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Master Thesis

STEERING HIGHER EDUCATION TOWARDS THE NEEDS OF  
THE MODERN LABOUR MARKET IN RUSSIA:  
THE USE OF POLICY INSTRUMENTS

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## ACRONYMS and ABBREVIATIONS

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|         |                                                                               |
|---------|-------------------------------------------------------------------------------|
| HE      | Higher Education                                                              |
| HEI     | Higher education institution                                                  |
| FAE     | Federal Agency for Education (Rosobrazovanie)                                 |
| FASI    | Federal Agency for Science and Innovation (Rosnauka)                          |
| FESSS   | Federal Education and Science Supervision Service (Rosobrnadzor)              |
| FSIPPT  | Federal Service for Intellectual Property, Patents and Trademarks (Rospatent) |
| ETF     | European Training Foundation                                                  |
| Rosstat | Federal State Statistics Service                                              |
| RSPP    | Russian Union of Industrialists and Entrepreneurs                             |

## EXECUTIVE SUMMARY

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The shift from planned to market economy in Russia affected all systems, including the higher education. The former linear steering mechanisms (government – higher education institutions) have been changed and a new player (private employer) has been introduced to the market. The former higher education system provided a tight link with an employer, since all graduates were assigned to specific jobs depending on the field of their studies. The organizational change requires new policy instruments to be developed, thus sound and balanced governmental steering can ensure that the needs of the growing market economy are fulfilled. The central research question is state as follows:

*What are the policy instruments in Russian higher education that are developed by policy makers to meet the needs of the modern market economy in Russia?*

The problem is tackled by using Clark's (1983) triangle of coordination which describes higher education systems as being managed with three forces: state authority, market and academic oligarchy. Such an approach allows us to see the interaction between the state and the market in the current higher education system. Furthermore, we use Hood's (1983) classification of policy instruments (nodality (information); treasure (money); authority (legal official power); and organization) to examine the mechanisms by which government influences society.

The findings of our research indicate a new place of the higher education system in Russia on the state – market continuum. It is now moving away from strict governmental control and regulation; the actors manifest greater dependence on market exchange. More importantly, the use of policy instruments to monitor the complex environments has now been diversified. The needs of the modern employers so far have been poorly voiced, though the state facilitates a number of efforts to regulate the actions and incorporate employer's requirements into the higher education policy. The labour market indicates that certain policy changes are required to meet its raising needs.

Concluding our research we draw on our findings and evaluate the policy instruments that might improve the developments of the HE system and restrict or encourage market interactions, strengthen consumers' sovereignty and provide for better steering of the higher education policy towards the needs of the labour market in Russia. We also note that Russia is now establishing itself on the path of knowledge-based economy and the trends that are typical for the majority of OECD countries are becoming dominant.

## CHAPTER 1. INTRODUCTION

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Transition to market economy in the Russian Federation resulted in emergence of new market mechanisms and instruments, which are used by policy makers to regulate higher education policy. Changes in the form of government, opening up of private HEIs that provide wider range of services require the development of such an educational policy that will support the demands of modern economy and equip graduates with skills, knowledge and competencies that are required by employers.

At present, the development of HE policy becomes one of the critical governmental policy agenda issues. Global transition to a knowledge-based economy increases the importance of human capital. Nowadays, productivity and growth of a given country depends to a lower extent on the abundance of its natural resources and to a higher extent on the capacity to improve the quality of human capital (David and Foray, 2002).

Moreover, it can be stated that the importance of individual, uniquely Russian factors for changes observed in higher education system is gradually falling, as trends typical for the majority of countries in the developing world are becoming dominant (OECD, 2007). The results of transition to the big pan-European community and world education area as well as new democratic institutions and a market economy bring about the challenges that have been experienced by other European countries, namely the striving to meet the needs of the labour market with the help of well-grounded higher education policy. Thus, it becomes important to see the status of higher education policy in Russia and the existing instruments that are used by policy maker to accommodate the needs of the modern labour market.

We see it is now necessary to introduced to the reader how the research paper is organized. The paper consists of seven chapters. The introduction outlines the general topic for the research. Chapter 2 gives an insight into the higher education policy and the way transition from HEIs to work was managed in Soviet Russia. Key research questions are addressed, thus bringing to light the major research issues which will be further tackled in the paper. Chapter 3 speaks on the theoretical framework and outlines the scientific environment for the problem under consideration. It also describes the approach that is used to deal with the issue in question. Since the case of the Russian higher education system might be not so familiar for the reader, Chapter 4 brings clarity to the matter and provides an overview of the HE system in present-day Russia and general policy context regarding the state – market continuum. The following chapter is dedicated to the use of specific policy instruments that help to steer higher education towards the needs of the modern labour market. Chapter 6 provides a descriptive analysis of the graduates' employability and answers the question on the needs of the modern labour market. Hereafter, we reflect on the usefulness of the policy instruments and see what further adjustments may help to regulate the needs of the modern employer. Finally, the concluding chapter summarises our finding and gives suggestions for future research.

## CHAPTER 2. PROBLEM STATEMENT and RESEARCH QUESTIONS

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More than 15 years of structural reform, which affected all levels of economy, including the higher education system, led to changes in the management structure, decentralization, relative financial independence of HEIs, improved legal environment, etc. Until the 90-ties the Russian higher education system was managed purely by the state. The period of reform and the introduction of the market economy resulted in the emergence of private HEIs. Historically strong governmental role in the “production” of graduates has been partially replaced by market mechanisms. The former linear steering mechanisms (government – higher education institutions) have been changed and a new player (private employer) has been introduced to the market. So, how can the relationship between the state, the higher education system and the market can be viewed at present? Has the role of the government been diminished giving its authority to market forces? These are, among others, the questions, which will be answered in the research.

As a result, the transition period has brought to light a number of pressing problems, among which is the widening gap between the acquired skills and competencies of graduates and the skills required by the labour market, which many European scholars term a “mismatch”. First and foremost let us explain what is meant by the notion of the mismatch. The issue of mismatch between qualifications and educational levels of young graduates and the demands of labour market has been studied extensively in literature and can be summed up as “the relationship between higher education and employment as interpreted in terms of the extent to which the higher education sector provides graduates with the knowledge and skills to match employment needs (Allen & Weert, 2007). Modern scholars generally distinguish between vertical and horizontal mismatches. *Vertical mismatch* concerns a situation when individuals working in jobs for which either a higher or a lower level of education than they actually have, is required. *Horizontal mismatch* concerns individuals that work outside their initial field of education, which is also termed as over- or under education. (Garcia-Aracil & Van del Velden, 2006). Dutch scholars Allen and Van der Velden single out two types of mismatch, namely, between “actual and required education (*educational mismatch*) and between actual and required skills (*skills mismatch*)” (Allen & Weert, 2007). Our empirical research will provide a thorough analysis of the present situation in Russian and for now we will limit ourselves by providing a general outline.

It should be noted that the situation of diverging higher education policy and emerging needs of the labour market in the Russian Federation has been developing gradually starting from the beginning of 90-ties. The former higher education system ensured that all graduates were assigned to specific jobs depending on the field of their studies. The job assignment (“raspredelenie”) process worked as a secure mechanism and provided for employment of graduates and close cooperation with employers. Since former Soviet Union was generally a

one-employer market economy (all organizations and companies were public), it also guaranteed the match of skills and knowledge acquired by students and required by employers. The system was stable and efficient, though it was not faultless. It could not accommodate the requirements of young graduates, since it prevented them from choosing a preferred working place or an organization. The system of job assignment stopped working with the collapse of the Soviet Union and was followed by the introduction of open market mechanisms.

Market forces reshuffled the arrangement of power on the educational and labour markets giving more autonomy and entrepreneurship to players. Naoyuki Ogata et al. (2007) notice that steering relationship between governments and higher education has been under review throughout the Western world, in which countries witnessed a shift from central control towards deregulation and institutional autonomy. Marginson and Rhoades (2002) in their study of the impact of globalization on states, markets and systems of higher education note that much of the analytical focus and policy debate turns on the antinomies of nation-state regulation and higher education institutional and systemic autonomy, where systems of higher education are characterized in terms of a zero-sum balance of state and market control. And we are challenged to see whether this statement holds true to the case of Russia.

The first observations show that Russia's education system has been no exception. The recent process of liberal reform has been characterized by greater autonomy that was given to HEIs. The transition to market economy, similar to other East European countries, allowed for market mechanisms to be used in the overall management of HE system. New player – market – has come to play an important role in the management of the higher education system. However, the laws of the market economy can not be directly applied to the HE market. Market failures, externalities, information-related problems, monopoly and market power, and income redistribution and the merit good argument, can be the reasons for government intervention (Jongbloed, 2003). With this being said, government's position has come to play a crucial role in balancing HE policy with the needs of the labour market. Consequently, it becomes important to find out what are the policy instruments that are used by policy makers to steer higher education towards the employment needs of the labour market in Russia?

The recent findings of Vasiljev V.N. et al. (2007) prove that "structural economic changes in the society led to the changes in the employability of young professionals. Overproduction of graduates with higher education is at least 1,5 times larger than it is required by the labour market, though the quality of graduates satisfy only 83 % of companies", thus indicating a mismatch between the supply in the number and quality of young graduates.

Moreover, the findings of Bydanova (2006) indicate that the rise of employees with higher education attainment on the labour market did not result in the increase of workers with required skills and competencies. Strict educational standards do not accommodate the requirements of employers and students' abilities. Employers are not satisfied with young specialists and they still experience difficulties to find the personnel with a profile fitting to the



company's needs. Thus, we should give specific consideration to the needs of the modern employer see whether HE policy is changing to meet the employment needs.

