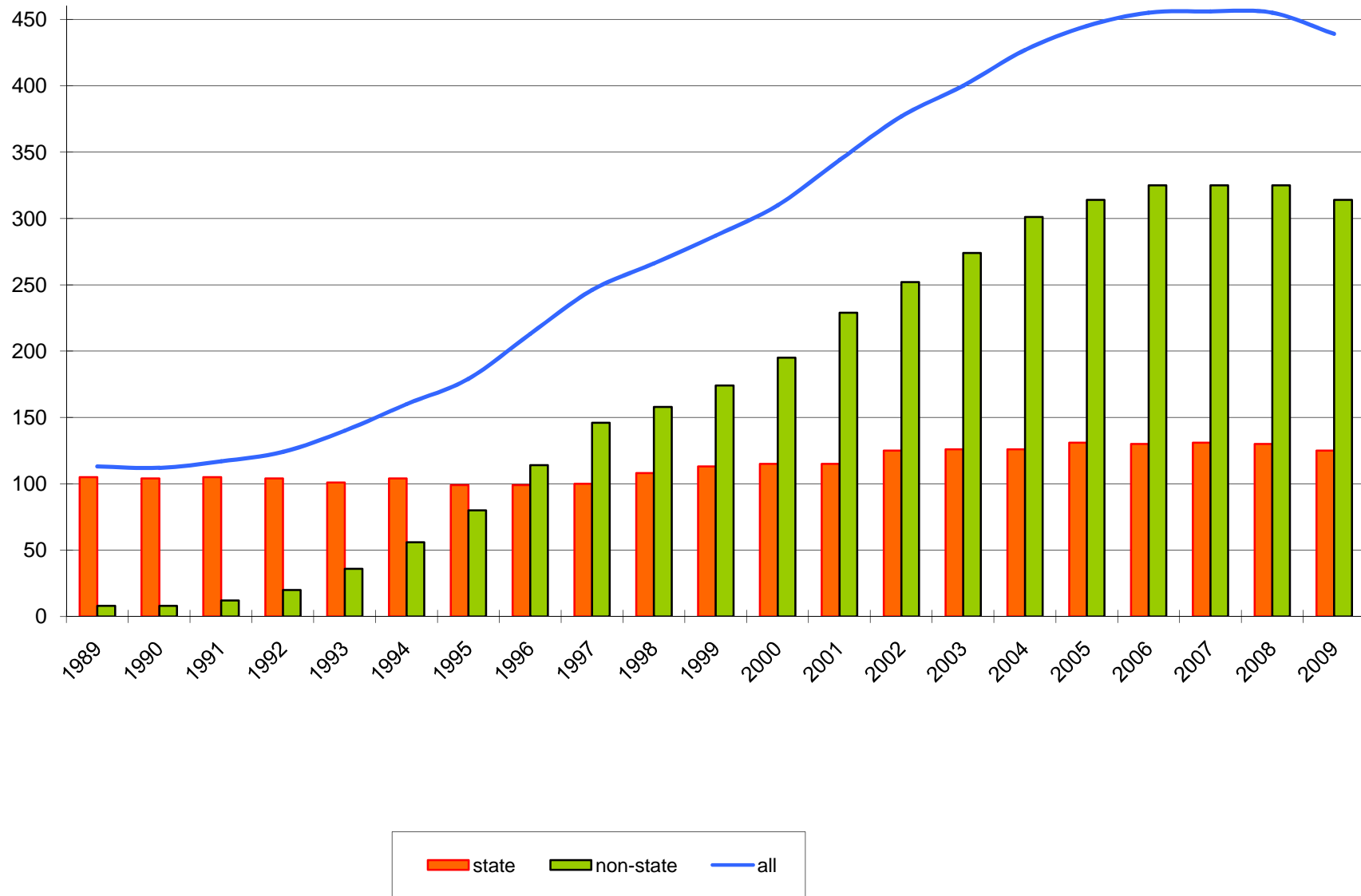
Trends in Polish sector of higher education

- Tremendous increase in the demand for higher education
- Liberalisation of higher education policy in 1990s:
 - Freedom of entry non-state HEIs
 - Principle: „what is legally not forbidden it is allowed”
 - Non-profit basis for non-state HEIs
- Commercialisation of higher education in state sector
- Rapid increase in number of
 - HEIs – by 288% in the years 1989/1990 – 2008/2009
 - Students – by 380% in the years 1990/1991 – 2007/2008

Trends in Polish sector of higher education

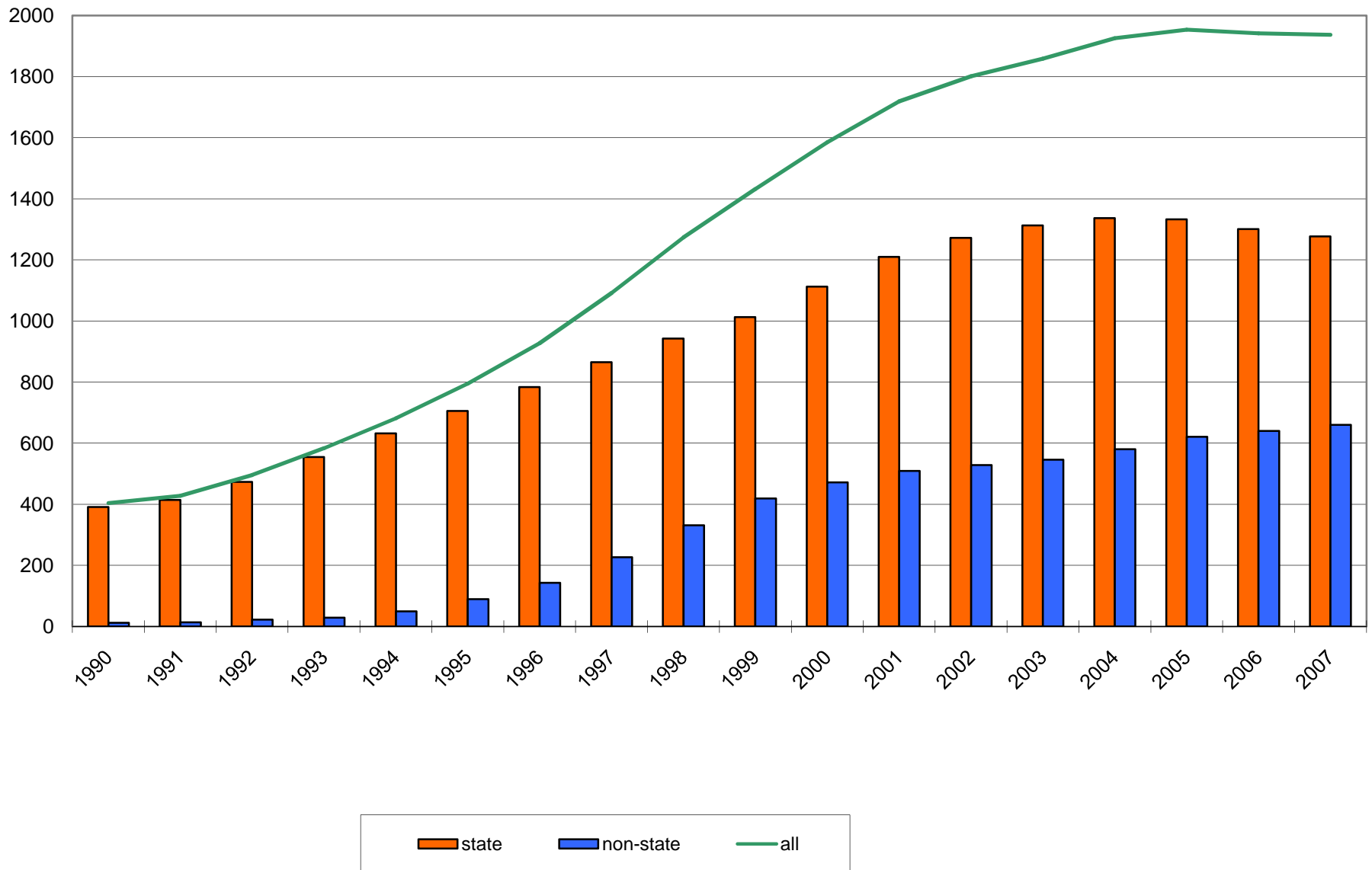
- Expansion of the private sector
 - Number of HEIs increase from 8 in 1989 to 325 in 2008
 - Number of students from to 12,4 thousand to over 660 thousand in 2007
- Adaptation to 3 cycles degree system
- Lack national, comprehensive, long-term strategy and coherent vision of the regulatory framework for higher education
 - deficient external quality assurance mechanisms in the 1990s
- Mismatch between graduates qualification structure and labour market needs