Summarizing the above said we may now draw on the central research question and the sub research questions that will help us to answer it:

Central research question

What are the policy instruments in Russian higher education that are developed by policy makers to meet the needs of the modern market economy in Russia?

Sub-research questions:

How can the relationship between the state and the market be viewed?

How is higher education policy changing to meet the needs of the labour market?

What are the needs of the modern employer?

What can be said about the usefulness of the policy instruments?

### 3.1 THEORETICAL FRAMEWORK

In the previous chapter we have already outlined the way the issue has developed. This chapter describes how this problem has been conceptualized by other scholars. Consequently, to study the question on *the relationship between the state, the market*, we intend to make use of classical Clark's "triangle of coordination" (1983) which describes higher education systems as being managed with the three forces: state authority, market and academic oligarchy. First of all, HE systems vary widely between dependence on authority and dependence on exchange, where "the more loosely joined the system the greater the dependence on exchange" (Clark, 1983). The relationship between the state and the market are viewed on a continuum ranging from a unified state administration on one end to the social choice and market-system interactions - on the other. Thus, moving along this continuum the higher education systems are described as "one of decreasing state-system inclusiveness and of increasing market-type interactions" (ibid.). Though, the analysis of the HE systems in various countries shows that the existence of the state and the market does not necessarily exclude each other, i.e. results in a zero-sum balance. Marginson (2007) argues that HE services that are produced by HEIs with public, private or mixed ownership represent a variable mix of public and private goods, where it becomes difficult to draw the line between the two. And markets in the higher education suggest the need to policies designed to enhance those public goods that markets create, and to compensate for those public goods that markets tend to suppress (ibid.).

Likewise, Ben Jongbloed (2003) speaks on the non-existence of a truly "free market" in HE [due to the existing market failures] and the question is how these market failures (such as externalities, information-related problems, monopoly and market power, income redistribution and the merit good) can be corrected through a cleverly designed balance of government regulation, price signals, monitoring instruments, quality assurance policies, and so on. He stresses that the "new paradigm of governance" is to act as a warrantee to remedy the market failures, which inevitably occur on the market (ibid.).

Consequently, balanced steering of HE system much depends on the use of policy instruments. By policy instruments we mean instruments as defined by Hood (1983), who claims that nodality (information); treasure (money); authority (legal official power); and organization are fundamental mechanisms by which government influences society. Gornitzka (1999) further details it writing that "nodality refers to the central position of government in societal communications and its ability to 'send out' information which it judges to be necessary or relevant. Authority refers to the ability of governments to issue binding laws, i.e. to formally restrict the behavior of the targeted subjects. Treasure refers to government control of money and other resources. Organization refers to the public bureaucracy and its ability to implement

programmes, and to monitor environments. We believe that the concept developed by Hood is appropriate to study the question on *what kind of instruments are used by policy makers to meet the needs of the labour market in Russia and how are they changing.*

The choice of Hood's (1983) categorization of governmental tools can be explained in the following manner. First of all, making the inventory of governmental tools means deducing the governmental HE policy in smaller parts, which will help us to see the complex-looking matter in quite a different light. Hood's arguments holds true thus far when he speaks on the environments that the government has to deal with, have become more complex, since it is influenced by a greater variety of factors. For much the same reason, the instruments have inevitably become more complex. Looking at the government as a set of basic tools, that are endlessly repeated in varying mixes, emphases and context, the problem in question will become easier to understand (Hood, 1983).

In much the same manner as Hood did it in his work, we explore the instruments used by government to deal with the issues of nodality, treasure, authority and organization. Through his lenses we are able to identify whether the instruments are used efficiently and actually tackle the problem described above.

The third step in our research paper is to evaluate the employment needs of the labour market. We use Spence's (1973) conceptualization on signals, which perfectly explains the way an employers makes his/ her choice on the labour market.

In the search of perfect equilibrium education is a signal, among others, that helps to resolve the issue of fitness to work, i.e. allocate the right person to the right jobs. The signaling theory developed by Spence (1973) says that an employer when hiring an individual can not be sure about his/ her productive capabilities, in his words "purchasing a lottery". He believes that "the employer requires (and the individual transmits) information about employee' capabilities. The job applicant on the labour market presents certain indices (non-alterable characteristics, like sex and age) and signals (alterable characteristics, like education and former working experience), which are to be regarded as parameters that will define the choice of an employer. In such a setting Spence defines signals and indices "as parameters in shifting conditional probability distributions that define an employer's beliefs". Indices, such as sex, age, nationality can not be altered or improved. Signals are alterable and therefore potentially subject to manipulation by the job applicant (Spence, 1973). The needs of employers are to be regarded as signals indicating the employment needs of modern market economy (Teichler, 1999). Consequently, the signals should be identified and considered by policy makers and politicians, while drafting and reforming national HE policy.

Moreover, the issue in question can not be treated as such and as Psacharopoulos (1980) notices other adverse social symptoms that pertain to the relationship between education and work should be considered, such as: the shortage of personnel with specific skills; the declining economic value of educational qualifications; the credentialism used in hiring.

Thus, with the help of the signaling theory and keeping in mind Psacharopoulos's assumptions we intend to explore the question of the needs of the modern employer.

And finally, we are to reflect how the employment needs of the modern labour market can be met by policy makers while drafting HE policy.

In our research we are guided by a great body of knowledge which has been developed by Russian and European scholars. More specifically we should speak on this in the following chapter.

### 3.2 METHODOLOGY

This chapter describes how the data has been collected and what sources of information are used, that help us to answer the outlined questions.

At first we will use the exploratory approach, i.e. find out what other researchers have written about the topic. Furthermore, by the way our study develops we will use both descriptive and explanatory tactics (Babbie, 2007). Taking advantage of several research methods will enrich our study and allow to see the problem at full.

Generally, the paper can be divided into two major parts, the theoretical framework and the empirical findings. The great body of theoretical knowledge has been accumulated by Western scholars (see for example, Arthur L., Brennan J., Garcia-Aracil, A. & Van der Velden R., etc.) and is reflected in the *theoretical framework*. It is further complemented by the study of official policy documents and reports prepared by international organizations such as OECD (2007), UNDP (2004) and Russian and European experts, for example, the White Book on the development of education in the Russian Federation (2000), the research by Klyachko (2007) and Bydanova (2006).

It should be noted that, in spite of the on-going public debate about the growing concern for skills and educational mismatch, and the transition from HE to labour market, until now no rigorous research on the issue in question has been performed in Russia.

Furthermore, the data for the empirical part of the research will be based on the on-going monitoring programme that is done by the State University – Higher School of Economics on behalf of Ministry of Education and Science of the Russian Federation. The monitoring programme was initiated in 2005 and is aimed at 1) analyzing the cooperation mechanisms between companies and education institutions; 2) identifying employers' signals (working experience, personal qualities, age, etc.); 3) studying labour market conditions in terms of manpower supply-demand balance; 4) studying employment practices, especially employment of young graduates of higher education institutions. A number of interviews were held, which became the basis for a series of bulletins officially published. The data selection for the monitoring programme concerned 1000 enterprises in 52 regions of the Russian Federation. The enterprises were assigned to six different fields, namely, oil & gas; mechanical

engineering; consumer industry; food-processing industry; telecommunications (excluding post); construction; trade (wholesale and retail); transportation; service provision (including marketing, advertising, consulting, engineering, IT). Certain limitations were used, such as: in consumer and food-processing industries as well as construction and transportations the number of employees in enterprises had to be at least 50, in trade, telecommunications and service provision – at least 10 employees. For each of the different fields there were approximately 166 – 167 enterprises interviewed. One more session was held in the year 2006, where the same enterprises were interviewed. In cases when it was impossible to establish the contacts with an enterprise (236 enterprises failed to cooperate), similar type of enterprises filled in their places. It should be noted that the above mentioned limitations were preserved for a survey to stay representative. For the next year the structure of an interview was not changed either, and one representative, mainly the head or his/ her deputy familiar with economic and HR development issues became a respondent. This approach allowed obtaining and calculating the average value for each of the fields presented<sup>1</sup>. The enterprises were categorized as “small”, “average”, “large”, “the largest”. Unfortunately, no description as to the principles of this categorization is provided. Moreover, we believe that it would be much more useful to interview HR specialists in each enterprise, since the goals outlined by the monitoring programme lay in the field of their professional interest and responsibility. Such an approach would make this survey much more representative and valuable in terms of obtained results. Though, keeping in mind the novelty of this issue and the limited budget, we still believe that the results of this monitoring programme are of great importance.

Thereby, the results of the monitoring programme will be used for the empirical part of the research, testing our assumptions regarding the state – market interaction, the cooperation activities between HEIs and companies, and the employment needs of modern employers.

General statistical information is sources through official statistical body – Rosstat, which accumulates data on issues such as number and type of higher education institutions, number and type of studies, total number of students, etc.

We would like to stress once again that despite the debates going on around the topic in question, Russian scholars are still in the beginning of the process of operationalization of the problem. Most of the studies concern the very first step, the description of the problem. It is only last four years that the monitoring activities on education system in Russia have been undertaken. Contrary to the Russian scholars, their European counterparts have been studying the problem of transition from HIEs to labour market for about last 20 years. Much research and conceptualization have been borrowed to identify and explain the issues in question.

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<sup>1</sup> For detailed description of monitoring programme, please see Monitoring ekonomiki obrazovanija (2007) : Spros na rabochuju silu. Informatsionnyi bulletenij, No 2 (25), Moskva, Gosudarstvennij Universitet – Vyshaja Shkola Ekonomiki, 2007. (Economics of education: monitoring report. Labour market demands. Bulletin, No 2 (25), Moscow, State University – Higher School of Economics).

Thus, the great challenge of this work is to shed light on the issue of steering HE policy towards the needs of the labour market and see whether the rationale, used by European scholars can be applied in the context of the Russian Federation. We intend to perform a research on the basis of available information. However, we realize that we are only able to make a general outline for future studies and to point the areas, where specific attention has to be paid. Furthermore, we are fully aware that our conceptualization is quite subjective, since we lack the possibility to confirm the findings with question-specific field research, which, no doubt, would enrich and give more ground to speak authoritatively on the issue. The empirical data that has been collected by other researchers only allows us to unveil the study area and make some preliminary conclusions.

It becomes now important to review the relationship between the state and the market and see how they changed over the period of reform. First and foremost, we will explain a new institutional structure of HE system, types of HEIs, degrees obtained, thus the reader understands the environment where HE system in Russia has to operate. We note that we do not want to diminish the role of professional academia in the overall process of HE policy making, however, as the main topic of our research is concerned with the regulation of qualified labour force supply to the labour market, we are bound to pay more attention to the role of the market. Further, we will look into the vectors of HE system policy development. Moreover, we will see whether or not the present state – market interaction presents a zero-some basis or it is a mixture of both, where the state and the market complement and enrich the actions of each other. However, first and foremost, let us have an overview of the HE system in Russia. In the paper, HEIs will be referred either as public or private. In instances where no specification is made, we imply that it refers to both public and private HEIs.

### 4.1 HIGHER EDUCATION SYSTEM IN RUSSIA

At present the HE system in Russia consists of national educational standards and educational programmes, licensed HEIs (private and public), management bodies and associated scientific and research organizations, public and semi-public organizations<sup>2</sup>.

The system presents a three-layer structure of management bodies: the federal, the regional (subjects of the Russian federation) and local (municipalities). The regional and municipal authorities in the subjects of the Russian Federation have established higher education departments, which are responsible for the coordination of their activities.

The overall management is performed by the Ministry of Education and Science (MSE), which is responsible for policy making, while the supervision, monitoring and implementation functions are transferred to corresponding functional agencies, namely: the Federal Agency for Education (Rosobrazovanie), the Federal Agency for Science and Innovation (Rosnauka), the Federal Education and Science Supervision Service (Rosobrnadzor), and Federal Service for Intellectual Property, Patents and Trademarks (Rospatent)<sup>3</sup>.

Public and private HEIs are regulated by federal authorities concerning the licensing of HE programmes and educational standards, general operating conditions and financial activities, i.e. federal authorities perform functional management.

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<sup>2</sup> The Law No. 125 on "On Higher and Postgraduate Professional Education", as of August 22, 1996, with amendments.

<sup>3</sup> FEA coordinates the financing of public HEIs, deals with general organizational issues, and ensures quality of teaching staff. FESSS supervises the implementation of legislation; education quality control; licensing, attestation and accreditation of education institutions and research organizations; resolution of issues related to the recognition of education diplomas. FSIPPT regulates the issues concerning intellectual property rights and performs control and management of research and development.

In the Russian Federation higher education is included in the system of post-secondary education ("systema professionalnogo obrazovanija")<sup>4</sup>. In comparison, according to International Standard Classification of Education higher education system is classified as tertiary education covering 5A level<sup>5</sup>.

Universities, academies and institutes constitute the types of higher education institutions. Vocational education, such as provided by specialized technical schools and colleges, is not included in the higher education system. Universities normally offer a wide range of educational programmes in numerous fields of study that are combined with fundamental research work. Moreover, there exist more specialized types of universities, which offer programmes in technical, pedagogical, scientific fields. Academies represent an institution, which combines research work and specialization in one major field of science, technology or culture. Institutes are mainly focused in preparing specialists for certain industries, thus initially having very narrow specializations, i.e. forestry, natural resources, oil and gas, etc.

Due to the large geographic scale HEIs or its faculties may have branches in other parts of the Russian Federation, which is, as Bydanova (2006) notices it, "helps to move institutions to students and to possible future employers of the graduates". Admittance to a public higher education institution is based on a stringent competition procedure and similar, for example, to Japan HE system, the assessment criteria during the course are relatively lax, so the dropout ration and the graduation ration are considered low (Ogata et al., 2007). Yet at the same time, low level of credibility as to whether the entrance exams ensure creativity and repeated cases of corrupt practices urged the state to introduce new methods of screening examinations, namely, the uniform state exam<sup>6</sup> (Glazychev et al., 2005). Private HEIs also admit students on the basis of the results of exams; however, the competition is usually not so high.

For the academic year 2007/ 2008<sup>7</sup> there are 1108 HEIs with 7 460,000 students enrolled. Table 1<sup>8</sup> shows the number of students enrolled into public and private HEIs with further split-up into types of programmes.

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<sup>4</sup> Two other types of post-secondary education have vocational character. These are initial (basic) vocational education, which is represented by specialized technical schools ("professionalno-technicheskoe uchilische"), and secondary professional education, which is provided by colleges and technical schools ("tekhnikum").

<sup>5</sup> According to International Standard Classification of Education (ISCE) tertiary education covers three levels: secondary professional education, higher professional education and postgraduate and postdoctoral studies.

<sup>6</sup> The uniform state exam represents a paper test on a number of topics, such as mathematics, literature, Russian language, chemistry, etc. and school-leavers have to see for it. However, it should be noted that this method of screening is going through the process of validation, but it to become a fully operation procedure starting from 2009.

<sup>7</sup> Rosstat, 2008.

<sup>8</sup> Ibid.



Table 1. Number of HEIs and types of programmes, academic year 2007/ 2008.

|                                                        | Public     | Private    |
|--------------------------------------------------------|------------|------------|
| Number of higher education institutions                | 658        | 450        |
| Number of students studying (in thousands), including: | 6 208, 000 | 1 252, 000 |
| Full-time students (intramural)                        | 3 241, 000 | 331,000    |
| Part-time students (extramural)                        | 2 532,000  | 835,000    |
| Evening students                                       | 280,000    | 72,000     |
| "Externat" students (distance learning)                | 155,000    | 14,000     |

Here we draw attention to the type of programmes, since as UNDP report (2004) shows it makes a significant impact on the functioning of labour market. Specifically, students attending part-time or externat studies (i.e. they sit exams to receive a qualification without following the relevant courses) combine their studies with work or, at least, are available on the labour market. We will get back to this argument in Chapter 6.

Rapid growth of private HEIs starting from the beginning of the 90-ties showed that it provides 40 % of all educational services<sup>9</sup>. Though the private sector in the education system is relatively large (40 %), only 17 % of the total number of students choose to study there (Rosstat, 2008).

Since September 2003 Russia has joined the Bologna Convention on Education, which resulted in the review of the legislation and establishing two-tier system of HE. However, the old system of awarding a specialist diploma after 5 years of studies has remained. Nowadays, higher education institutions offer a diploma of Specialist, which is a 5-year programme and Bachelor - Master degrees, that correspond to 4 and 2 years consequently.

And now let us see to see how the relationship between the state and the market has changed and whether more market elements have been allowed to the HE market.

#### 4.2 STATE – MARKET INTERACTION

Our starting point would be Clark's (1983) evaluation of former Soviet system of higher education, which is characterized as "the purest case of the triumph of the state over oligarchical and market interaction". Since the time Clark's book was published Russian higher education system has undergone a series of reforms, which were aimed at deregulation, decentralization and greater financial, administrative and academic autonomy of HEIs. This

<sup>9</sup> In 2006 out of the total number of private higher education institutions consisted of 380 institutes, 19 academies and 13 universities. Smaller number of academies and universities is attributed to the higher requirements for accreditation of these higher education institutions. Existence of branches ("filial") which is similar to public institutions is also observed.

chapter will give an overview of HE policy, indicating the changes and thus allowing us to explore how the relationship between the state and the market has changed over time.

#### 4.2.1 Deregulation and decentralization of HE management

The process of decentralization and deregulation of the HE system was aimed at removing the strong governmental control over the HE sector and dispersing the decision-making process closer to consumers (households, students, employers). The initial period of reform started with setting up the legislative basis which was formulated in the law "on Education" (1992) and the law "On the Higher and Post-Graduate Professional Education" (1996) and allowed, first of all, private HEIs to emerge, and, secondly, for both public and private HEIs to open up the branches (filials) along the country<sup>10</sup>. It should be noted that the situation for public and private HEIs differs. And the differences of each type of institutions will be further described.

The regulation was aimed at transferring the federal managerial functions to regional and municipals levels, thus bringing more responsibility and authority to the regions. The reasoning behind this policy was to reduce governmental control and encourage the regional authorities to have more "say" in the educational process. That is to say that regional authorities are claimed to have better understanding of the situation and would be more flexible and to respond to the needs of the local market, thus steer the educational process in a more efficient and effective way.

The evaluations of OECD (2007) experts indicate that, contrary to the policy makers' intentions, such education policy resulted in the shift of responsibility, but not allocation of resources to manage the HE system at the local levels.

Here we should take a one step backward and explain that subjects of the Russian Federation vary greatly in social and economic development, driven by historical, geographical and demographic factors. Moreover, they also vary in terms of taxes collected, which make up the basis for regional budget development. According to the statistics of the Ministry of Regional Development (2006) only 13 out of 87 subjects of the Russian Federation are fully-sustainable and do not receive subsidies from the federal budget<sup>11</sup>. The lack of financial sources at the regional level directly impacts the funds that can be allocated to the HE system.