Tertiary institutions in state and non-state sectors

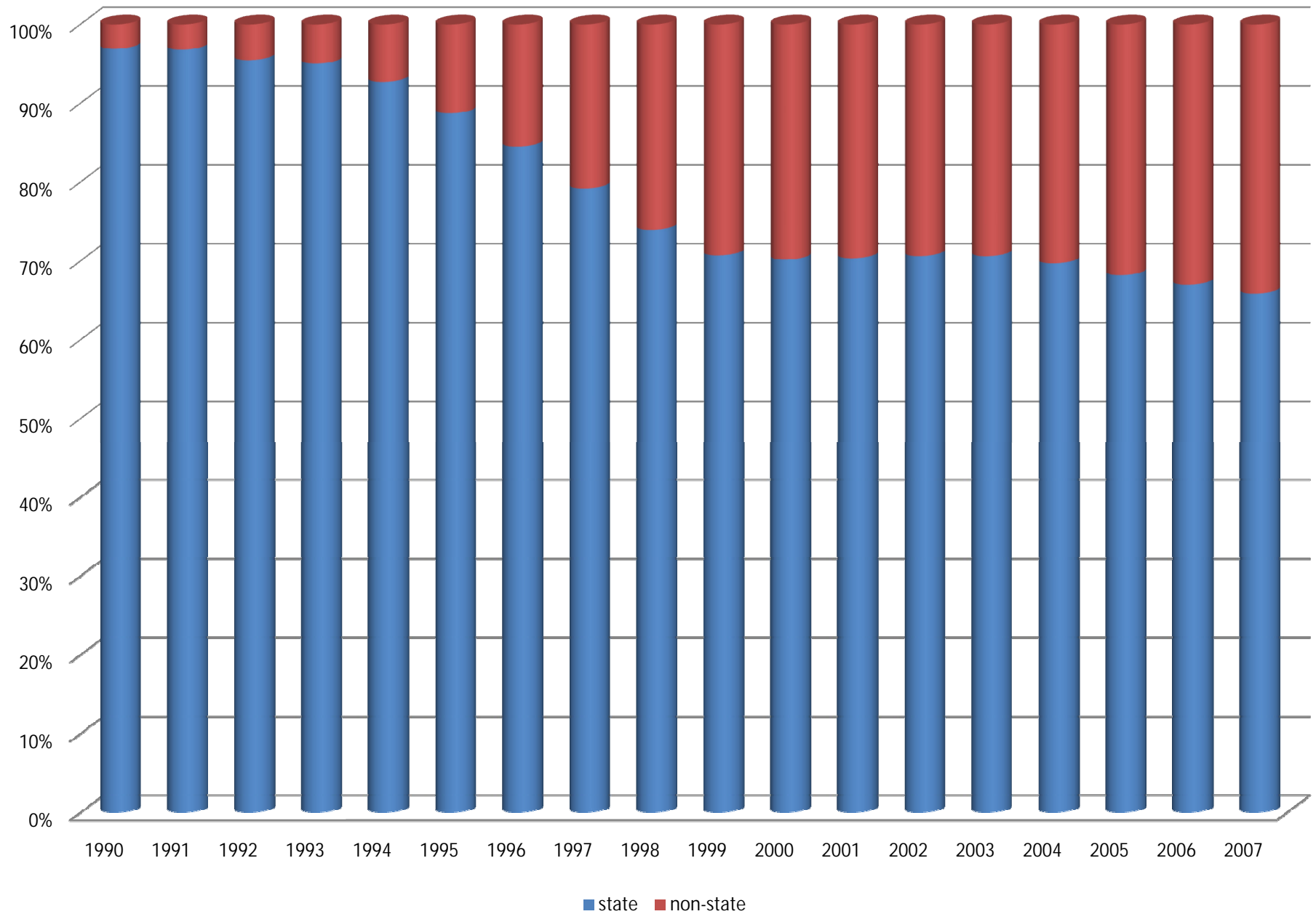




Students in state and non-state HEIs



Students in state and non-state HEIs, in percent



Market features of the Polish private tertiary sector

- Freedom of establishing HEI
- Low entry costs (low starting capital)
 - at least PLN 500 000 (ca. EUR 150 000) for the operations of the institution
- Large quantity of non-state providers
- Strong competition on local higher education markets
- No regulatory limits on the fees charged and the number of students enrolled or recruitment procedures
- Fees are main source of revenue
- Freedom and institutional autonomy in
 - internal governance,
 - employment, salaries and human resources policy
 - financial resources allocation.
- Effective competition – also by quality - of some HEIs with traditional university

Non-market features of the Polish private tertiary sector

- State regulatory constraints:
 - Ministry permission for the establishment of new HEIs and new branches of existing HEIs
 - Approval of HEIs statutes
 - State diplomas
 - Central „minimal” standards for a given field of study
 - Titles
 - Educational profiles of graduates,
 - Framework for curriculum contents,
 - Duration of degree programmes

Non-market features of the Polish private tertiary sector

- Requirements regarding the minimum core staff for each cycle
- Practical placements,
- Requirements for each form of study
- Power to withdraw permission or suspend program
- Regulation on internal quality assurance
 - student opinion questionnaires
 - periodical academic staff evaluations
 - ECTS