OECD (2007) experts confirm that financial and economic activities of HEIs coupled with a lack of public funding, have resulted in clearly insufficient responsibility of HEIs for the outcomes of their education activities, lack in the development of independent forms and mechanisms of involvement of different stakeholders (including citizens, students, employers and professional communities) in the process of forming and implementing education policy. In short, HEIs appeared to be in the situation, where they have officially been empowered to perform the

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<sup>10</sup> It should be noted that the above mentioned laws have been recurrently amended introducing changes which become part of the overall educational reform.

<sup>11</sup> The data retrieved from <http://www.newizv.ru/news/2007-03-15/65521/> (in Russian).

management of HEIs, but fail to accomplish the task due to lack of resources and management capacity.

Klyachko (2006) analysis shows that by the end of the 90-ties 57 (out of 89) subjects of the Russian Federation coordinated HEIs activities on the basis of reciprocal agreements<sup>12</sup>. But in practice, these reciprocal agreements replicated the Law "On Education" (ibid.). To be precise, the HE management system in Russia works on a principle, where the lower levels of managerial bodies are subordinate to the higher ones. Consequently, if we take a HEIs that is subordinate to a management body on a municipal level, it automatically means that both regional and federal levels are employed. In other words the regional and local authorities, in fact, created an additional layer between the management body and a HEI.

Summing up our findings we should say, that the striving of the government to transfer the responsibility to the lower levels of authority has created a multi-layer structure, which is difficult to operate. Multiple forms of subordination of higher education institutions complicated the overall management structures. Interesting enough, the confirmation of such a situation we also find in Clark's (1983) analysis, who indicates that the supervision by a number of central bureaus brings with it the problem of coordination, which can be observed in the case of the Russian education system.

OECD (2007) reports further identifies that the growth in paid educational services, led to the situation when HEIs are more oriented toward demands of consumers of education services (students and their families) than the actual demands of the labour market. The creation of new HEIs and, especially, branches, under conditions of a chronic deficit in public funding, developed mainly as a consequence of uncontrolled market mechanisms, and was defined more by momentary demands for economic and law specialties, than a long-term HR policy and forecasts of social and economic development made by the government (ibid.). It experts' opinion it is the absence of feedback between the education system and the labour market, the lack of information on the demand for HEI graduates, that can be attributed to the results in non-coordination of the actions of the state, the education system and employers.

#### 4.2.2 Institutional, Financial and Academic Autonomy

There are a number of indicators that speak on more institution, financial and academic autonomy. First of all, The Law "on Education" permitted HEIs to offer paid educational services and generate additional income, within the licensed norms. The rapidly increasing number of students which has been registered last years (for the period 1991 – 2006 the number of students increased 2,7 times), among which more than 55 % represent fee-paying students and corresponding influx of non-budgetary financing resulted in the fact that the overall volume

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<sup>12</sup> These agreements outline the responsibilities of both federal and regional authorities in respect to the management of higher education institutions.

of non-budgetary funding surpassed the level of public funding (Klyachko, 2007). This financial autonomy has brought to the HE system the much needed financing support.

Though, the funds for public HEIs were and still are allocated under the framework of the annual line-item budget (estimate of income and expenditure) approved by the government, which means that the budgets for public HEIs have to be provisionally approved with the corresponding public authority. It should be stressed that public funding is not the only sources of financing. One half of financial sources to public HEIs comes from non-budgetary income sources, such as payment for education in the main and supplementary education programmes, leasing and other forms of activity stipulated in the HEI charter. The government restricts that additional income may be used only for the purposes of a HEI, namely, the acquisition of equipment and materials, the support and development of infrastructure, additional payments to the teaching staff and administrative employees, and other routine needs, thus regulating the money circulation within the HE system.

Nevertheless, we observe a tightening link between public HEIs and the market, though it is coordinated by the governmental regulations.

Private HEIs do not receive any public funding and the main source of their income is payments made by students for all forms of educational services. The use of resources is a sole prerogative of the founders and appointed administration.

Private HEIs are mainly dependant on consumers' financing, which, as some experts believe, puts them in less favorable conditions and makes them rely purely on tuition fees. On the other hand, private HEIs have more discretion at drafting new educational programmes (unless they choose to train students in accredited programmes), which are to be demanded among consumers, i.e. have greater academic autonomy. Here we speak about the legal right to run new educational programmes, introduce new specialties, and implement various forms of education (including distant learning). The implications of such market like behavior is confirmed by the findings of Klyachko (2002) and ETF researchers (2003), who indicate that private HEIs were more flexible and responded to the needs of the labour market by opening up faculties and departments to train specialists in professions needed on the labour market, such as lawyers, economists and accountants.

Nonetheless, private HEIs find themselves discriminated especially when it concern the requirements within state accreditation procedure. The representatives of private HEIs speak about intentional scrutiny which is used by public officials for to-be accredited private HEIs (Volkov et al., 2004). However, the experts see more and more private HEIs as a "place for experiments", where most successful private HEIs use innovative educational approaches and develop edge-cutting programmes, for example, dual diploma programmes, joint international programmes or establish university networks (ibid.).

We feel it is necessary to explain that the training of graduates until the end of the 90-ties was mainly concentrated on technical professions, underlining a heavy industry dependency of the

Soviet economy. Klyachko analysis (2002) for the period 1985 – 1995 shows that the number of graduates with technical qualifications in the whole cohort of the analyzed years reached 40 %. Taking into consideration the educational lag, as Belyakov (2007) calls it, and by this he means that normally the training of a student take 5 year, consequently qualified labour supply to the market is always delayed relative to the needs of the labour market, brought about the over-production of engineers and technical specialists.

This gap has been filled in by the rapid growth of private HEIs that managed to develop educational programmes in requested specialties, mainly in economics, management, and law, i.e. provide for a tight exchange link between an educational institution and a labour market.

#### 4.2.3 Vectors of HE policy change

We feel it necessary to review the major policy initiatives that consolidate state efforts in the process of restructuring the education system in Russia and bringing it closer to the needs of labour market. It should be noted that several strategic documents have been adopted by the government in recent years, which set the general legal framework for further developments in HE system. These are, namely the following: the Federal targeted programme of education system development<sup>13</sup> (2005) (the Federal Programme), the National Doctrine of education system development (2000)<sup>14</sup> (the National Doctrine) and the Concept of the Russian education system development for the period 2002 – 2010<sup>15</sup> (the Concept).

Fist of all, the Doctrine (adopted in 2000) is an integrated document, which formulates general strategy for the development of HE system in Russia. It lays special attention to the quality of education and its accessibility. Furthermore, the state, society, households and employers are named “social partners”, who share joint responsibility for the quality of the education services, thus putting all the stakeholders of the educational process on an equal footing.

The Concept (adopted in 2001), as Kyachko (2007) notices it stipulates the key criteria for the restructuring of the educational system, namely, the issues of accessibility, quality and efficiency. The introduction of such a strategy impacted the number of public and private HEIs and its regional filials. Accessibility was achieved through paid (non-state funded) places in HEIs. Her evaluations indicate, that the increasing number of HEIs affects the quality and overall efficiency of the higher education management system, thus resulting in the mismatch between the knowledge and skills acquired by students and required by the labour market (ibid.).

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<sup>13</sup> The Federal targeted programme of education system development for 2006 – 2010, adopted by the Decree of the Government of the Russian Federation on 23<sup>rd</sup> December 2005, No 803.

<sup>14</sup> The National Doctrine of education system development, adopted by the Decree of the Government of the Russian Federation on 04<sup>th</sup> October 2000, No 751.

<sup>15</sup> The Concept of the Russian education system development till 2010, adopted by the Decree of the Government of the Russian Federation on 29<sup>th</sup> December 2001, No 1756-p.

The Federal Programme (2005) stipulates that the mechanisms to provide for cooperation between HEIs and employers have to be developed, so additional resources are pulled into the education system. Moreover, it seeks to ascribe special expert role to employer for quality assessment and development of national educational standards. Such policy initiatives has resulted in the recently adopted amendments<sup>16</sup> to the law “on Education”, “on Higher and Post-graduate education” and ‘on Association of Employers”, which encourage employers to participate in the HE policy making process, get involved in the process of drafting national educational standards, introduce new specialties, and take part in the state accreditation procedure. Furthermore, these amendments enable employers to communicate the needs of the modern economy, as part of the regular monitoring and forecasting process. Moreover, the Tax code has been recently amended in the part tax exemptions for employers, who choose to finance the education of employees. We note that it creates financial incentives for employers, which has been stressed by a number of Russian educators (Glazychev et al, 2005).

Moreover, we argue that there are indications from the labour market, which has now been supported by the state and allow us to claim that the “voice” of employers has been heard.

We speak about the initiative, which has been undertaken by the associations of employers to develop, the so called, professional standards. Such professional associations as the Russian Union of Industrialists and Entrepreneurs (RSPP)<sup>17</sup>, the association for small and medium enterprises “Opora Rossii”<sup>18</sup> and the non-governmental association of entrepreneurs “Delovaya Rossiya”<sup>19</sup> have started the process of creating federal and regional systems for forecasting and regular monitoring of the current and possible future demands of the labour market. National qualifications agency has been created to coordinate the process of setting up the professional standards. The aim is to develop the professional standards, which will complement the corresponding national educational stands and professional programmes. As of today the professional standards for food and IT industries have been developed.