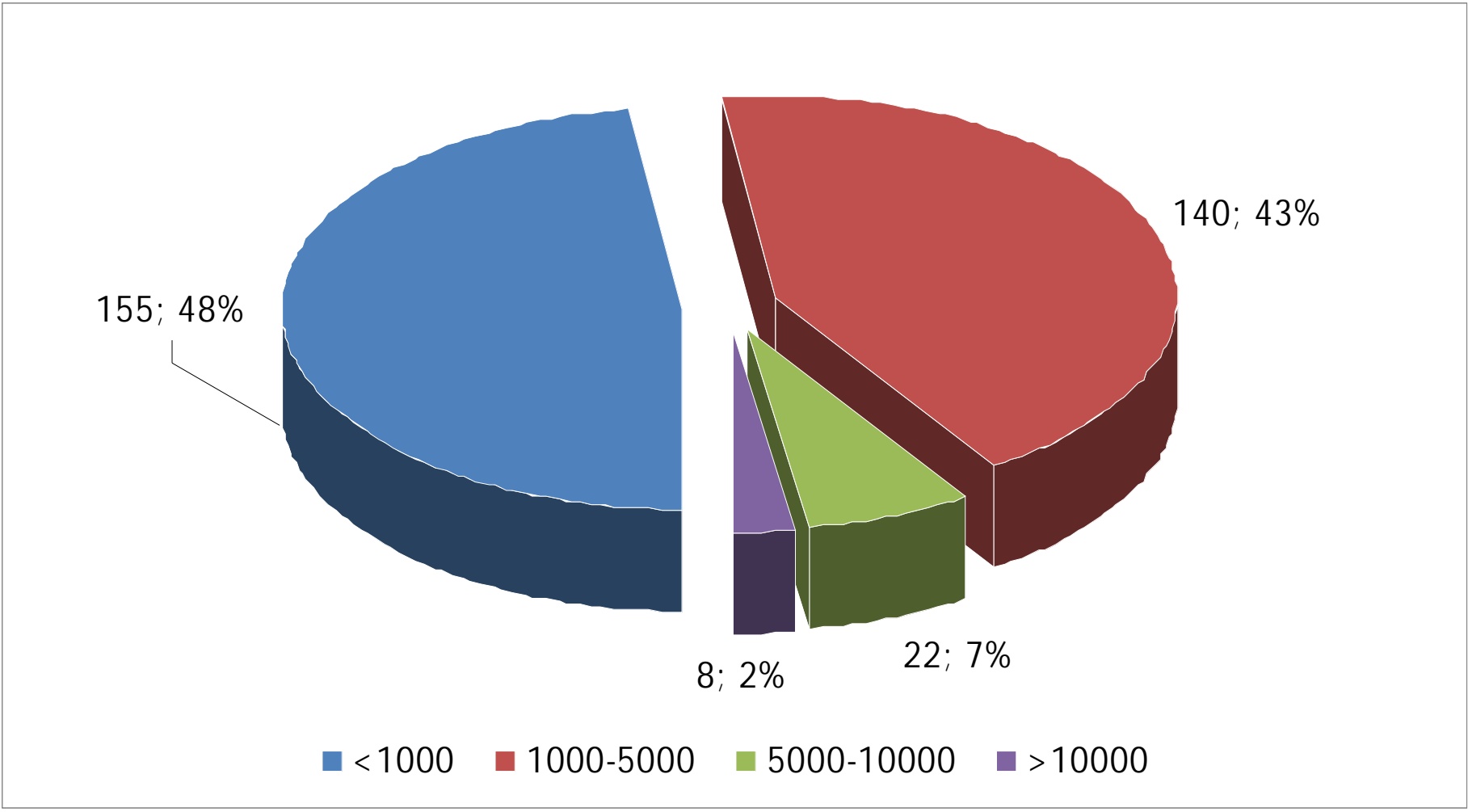
Malfunctions of the private sector

- Segmented market and limited competition between and within segments
 - Programmes name differentiation and intensive marketing as the main tool for building reputation of excellent school
 - Newspapers rankings (based on no verified information on inputs) as an indirect indicators of high quality and prestige
- Limited power of students on what and how to study
 - Domination of part-time students; the share of part-time students is about 80%! (37% in state HEIs)
 - Most students do not have knowledge, time and money to investigate the level of quality or even reputation of various programmes and schools
 - Also, limited value of institutional history as a base for students' choice
 - Weak system of students self-government

Malfunctions of the private sector

- Limited range of institutions – no fully-fledged universities
- Many small sized „teaching” type schools
 - 2006:
 - more than 60% of non-state HEIs provide education in one or two fields of study,
 - and only seven of them in ten or more.
 - small sector of high quality HEIs
 - for some students, non-state institutions are “second best” solution

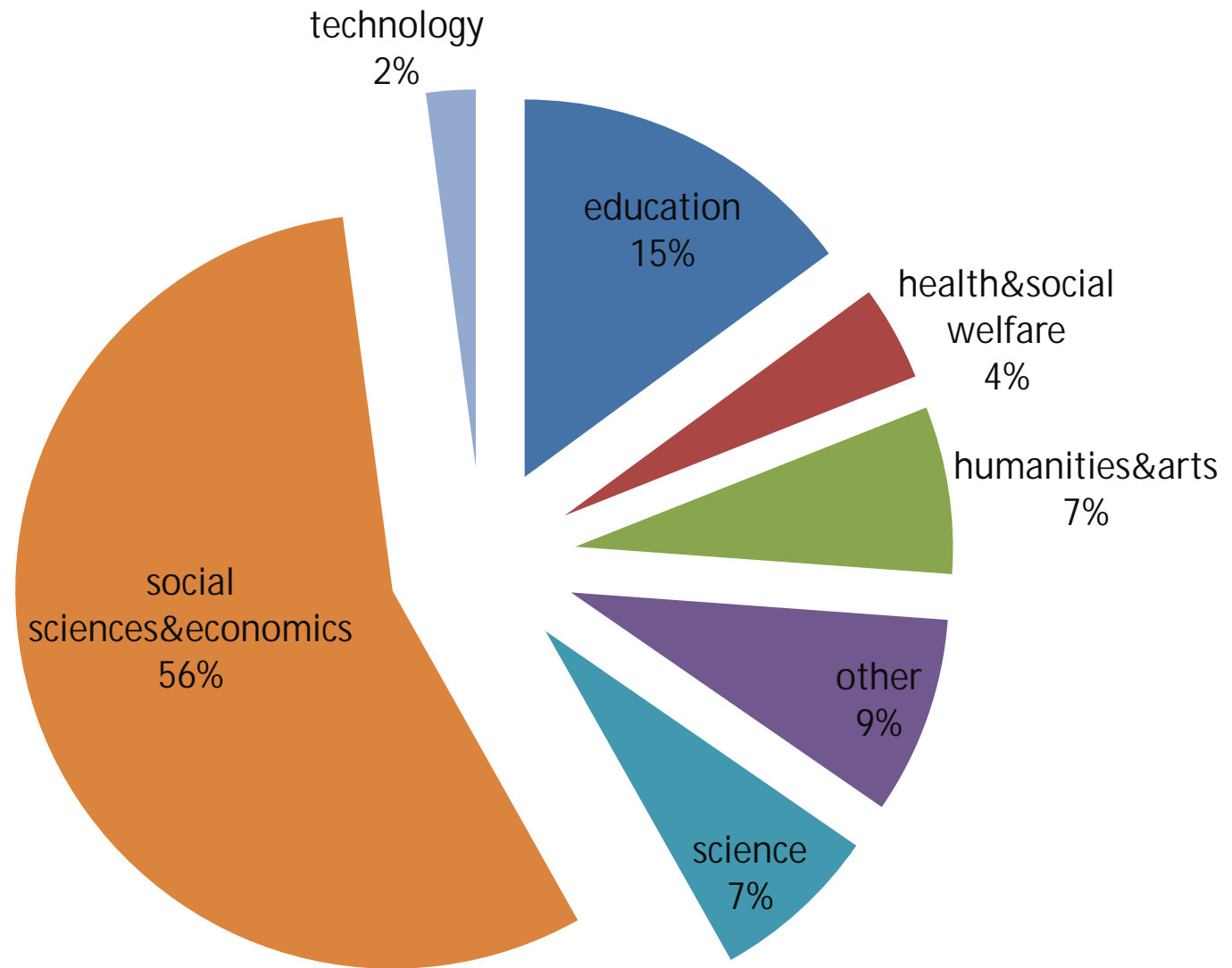
Distribution of non-state HEIs by their size