#### 4.3 CONCLUSION

Looking at the state – market continuum in much the same way as Clark did, we may now say the place of the HE system has changed. The process of deregulation and decentralization and

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<sup>16</sup> Federal law “on amendments to legal acts of the Russian Federation concerning the rights of association of employers to participate in education policy development”, as of November 14<sup>th</sup>, 2007, adopted by the State Duma.

<sup>17</sup> The non-governmental organization has a membership base of over 120 regional alliances and industry associations representing key industries of the economy, including the fuel and energy industry, the machine-building industry, the investment-banking sector as well as the military industrial complex, the building industry, the chemical industry, and light and food industries. See more on <http://www.rspp.ru/Default.aspx.aspx?CatalogId=2879> (in English).

<sup>18</sup> The organization unites 110 NGOs all over the Russian federation and has 80 regional departments, see more on <http://www.opora.ru/about> (in Russian).

<sup>19</sup> The association consists of private business representatives and has its 38 sectoral and 72 regional divisions in the Russian Federation, see more on <http://www.deloros.ru/dr/history/> (in Russian).

admittance of market players (private HEIs) on the HE market indicates that the HE system in Russia is moving away from the strict governmental control and manifests greater dependence on market exchange.

The state does not play the role of solitary manager anymore and a number of stakeholders have involved in the cobweb of relationships between the HE system and the market. Our overview of the HE system in Russian indicates that the market for educational services is now represented by public and private HEIs. Both types of HEIs now enjoy greater academic autonomy in drafting educational programmes and specialties, which, as Ogata et al. (2007) argues strengthen the steering capacity of institutions, and makes them quicker, more flexible and more focused in reactions to expanding and changing demands of the labour market.

Although the private sector institutions are active on the market and are regarded to be more flexible in reflecting employers' needs, on the other hand, they are more vulnerable when it concerns the access to resources (state funds, premises, equipment, etc.). We further argue that educational market is now closer to consumers (i.e. households, to-be students) and offers educational programmes, which are in demand.

Clark (1983) notices that the division of power, support of variety and legitimate disorder is the way to manage systems, since it gives more opportunities for all stakeholders to 'have their say', thus balance the supply – demand equilibrium in a better way. Our observations show that the modern educational market is not merely divided between the state and the market, representing a zero sum balance. Moreover, legitimate disorder brings about the market failures (i.e. mismanagement in coordination, improper distribution of resources), which needs to be corrected. And as Marginson (2007) argues in his recent work public and private goods are not always zero sum and under certain conditions provide conditions of possibility for each other.

Should we agree that HE produces highly individualized status benefits and provides students with opportunities to secure superior incomes and social standing, we then conclude that private HEIs by increasing the number of place and extending its network fulfills the public need to obtain higher education and, on the other hand, to secure the equality of opportunity (Marginson, 2007).

Our findings show that in such environment the "converging nature of higher education services then comes to the fore". The debate goes how the market failures can be diminished? Does the state have instruments to correct it? These are the questions that will be discussed further in the paper.

## CHAPTER 5. POLICY INSTRUMENTS TO MEET THE NEEDS OF LABOUR MARKET

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Let us see whether and how the policy instruments that are used by the government have changed. This brings us back to the questions raised in the theoretical part of our research, namely, to the choice of instruments used by policy makers. How efficient these instruments are? Do they allow for more or less of market interaction in the HE system? Whether the government has enough capacity (i.e. organizational structure and legislation, financial resources, and information) to steer the complex networks of social actors? To structure our analysis we will be guided by the classification developed by Hood (1983), namely, we will review the governmental instruments from the point of view of its nodality (central position of government in societal communications and its ability to 'send out' information), authority (the ability of governments to issue binding laws, i.e. to formally restrict the behavior of the targeted subjects), treasure (government control of money and other resources) and organization (the public bureaucracy and its ability to implement programmes, and to monitor environments).

Our basic assumption is that the present HE system, which is as it has been argued in the previous chapter, represents a mix of the state – market elements and it requires the government to work with a more sophisticated set of policy instruments. We also argue that in the complex environments as this, the successful use of one type of instruments much depends on the use of others.

### 5.1 NODALITY

Hood (1983) argues that one of the four basic resources that the government uses is nodality, i.e. the property of being in the middle of a social network. It becomes a powerful instrument in the hands of the government, when it uses information or disinformation to effect decision-making process. Furthermore, Jongbloed (2003) notes that the higher education market – like any market – can only function properly if buyers (students) and sellers (HEIs) possess accurate and reliable information about the quality of the product. Information provision helps to tune the supply – demand equilibrium between the HE system and the labour market. Thus, it becomes important to see whether the government is actually a focal point, gathering information from the markets.

We see HE markets the same way as Jongbloed (2003) describes them, i.e. market for students (undergraduates, postgraduates, doctoral students), a market for research staff, a market for lecturers, a market for research grants and scholarships, a market for donations, a market for graduates, a market for company training, and so on. In our paper we will focus more "graduates' production market", i.e. the HE market responsible for production of qualified and marketable labour force. Though, we are fully aware that it is only one of the various aspects of HE system, we intend to focus mainly on this function, since it is closely related to



the principle idea of our research. Consequently, on the higher education market in Russia, the government is responsible for the supply side, which among others, consists of accurate manpower planning. Manpower planning is highly dependent on primary information (i.e. total number of students, number of higher educational institutions, labour market requirements in terms of manpower, data on employability of graduates, and so on.), which constitutes the basis for further "graduates' production market". Moreover, statistical data is supported with monitoring results and socio-economic forecasts that help to correct and align the manpower figures. All these issues will be discussed separately in the following sections.

### 5.1.1 Manpower Planning

As it has been mentioned earlier, formally higher education system in Russia operated in the planned economy. This fact greatly influenced the structure and quantity of young professionals supplied to the labour market. Market economy has changed the economic reality of the country, but has not changed the principles of national manpower planning.

Generally, the Constitution of the Russian Federation guarantees access to higher education on a merit basis to everybody who wishes to pursue it (article 43). The Law "On Education"<sup>20</sup> also fixes the normative requirements stating that in the Russian Federation 170 students for each 10 000<sup>21</sup> population should be educated in public higher education institutions.

The number of students in public HEIs is regulated by, the so called, *state assignment*, which is formulated in control figures of enrollment. The state assignment regulates the number and structure of students enrolled in state-financed places of public HEIs. The final figures are based on the mid-term socio-economic forecasts concerning the demands for specialists, statistics (for example, demographic situation), and normative requirements as regulated by the Law (see the argument earlier). Thus, the state assignment prescribes the amount of specialists that can be enrolled in public HEIs. This also means that the education costs for training these students are financed from the stated budget.

Psacharopoulos (1980) named such approach for manpower planning an education-occupation-economic activity matrix, which, as his analysis shows, led to a number of infamous manpower forecasts that were mostly wrong. However, the only advantage of this type of planning and its popularity among planners and policy makers is its convenience. Ogata et al. (2007) also questions the efficiency of such an instrument, since the estimates of future employment needs and the side-effects are hard to predict.

Researchers (Psacharopoulos, 1980; Ogata et al., 2007) agree that the most sensible solution is to improve the information exchange between the worlds of education and work, where the most important dimension is the labour market conditions of prospective graduates of different

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<sup>20</sup> article 40, it.2, Law "on Education" of the Russian Federation, adopted by the Federal Law No 12 of the Russian Federation as of January 13<sup>th</sup>, 1996, with amendments.

<sup>21</sup> This figure is historical and dated back to the Soviet economy planning system.

levels and kinds of education. These arguments once again stress Hood's idea on the importance of nodality.

Furthermore, let us see how the figures are calculated, and see whether statistical data, monitoring and forecasting have been properly performed.

### 5.1.2 Statistics

First of all, there are two bodies that execute the official function of collecting statistical data (the Federal State Statistics Service (Rosstat)) and directing young graduates on the labour market (Public employment service and its territorial departments). FSSS accumulates data concerning graduates from public and private HEIs by the groups of specialties and fields of education. PES mainly collects the data on employers' needs in HE graduates as a whole, not reflecting the level of qualifications and fields of education; the level of salaries for employees with different levels of education is not collected either. Furthermore, the data on the employability of graduates is not reliable, since PES (as an official body to provide information on vacancies) reflects information only about an insignificant labour market segment, namely, because of low efficiency level of this channel of searching for employees, and secondly, because more than 70% of these vacancies are jobs that require a low level of qualification (OECD, 2007). OECD researchers further note that there is an element of formalism, when most graduates from public and private higher education institutions "generate a job assignment individually for the position where he/ she is already working at the time of graduation or attract personal connections when a job assignment is necessary and required for the diploma awarding" (ibid.). No information regarding the employment of graduates from private HEIs is collected. Moreover, no statistical observations have been conducted to study the salary levels of graduates with higher education.

As we see, both public bodies do not fully collect information from the markets, thus undermining the nodality function of the government. Furthermore, the information collected generates wrong figures and presents misleading data for further manpower planning.

### 5.1.3 Monitoring and Forecasting

As we have argued it earlier in the paper, HE system directly participates in qualified manpower production and should take into consideration requirements of the modern economy, requirements of labour market, and needs of consumers (households and students). Consequently, monitoring and forecasting is part and parcel of the balanced educational system, which secures the match of qualifications of young professionals to the employment demands of labour market.

In the case with the Russian HE system, the question of monitoring, including graduates' employability on the labour market has two implications: frequently economists can not rely on

forecasts due to false information provided by participants (young graduates and/ or their employers) or the information is provided only partially. This situation has been described in the work of Kapelyushnikov (2001) who claims that the roots of this problem stem from the peculiarities of Russian labour market. He emphasizes that often employees and employers tend to cooperate on a basis of non-formal agreement<sup>22</sup> which can not be identified and included into official statistics. As we see, the HE system tends to collect inaccurate information.