Malfunctions of the private sector

- Large differentiation in programmes, institutional structures, teaching staff, financial resources, research advancement and capacity for further development
- Focus on low-cost programmes
 - Economics and business sciences
 - Social sciences and humanities
 - Education
- Price discrimination
- Lack own academic staff - extensive use professors from state HEIs
- Possible de-skilling effect of some academic staff
- Erosion of traditional academic values

Distribution of students by fields of studies



Malfunctions of the private sector

- Grades inflation
- Gap between declared titles/aims of programmes and actually realized curricula
- Many HEIs developed „strategy of minimal standards” provision
- Low capacity and interest in research – pseudo-academic, inward oriented research activities
- On average state HEIs have better quality image than non-state HEIs
- Employment opportunities are better for state universities graduates

Malfunctions of the private sector

- In the 1990s stakeholders were not provided with objective, publicly available information about quality of education
- Alliances with low reputation foreign HEIs
- ‘Near’ diploma mills
- Public criticism of the low quality program providers
- Failures of peer review agencies to provide information on the quality of education programmes, especially those at the bottom of the quality ladder

Is Polish higher education a 'lemon' market?

- Yes, it was in the 1990s
- Market forces have not functioned properly because
 - asymmetry of information
 - weak and wrongly designed state regulatory system
- Deficient and not transparent system of quality assurance
 - only opinions on applications for the establishment of new HEIs, their organisational units and fields of study were issued
 - by Committee for Higher Vocational Education (KAWSZ) and applied to only to a dozen or so higher vocational schools that operated in the years 1997-2001
 - by General Council for Higher Education (RGSzW) in reference to other HEIs

2002 – new system of external evaluation of tertiary education

- Establishing PKA as the main independent quality assurance agency responsible for mandatory:
 - external evaluation of all programmes, offered in the first and second cycles by state and non-state HEIs
 - opinion on application on new programs and school establishment
- Standards and criteria of programmes assessment are set up by PKA
- PKA's decisions are far more binding for the minister responsible for higher education than it was with opinions given by KAWSZ and RGSW
- **All financial costs** related with the assessment of programmes evaluation and opinion on application are covered out of the state budget

PKA's impact on HEI's quality assurance systems

- Elimination of low-quality programmes providers
- Implementation (and formalisation) of main tools of modern quality assurance system at the HEIs such as
 - mission, strategy
 - learning outcomes approach in curricula designing, syllabi, diploma thesis and teaching strategy
 - student-oriented approach
 - ECTS
 - internal quality assurance systems
- Decreasing share of negative and conditional accreditation decisions in total number of accreditation decisions

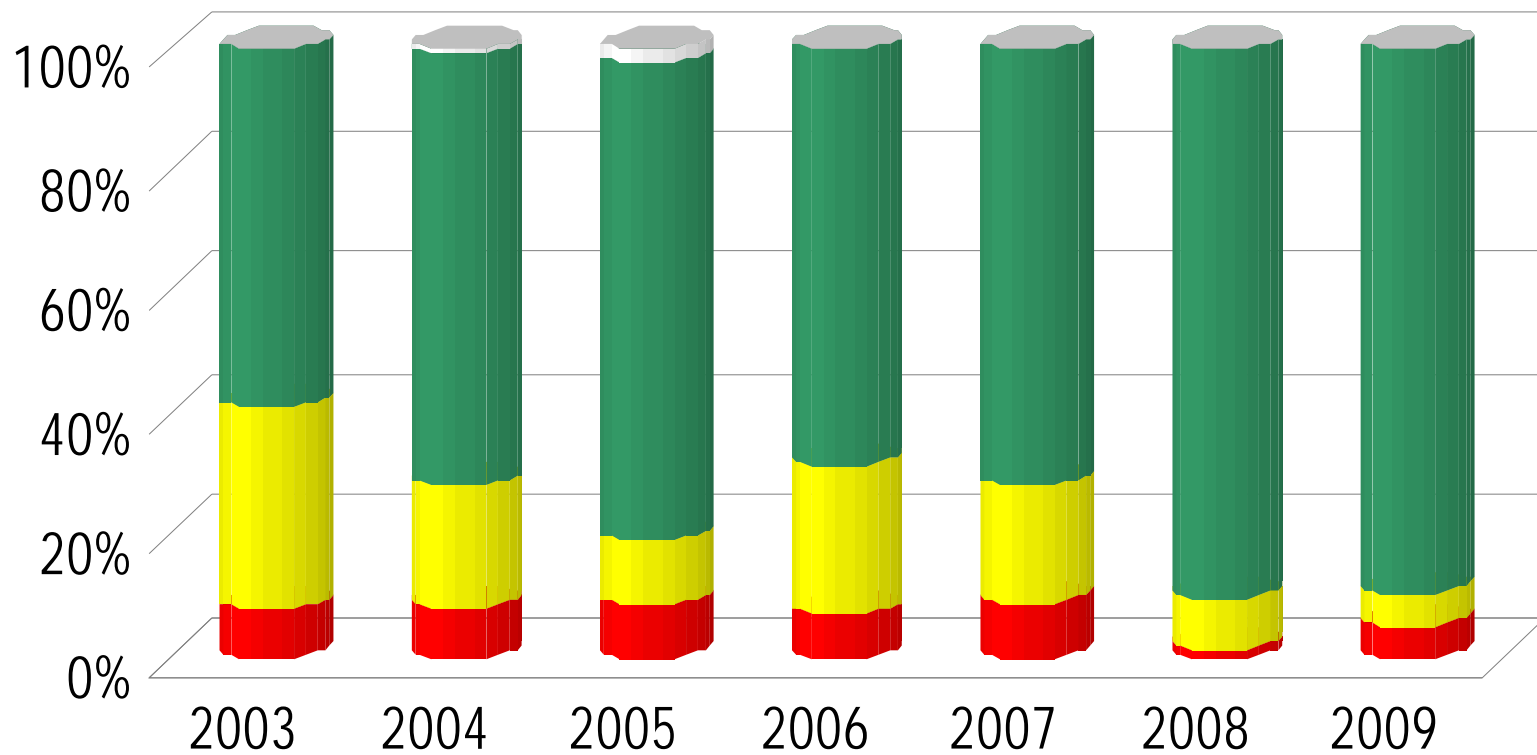
PKA's impact on HEIs quality assurance systems

- Positive changes in HEIs after conditional accreditation
- Positive response - in post-evaluation surveys - to the outcomes of the external evaluations in post-evaluation surveys
- Increasing number of top quality programmes (outstanding assessment)
- Changes in HEIs quality assurance policy
 - HEIs started to use positive assessments
 - to attract better applicants in enrollment process
 - and to build their reputation and public accountability
 - many HEIs took initiatives to develop matured internal quality assurance system to demonstrate that they are striving for excellence

PKA's impact on demand on higher education in private sector

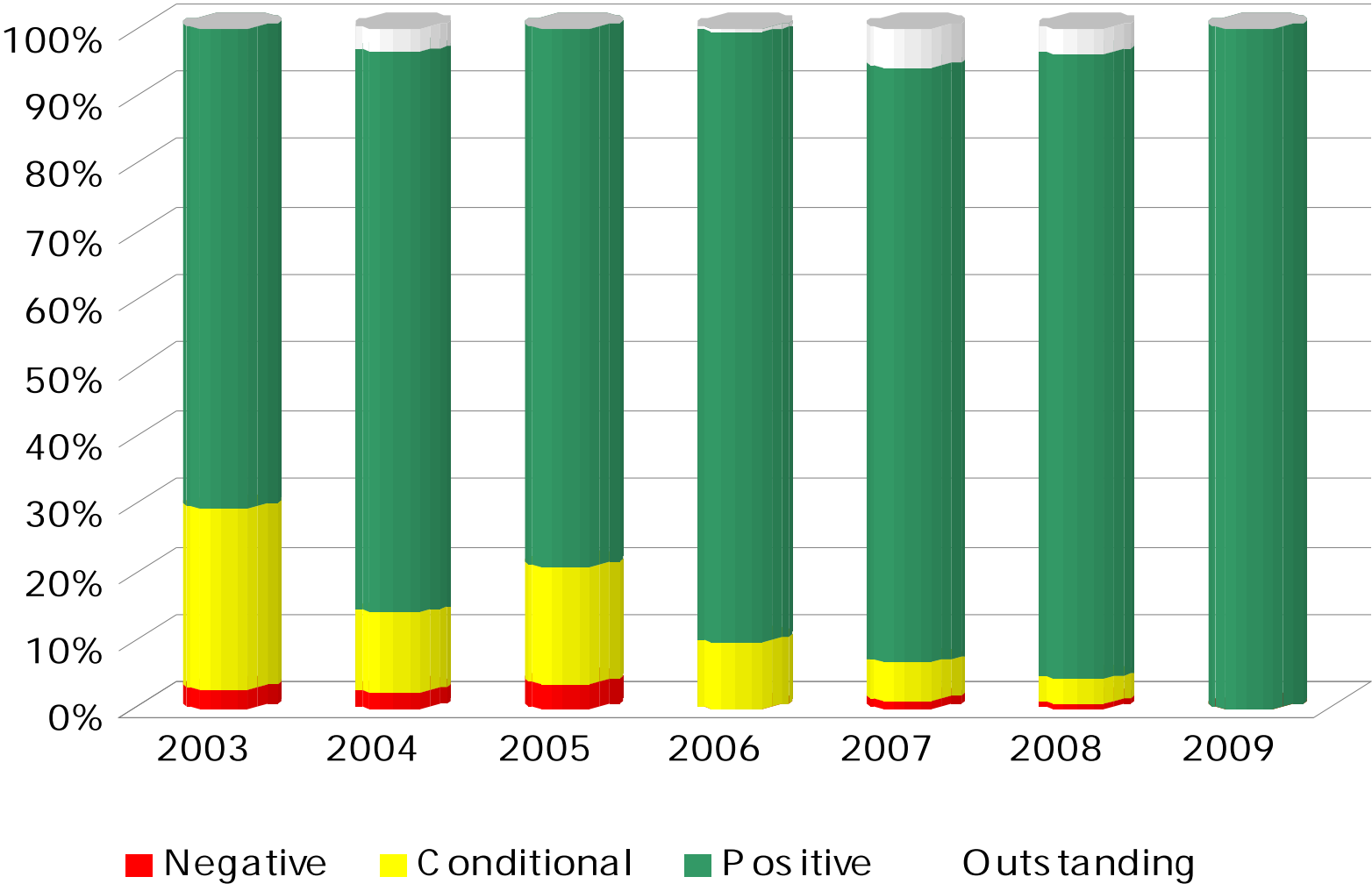
- Easy, equitable and public access to the PKA decision on evaluation of all (old and new) programmes offered at first and second cycles
- Differentiation of assessment scale (negative, conditional, positive, outstanding) – signal about differences in quality of assessed programmes
- Strengthening students voice in the quality assurance system
- Involvement of other stakeholders into external quality assurance process