Another factor that causes additional problems concerns high costs of a national forecast model. The model as Russian experts believe has to consider different sources of information, such as industry-specific information, regional statistics, and be verified by regular selected studies of organizations, households and expert review (Skorovarova N.A. et al., 2002).

And as it is noted by Russian researchers, lack of valid manpower estimates based on labour market requirements and long-term socio-economic planning creates additional difficulties in predicting the structure of educational system. (Monitoring ekonomiki obrazovanija (2005).

The analysis show that these instruments are not efficient, they do not provide reliable information for policy makers to calculate the number of students required by the labour market.

Other European researchers (Sauvageot & Bella, 2003) note the alternatives to traditional forecast model, namely, the use of indicators. This approach has been further promoted by OECD and became one of the priory developments during last 10 years. However, the indicators can be developed only on the basis of accessible, reliable and up-to-date data provision. The indicators become a means to evaluate and assess the whole education system as well as its part, for example, education provision costs, educational level of graduates, level of accessibility to higher education, etc. This approach has been also supported by Russian educator Kovaleva<sup>23</sup> (Startsev, 2008), and is being implemented as part of the experimental programme. However, contrary to the initial idea as indicated by Sauvageot & Bella, we have found no provision on graduate employment, employment in the field of received qualification, cooperation between the educational system and labour market, as well as the impact of educational level on labour in the plan for the experimental programme. Though, as it has been stressed earlier it would significantly improve forecasting of the number of students' intake and will assist in general career guidance. However, the results of this programme are remained to be seen.

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<sup>22</sup> The advantages of cooperating on a basis of non-formal agreement can be explained by the fact that neither employee nor employer has to pay taxes and receive remuneration at a higher rate.

<sup>23</sup> Mrs. Kovaleva is a head of the Center of Statistics and Monitoring of State University - Higher School of Economics, Moscow, the Russian Federation.

Nonetheless, the question arises whether this task is feasible and efficient taking into consideration the vast economic growth and the size of the country? Is actually possible to collect and monitor the manpower needs for the labour market for the whole country?

Summing up our analysis we argue that nodality acquires a special importance, especially in the system which relies heavily on the planning mechanisms. As we have debated earlier when the state can not accumulate the information and act as a focal point, the figures that are produced represent a distorted data, which, in its turn, has a significant impact on the overall manpower supply to the labour market.

## 5.2 AUTHORITY

Hood (1983) speaks of authority as a governmental ability to command and prohibit, commend and permit, which is metaphorically often symbolized in the form of a piece of paper with an official stamp on it. We find many examples of governmental authority, including licenses, quotas, certificates, and so on. Following Hood's heuristic, we note that the modern government uses a variety of instruments to regulate the HE system. However, we single out those ones that require specific attention, since, as we see later, they are inherently connected to the use of other instruments. So, we speak on licensing, attestation, state accreditation and national educational standards. We conceptualize that licensing becomes a powerful tool in the hands of the government that enables to carry on an activity which would otherwise be positively prohibited. Consequently, certification is an indication of the fact that HE services are in compliance with imposed requirements, i.e. the declaration of fitness or unfitness, a tool to provide information to consumer (households, to-be students, employers) and wield governmental authority. Furthermore, state accreditation is a still another way of influencing social behavior, when government's seal of approval becomes highly prized and eagerly sought after. National educational standards provide authoritative value to the quality of education, thus increasing the necessity of attestation of HE services. So, let us have a closer look at each of the above mentioned instruments.

### 5.2.1 Licensing, Attestation, State Accreditation

The first step in the process of delivering educational services for an institution, both public and private, is to obtain a license, which implies that premises and qualifications of teaching staff are to be checked. The Law "On Education"<sup>24</sup> secures the normative standard (170 students for each 10 000 population) for public HEIs on a state-financed basis. Moreover, the maximum number of students that can be admitted to private HEIs is also regulated by the license<sup>25</sup> issued by the Ministry of Education and Science Russian Federation (Klyachko, 2007). Here we

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<sup>24</sup> Federal Law No 3266-1 "On Education" as of 10<sup>th</sup> July 1992 with amendments.

<sup>25</sup> More information can be obtained on official site of FEISS <http://skno.govirk.ru/licenzirovanie/default.aspx> (in Russian).

should specify that licensing procedure mainly concerns sanitary and hygienic conditions of a building, health and safety regulations, level of technical provision and qualifications of teaching staff. Therefore, we may state the federal education body regulates the overall number of students that can be admitted to public and private HEIs in the Russian Federation.

Attestation is conducted by public and private HEIs to seek compliance with the requirements of national educational standards and confirm the quality and certain education level of young graduates. It is conducted during three consecutive years and fifty percent of students should pass examination administered by the FESSS. Attestation has to be renewed each 5 years. FESSS acts as a supervisory body to perform the functions of the Ministry of Education and Science of the Russian Federation and check the compliance of educational programmes with the nation-wide educational standards.

State accreditation certifies the status of a HEI and specifies the list of higher education programmes that can be awarded with a state-supported degree. Such a procedure is conducted by the Ministry of Education and can be renewed each 5 years. Tomusk (2000) questions whether there is a purpose of following such a procedure for a private HEIs, which aim is to achieve "a near-complete match between the contents of study, teaching methods as well as results of the two programmes". Is there a purpose of a private education, when in such a case almost all possible alternatives are outlawed? Obviously, none.

However, certain benefits are accrued by private HEIs from state accreditation. There are at least two implications why private HEIs choose to follow the process of state accreditation. The first one concerns a general belief among the consumer of educational services that the education received in state-accredited HEIs is a better guarantee for quality and prestige (Volkov et al., 2004). Secondly, according to the article 24 of the Law "on Conscription and Military Service" in the Russian Federation day departments of private education institutions, which received state accreditation, are qualified to provided for its students deferment of call-up. Taking into consideration the general reluctance to serve in the army, boys and their families seek to enter a state-accredited HEI and avoid serving in the army. In such a light, obtaining a state accreditation for private HEIs becomes one of the ways to attract boys, thus expand its services. Moreover, state accreditation or better say a state-qualified diploma is more appreciated by to-be students and employers. We will pick up this issue later in our research.

The above mentioned processes of licensing, attestation and accreditation are aimed at insuring the quality of the provided educational services. Furthermore, new version of national educational standards that have been recently introduced apart from aligning the general quality of HE sets forward the national educational priorities in the field of HE, thus becoming still another powerful tool in the hands of government.

## 5.2.2 National education standards

We should note that the new format of national educational standards has been tested during 2007/ 2008 academic year and is to become operational starting from 2008/ 2009 academic year. The still present national educational standards constitute of three components, namely national, regional and the one developed by a HEI itself.

However, Kuklin & Belyakov (2003) underline that in practice regional and institutional components are limited by the existing infrastructure (i.e. school building, labs, etc.) and teaching staff qualifications and are not aimed at reflecting the specifics of the regional development. The situation has worsened when a noticeable number of private HEIs emerged and the state started loosing its control over the accountability of HEIs. In its strife to remedy the situation on the HE market and align the requirements for educational programmes, the government now adopted the law<sup>26</sup> on unified national educational standards.

Starting from 2009 the new national educational standards, consisting of fixed and optional parts will be implemented. OECD (2007) analysis shows that HEIs themselves will determine 50 % (precisely, for baccalaureate – not more than 50%; for magistrate – not more than 30%; and for the specialist – not less than 70%) of the education content in the main educational programmes. It will give more room for educators to accommodate the needs and capabilities of students and will focus on the results of the educational process, and not on the process itself. Moreover, the move toward a binary educational system and the changes in educational programmes have been undertaken within the obligations of Bologna agreement, which Russia signed in 2003.

We argue that HEIs will now enjoy significant autonomy in drafting and teaching new educational programmes. Moreover, we also note that the state in this instance acts as a secure mechanism and provides for better correspondence between goals of education providers (HEIs, educators) and their clients (students, households, employers). Though, as European experts argue the better mechanisms to assure the quality of educational services would be self-study reports of HEIs and the information on how their students fare in the labour market (Ogata et al, 2007). We fully support this position, though for the reasons that have been argued in the previous chapter, we realize that these are the steps to be taken in the future.

## 5.3 TREASURE

We conceptualize treasure as an instrument, which is used by the government to influence the world outside (Clark, 1983). We further develop the idea by saying that the treasure can be

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<sup>26</sup> Federal Law of RF No 309 "On amendments to legal acts of the Russian Federation concerning the changes in the structure of the national educational standard", as of December 1st, 2007.

used in two ways, namely, as an exchange for some goods or services (for example, sign contracts with HEIs to train students for public offices) or as give-it-away action (for example, grants for students), without requiring any returns (ibid.). However, speaking about the educational services, even in the case of grants and tuitions, it would be hard to separate, whether it is giving away or exchange, since the receiver of the payments must satisfy certain conditions, for example, pass a pre-qualification exam on the part of public grant holder or possess a right to perform educational services on the part of a private HEI. Following Clark's heuristic we operationalize the state funding of public HEIs as a form of contracting, where payments are done to some specific organization in exchange for the number of qualified graduates produced. Governmental individual financial obligations (GIFO) are considered to be a form of "bearer-directed payments" as Clark names it, which present an official token and anyone who can produce the right official token can trigger the dispenser, i.e. the discharge of public funding to the bearer (ibid.). We further argue that the government does not use specifically one of the instruments, but it is indebted to use a variety of them, since the "world outside" differs constituting a mixture of environments.