Accreditation decisions in private sector, in %

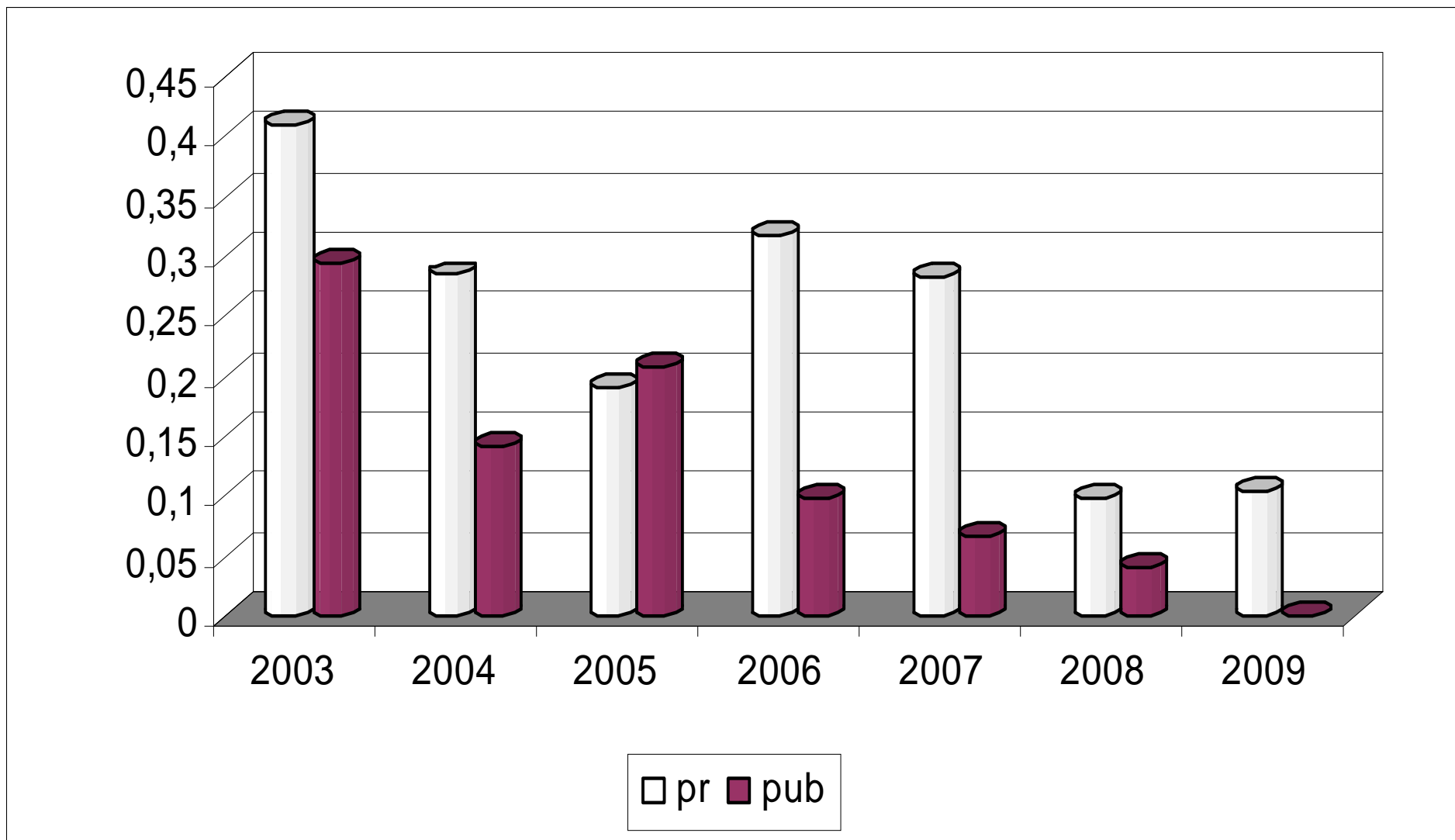


■ Negative ■ Conditional ■ Positive ■ Outstanding

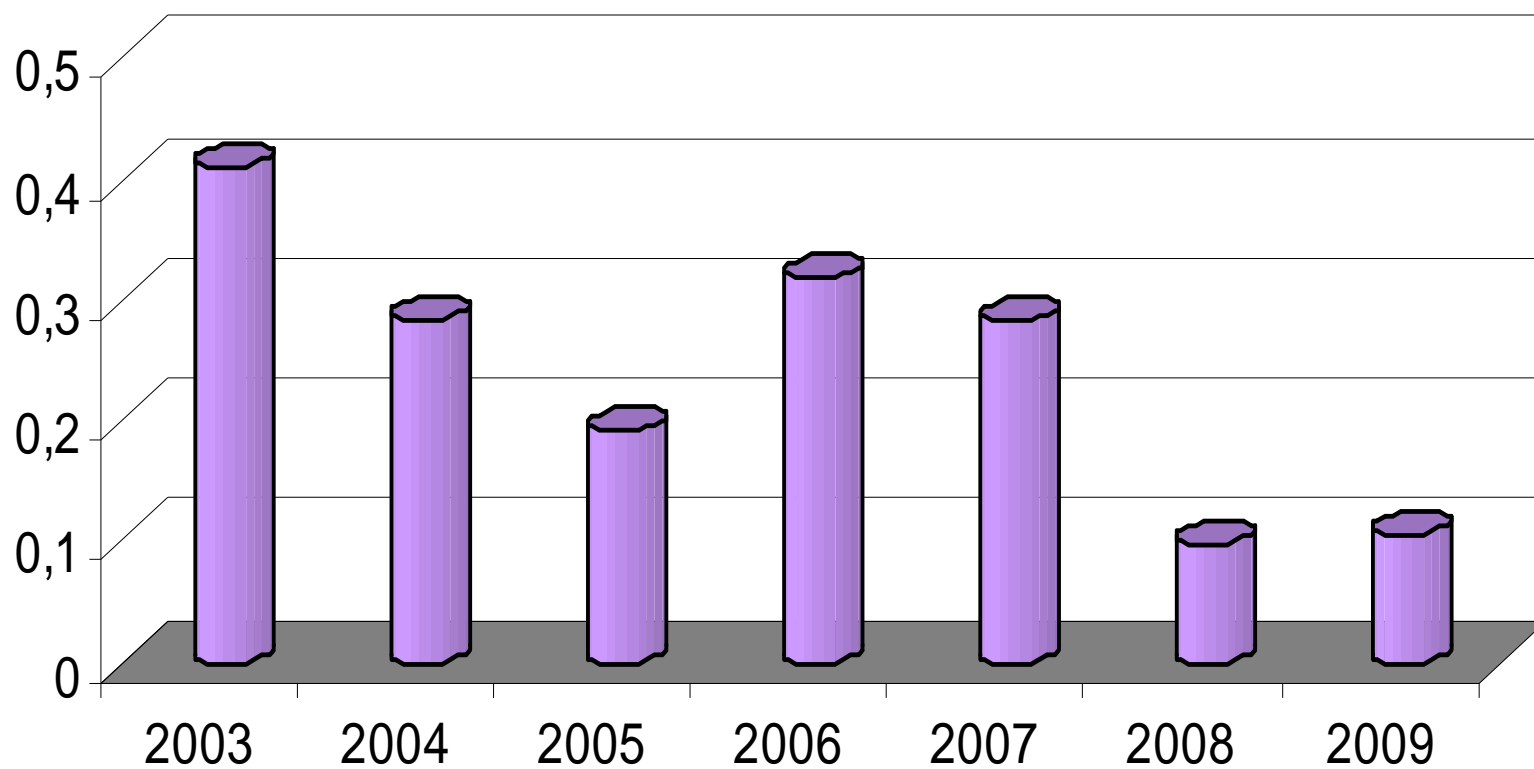
Accreditation decisions in public sector, in %



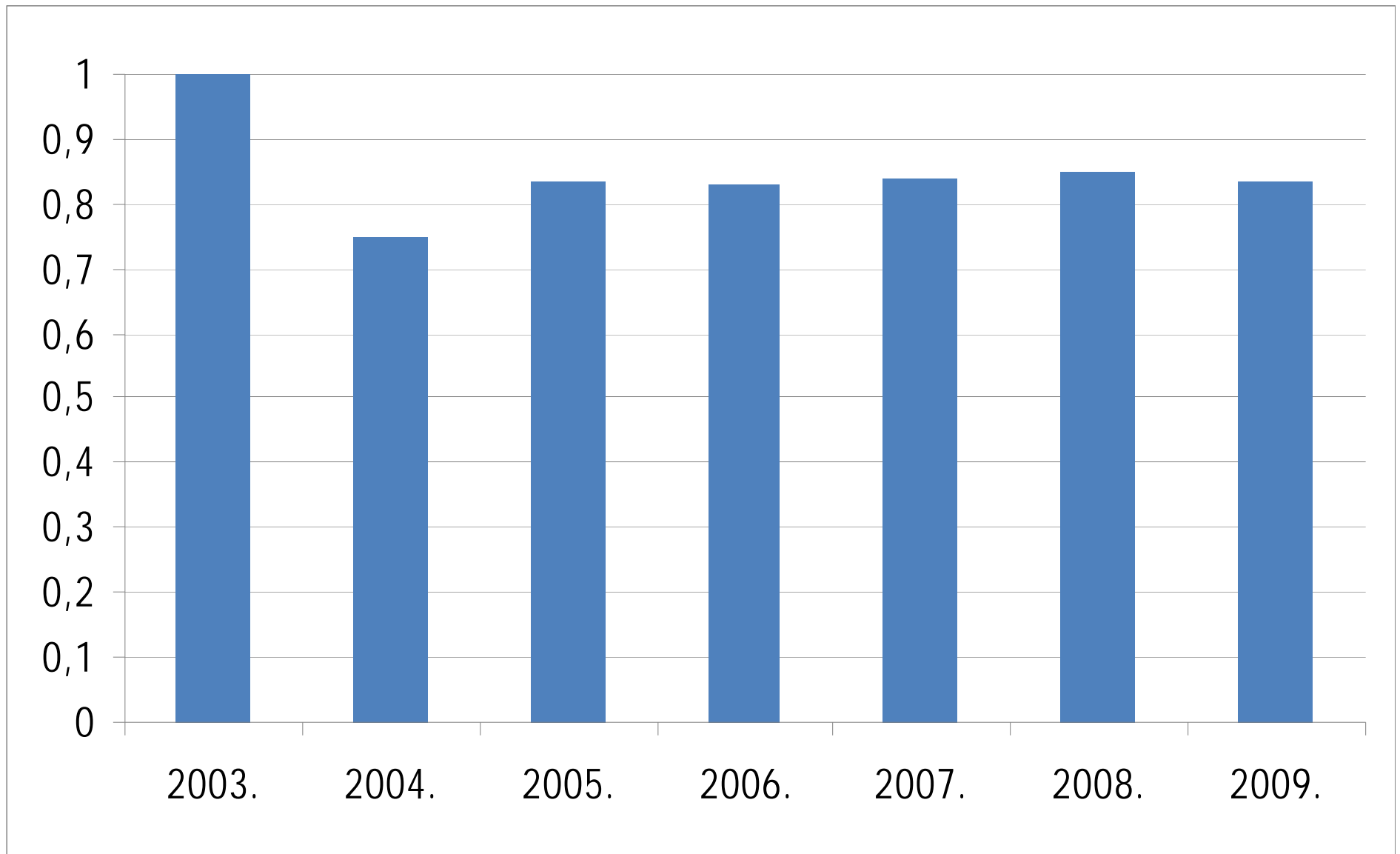
Negative and conditional decisions, in %