### 5.3.1 Financing of public and private HEIs

The state financing scheme, which used to be the one and only source for budgets of all HEIs, has been changed under the period of reform. The adoption of the Law "On Education" changed the legal environment and created more opportunities for HEIs to attract financing from the consumer market (i.e. students, households, employers) by allowing public and private HEIs to charge tuition fees, renting off university facilities, etc., thus allowing the private financing to flow into the HE system in Russia. It should be made clear at the outset that the financing of public HEIs institutions represents a complicated mixture of sources, where educational services are fully free in only 6% of HEIs. Additional classes on basic programmes are paid in 10% of HEIs, and supplementary subjects that not included in basic programmes are paid in 20% of HEIs (Monitoring ekonomiki obrazovanija, 2005). The financing of private HEIs is a sole prerogative of founders and fully consists of funds attracted from the consumer market.

So, we continue here by saying that additional income can be generated by all HEIs, for example, payments for additional students, including foreign students, charitable donations and grants, applied research work and international technical assistance, etc. However, the Law "on Higher and Post-Secondary Education" strictly regulates the use of additional income and prescribes to use it only for educational purposes. We may now see that such a closure in the legislation allow to, so called, close the loop and secure the additional money generated on the market to be used solely for educational purposes.

State financing to public HEIs is allocated based on control figures of enrollment that is documented in the form of the state assignment. However, these figures do not cover the whole

cohort of students trained in public HEIs. As it has been mentioned earlier the Constitution establishes the minimum requirement of 170 students per 10,000 population to be educated in public HEIs, though the current legislation and licensing allow for more students to be trained on paid basis.

We note that the position of public HEIs on the HE market is somewhat more secure. Once the figures are approved by the Ministry of Education and Science, a HEIs is subject to intermittent cash flow. The situation differs for private HEIs, which find themselves in a pure market situation where they have to compete for students to provide for their own funding. Moreover, the OECD (2007) analysis shows contrary to the rapidly growing number of private HEIs, the number of students educated in them constitutes only 17 % of the overall HE market. Experts explain such a situation by huge financial expenditures (buildings, equipment, etc.), and time that is needed to acquire a reputation and guarantee quality of educational services, which becomes one of the factors that influence consumers' choice.

Furthermore, the number of state-funding places is going down, though the state financing is on its rise. It means that 57,5 % of HE services are paid by clients (to-be students and households) (Education in the Russian Federation, 2006). It is attributed to the fact that "the coverage of the population with higher education services has increased, against a net growth in the number of paying students, including by means of the development of the private sector (OECD, 2007). Normally, this would mean that consumers' preferences in the overall steering process of HE system and the role of private sector should strengthen. However, we found no evidence of it.

It should be stressed that the governmental policy, which can be summed up by the slogan "attract more financing to HE system" has been successfully fulfilled. However, there are a number of market failures that accompanied such a policy. Severe underfunding of the HE system forced management of HEIs seek additional financing outside the state budget, which resulted in more than one half of the student body at HEIs to be made up of the licensed quota, thus generating additional income (OECD, 2007). One might argue that additional income will only improve the dilapidating conditions of the HE sector. Although, along with the decreasing number of teaching staff, lack of capital investment in HE facilities and an influx of students, it puts additional pressure on teaching staff and undermines the quality of educational services. It is reported that the academic staff is being underpaid and institutions' facilities and material basis has been outdated (ibid.). To remedy the system of financing, the state has introduced a system of budget allocation, based on the Government individual financial obligations (GIFO) which are allocated to to-be students under certain conditions.

### 5.3.2 Governmental individual financial obligations (GIFO)

GIFO is a mechanism of budget financing of HEIs, based on the establishment of a standard for budget allocations per student, and the implementation of the principle "budget funds follow



the student". It should be noted that it is still an experiment, which started in 2001. However, Klyachko (2002) stresses that the GIFO idea received strong opposition. The information provided to the receivers (to-be students and households) is very poor, resulting in various interpretations of GIFO idea, which hardly correlate with the aim of the experiment. This argument is worth paying attention to; since it indicates that the nodality function of the government has been challenged, thus putting additional obstacles on the implementation process of the mechanism.

The experts believe that students "voting with their feet" will stimulate the flow of investments into areas of higher education with high prospects (OECD, 2007). However, evidently the students will prefer to enter prestigious universities that have already gained reputation on the market and among potential employers. Such a policy may in result in a strictly selective approach, where a limited number of higher education institutions are being placed in favorable conditions, thus receiving a role of elite HEIs (ibid.).

We would like to stress that GIFO idea has developed as an alternative to the present federal financing system, which does not allow reflecting the actual expenses for a student and does not take into consideration the preferences of to-be students, employers, professional organizations, regional higher education management bodies. The figures are not subject to change.

Klikunov (2002) underline the advantages of GIFO, namely, when issued to students under certain conditions, these education vouchers that are to be subsequently transferred to the chosen HEIs as part of the budgetary allocations will be now directly allocated to HEIs. Furthermore, they note that such form of budgetary allocations will allow for transparency and openness of financial flows in the HE system and stimulate the flow of investment into areas of HE with high prospects, thus aligning the education provision in accordance with the character of demand and supply. And the level of prospects in one specialty field or another are determined not by the executive agencies, but by the consumers of education services (ibid.)

Klimov (2006) as well as Ogata et al. (2007) note that by assigning different values to the fields and forms of study, types of HEIs as part of voucher distribution scheme, policy makers can attract more students, thus regulate the general intake of students for the areas where shortages exist. Changing the value in the course of time will give the government possibility to leverage the number of students for certain specialties.

Glazychev et al. (2004) also confirm that GIFO principle is based on the assumption of rational consumers' decision-making, where they can "vote with their feet". Moreover, he notes there is hardly any alternative to this instrument, should it be supplemented by academic competitions, loans, etc.

So, let us now look at still another governmental effort to attract more funds to the HE sector and allow for more accessibility of higher educational services, which as researchers claim can be achieved through credits and loans.

### 5.3.3 Credits and loans

OECD analysis (2007) shows that HEIs directly cooperate with banks, for example, Soyuz bank and the company Krein<sup>27</sup>. As report shows, targeted bank credit loans for education are offered with some degree of concessions: 10% p.a.<sup>28</sup> for 16 years, with payments commencing in five years upon the completion of studies. The credit is offered with no collateral or other guarantee, and the sum fluctuates from 10,000 USD to 25,000 USD, depending on the faculty and specialty chosen by the student. For comparison: outside of a special programme, an education credit can be obtained at 19% p.a., with the appropriate collateral or other surety guarantee (ibid.).

However, the recent initiative of the State University – Higher School of Economics together with the Association of Russian Banks to legalize this form of educational financing failed. As IA REGRUM (2008) reports, the major problem for this type of financing concerns high risks for banks (low probability of return by students) and requested state support, where neither of the party wants to commit themselves. First of all, such type of loan implies that the expected graduate's income allows paying back the loan, thus restricting it only to highly paid professions, which, in its turn, limits the accessibility to HE services. Moreover, the requested state support in the form of collateral blurs the responsibility and allows for the misuse of the funds on the part of to-be students and banks. In case a graduate fails to pay back the loan, the state will bear full costs. This form of arrangement will lead to unexpected public expenditures. Summing up our findings we shall state that the government uses a mixture of instruments to improve the financial situation of the HE system. Moreover, the selection of tools favours public HEIs and not private ones, thus initially dwarfing its position on an educational market. And finally, the successful use of one instrument might very much depend on other governmental tools, i.e. how treasure tools are dependable on nodality, as in the case with GIFO mechanism.

## 5.4 ORGANISATION

Hood (1983) conceptualization of "organization" is the "business end" of government, i.e. governmental capacity and capability to act directly on its subject, their property or their environment. He further argues that nodality, treasure and authority can be perfectly derived from organization, but not the other way around. Thus, he lays a special emphasis on organization, which enables government to implement its programmes (ibid.). Likewise, the organization can be in the form of direct actions or treatments. We intend to analyze a number of policy instruments using Hood's heuristic, and show the way the government manages its relationships with the HE system and the labour market. And in doing so, the government uses

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<sup>27</sup> other banks that provide credits and loans are bank Uralsib, Sberbank Rossii, Prombiznesbank, Societe Generale Vostok bank, etc.; the full list see on <http://www.ucheba.ru/credit/> (in Russian).

<sup>28</sup> compared to the conditions offered, for example, for Dutch higher education students (2,7 % interest rate and loan disbursement scheme adjusted to a monthly income of a graduate (Webbink, 2006)), we should say that it is very high.

a 'group treatment", when government actions directed towards groups and "at large treatment", when actions are aimed at the world at large or to whomever it may concern. We pick up Hood's argument in saying that the government may treat us in the mass and in groups by altering the physical environment. Here we provide two examples of such government practice, which will be separately discussed below.

#### 5.4.1 Programme and project based financing

One of the steps undertaken by the government to improve the standing of the HE system was to introduce a programme and project based financing, next to the traditional line-item budget financing. We should specify saying that the general financing are mainly used for the operational needs of HE system (maintenance of facilities, salaries to teaching staff, etc.). The programme-based financing is aimed at innovative development of the system, and as, for example, in the case with the Federal Targeted Education Programme<sup>29</sup> (the Programme), is planned to improve the quality of educational services to meet the needs of citizens, society and labour market. It is further translated in specific improvements of the content and technical process of education provision, development of quality assurance system, enhancement of governmental steering mechanisms and improvement of economic mechanisms of HE system. We note that by improving the quality of educational services, restructuring the HE mechanisms, the state insures that the HE system can better respond to the needs of the society and the modern labour market.