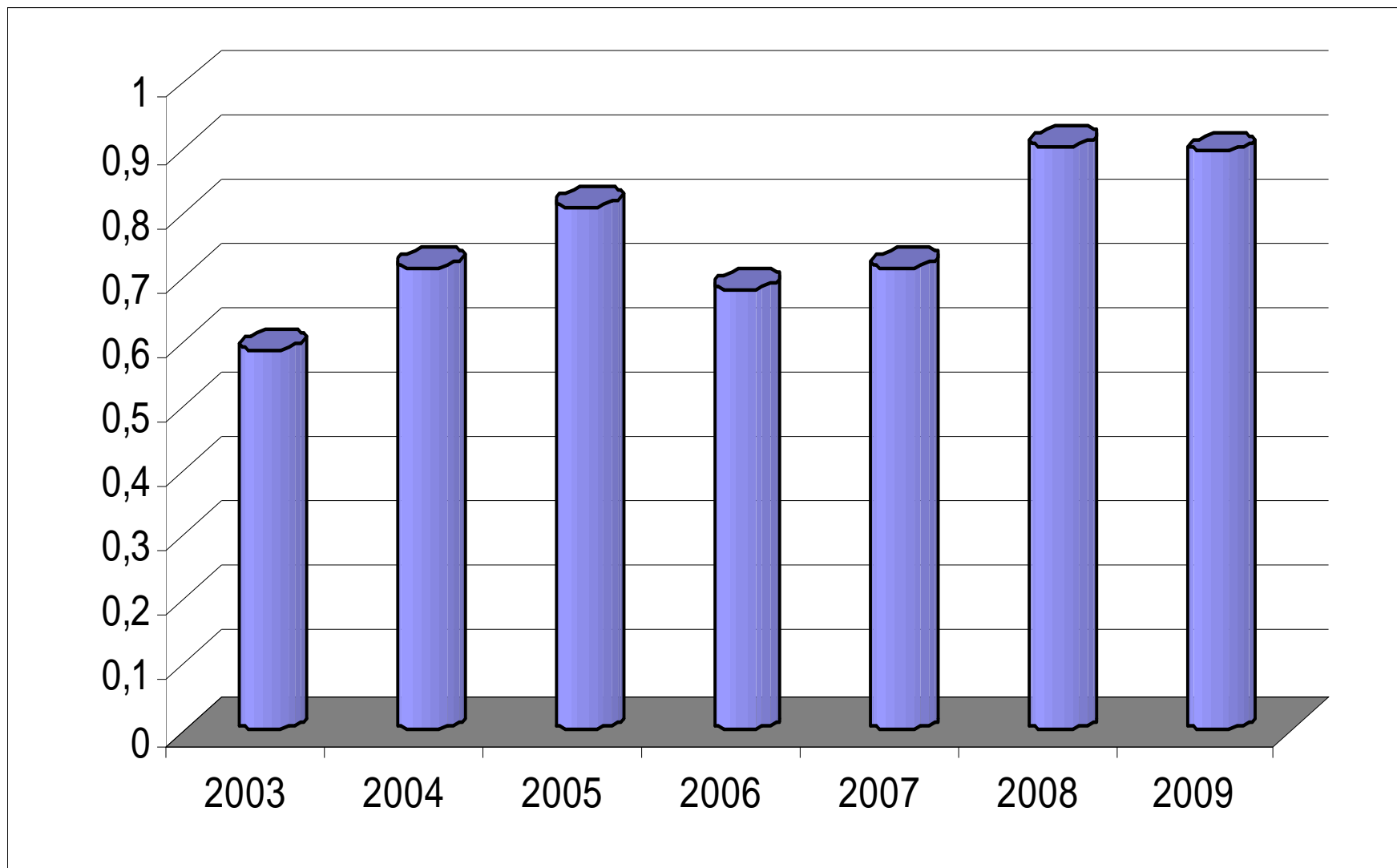
Negative and conditional decision in private sector, in %



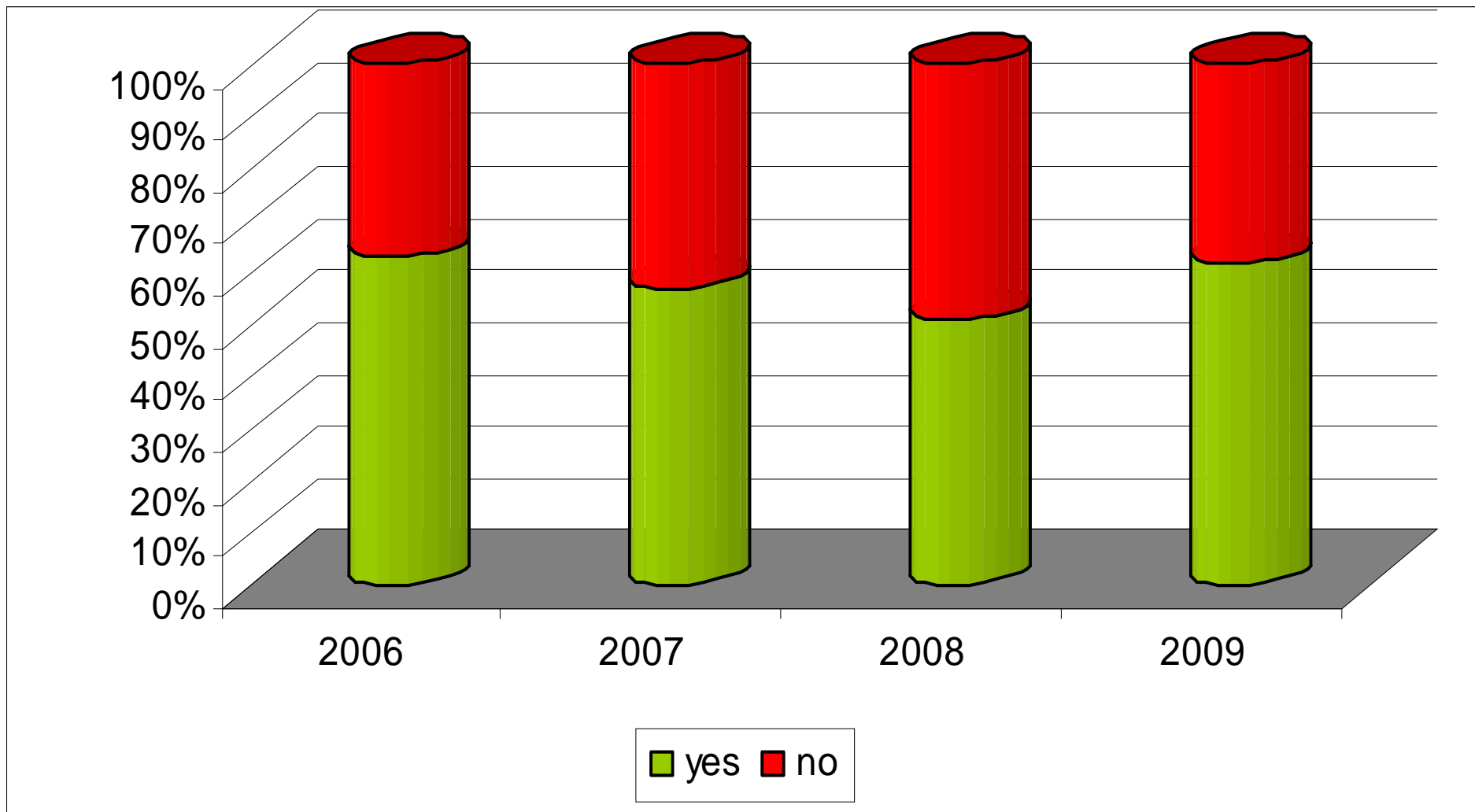
Share of positive assessments granted after conditional evaluation



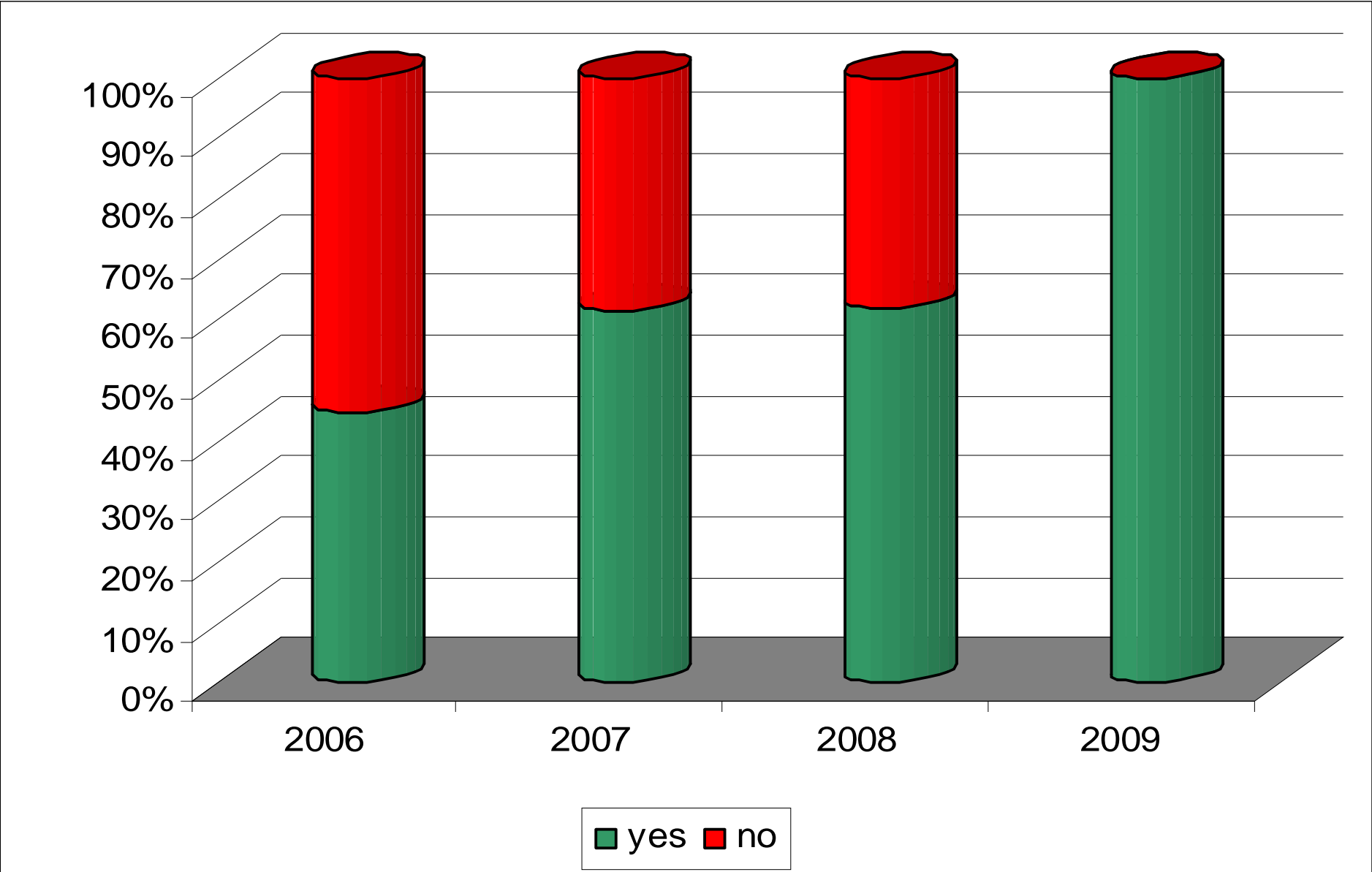
Positive and outstanding decisions in private sector, in %



Accreditation decisions on new programmes in private sector



Accreditation decisions on new programmes in public sector



Has the state accreditation reduced „lemon” markets in Polish non-state tertiary sector?

- perhaps yes...
- ...but we do not know exactly to what extent
 - short period of time
 - limited evidence
 - methodological constraints
- ensuring basic conditions for reducing asymmetry information
 - candidates for students are more secure seeking high quality programmes
 - students have incentive to invest more efforts to quality of their human capital

Has the state accreditation reduced „lemon” markets in Polish non-state tertiary sector?

- Effective enforcement of minimal quality standards and reducing pathologic behaviour in non-state sector
- HEIs are more motivated to develop quality culture
- External public accreditation is still needed, but the balance between HEI's autonomy (market forces) and state constraints should be work out in a new model of accreditation
- Need to focus more on institutional approach in the next cycle of evaluation

How to protect quality and diversity in market driven system?

- Roger Brown proposal (2009)
 - *A stronger regulatory system, with a proper system of institutional accreditation, closer peer review of qualification standards, and a stronger and more independent quality agency to protect academic judgments and promote academic professionalism*
- Demographic decline and globalisation implications are unclear
 - Opportunity to increase quality of education
 - Danger of race to the bottom and lowering quality of education



Thank you for your
attention

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