In the case with the National project "Education"<sup>30</sup> (the Project), the government finances individual HEIs and regions, which put forward innovative programmes and projects. This practice is aimed at fostering and strengthening the positive dynamics in the HE sector, where the closer links with the labour market is one of the goals. The Project is financed from the federal budget and the implementation plans are reviewed on a yearly basis. The funds are distributed on a competitive basis to HEIs that fulfill two basic criteria, namely quality and efficiency of a proposed educational programme and an innovative capacity of a HEI itself. The Council under the supervision of the President performs the direct management of the Project. Financing is directly allocated to receivers of funds (HEIs, associated organizations, etc.), where the Ministry of Education and Science is not involved.

The Programme has a limited duration (2006 – 2010) with specific plans and measurable indicators split in several implementation phases. The major financing for the Programme comes from the federal level with smaller allotments from the regional levels, thus guarantying the shared responsibility for both levels of governance (i.e. federal and regional). Moreover, non-budgetary financing and financing from international organizations (World Bank, OECD) is

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<sup>29</sup> Please see the full description of the programme on <http://www.fcpro.ru/content/view/12/77/> (in Russia).

<sup>30</sup> Please see more information on the project implementation on [http://www.rost.ru/projects/education/education\\_main.shtml](http://www.rost.ru/projects/education/education_main.shtml) (in Russian).

also part of the budget. The implementation of the Programme is managed by the Ministry of Education and Science.

It should be noted that the Programme as well as the Project concern all levels of education, including pre-schooling system, primary, secondary, and post-graduate. Both the Programme and the Project have become the part and parcel of the overall modernization of the education system in Russia, where programme and project based financing is focused on tackling the most pressing problems of the education system in Russia. We should underline that the funds that are allocated within the line-budget cover only operational expenses and does not allow for the activities aimed at the restructuring of the system.

We argue that the Programme and the Project are the tools which help to transform the educational environment where people live by addressing the specific needs of the system and implementing the governmental policy in HE. Thus, organization in the hands of the government is a powerful steering mechanism, which improves the conditions of the system. We see that the government steers its relationships with the HE system by providing targeted financing to the subordinate regional authorities and HEIs within the system, so they implement the necessary activities accompanied by the governmental support at the local levels.

#### 5.4.2 Cooperation with employer

In this section of our research paper we are going to discuss the instrument that is used by the state to facilitate the interaction between the state and the labour market. We extend our exploratory approach by empirical findings of the monitoring programme<sup>31</sup>.

The state makes provisions in the legislation for HEIs to establish cooperation with employers. Our analysis shows that the Law "on Higher and Post-Graduate Education"<sup>32</sup> as well as the new format of national educational standards secures an internships at an organization or institutions as an inherent part of the educational process. Internships are organized on the basis of contracts, signed between HEIs and an enterprise or an institution. The normative duration of an internship is not more than two months.

The findings of the monitoring programme (Monitoring ekonomiki obrazovanija, 2007a) confirm that internships become one of the most popular ways for large and the largest enterprises to cooperate with HEIs. Since internships are designed so that students can experience employment related to their own specialized fields or future career (Ogata et al., 2007). Moreover, internships are considered by employers as screening procedure and an opportunity to select a suitable candidate for the existing vacancies in the company.

Furthermore, the findings show that an internship is actually one of the most common ways of cooperation with employers, but not the only one.

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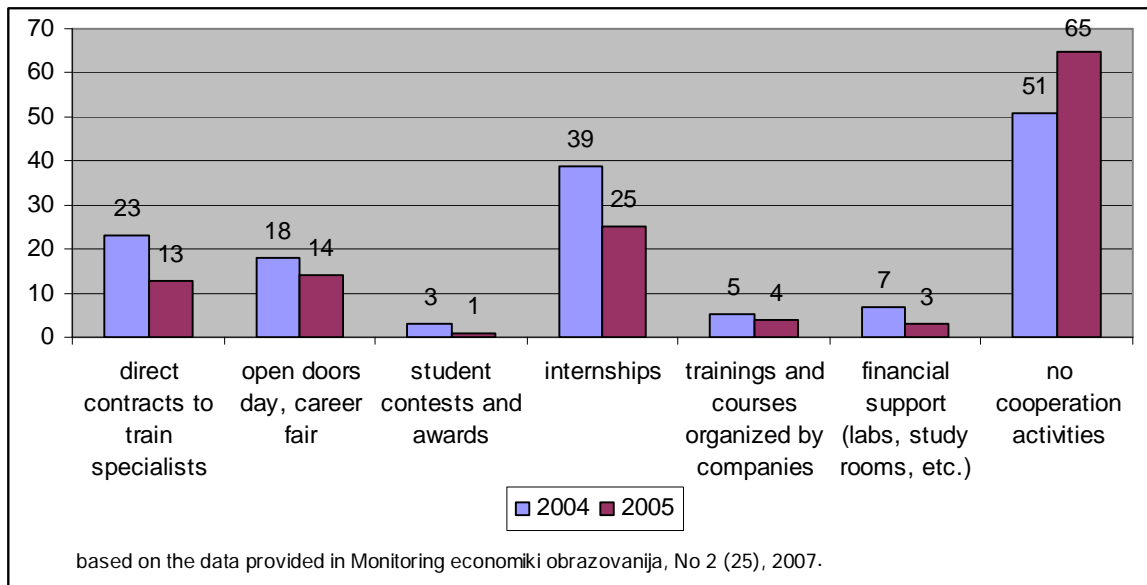
<sup>31</sup> Here we refer to the monitoring programme, which has been detailed in the Methodology chapter of the paper.

<sup>32</sup> We note that the regulation concerns only specialist, bachelor and master track students, who are studying in accredited public and private HEIs.

Table 1 below indicates other forms of cooperation with employer.

Table 1. Forms of Cooperation between HEIs and Companies

(%, 2004 – 2005)



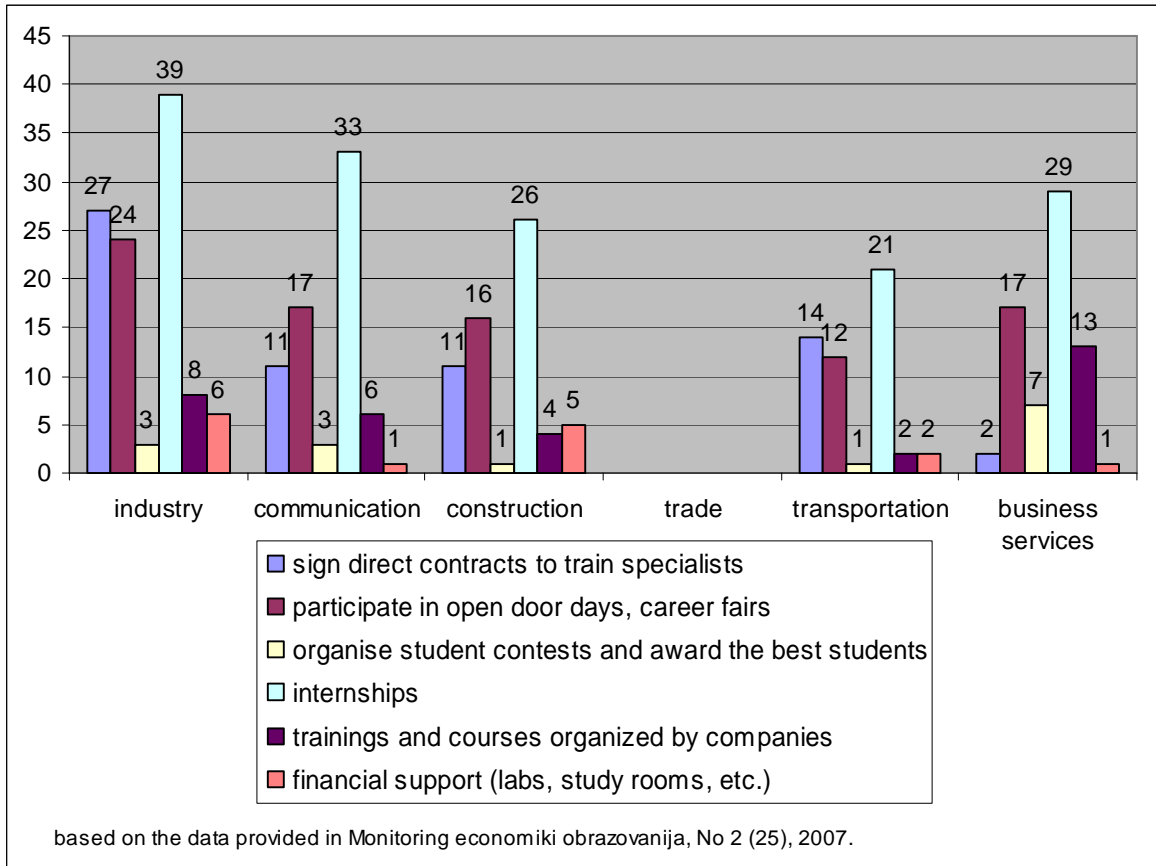
As we see internships make up the largest percentage among all cooperation activities. Though, other forms, such as open door days or career fairs as well as signing direct contracts to train specialists are also used by employers.

However, the cooperation tendencies are decreasing and the alarming large number of companies chooses to cut the existing forms of cooperation with HEIs. To be precise, the results indicate the number of companies that cooperates with HEIs decreased in 2007 from 49 % to 35 % (Monitoring ekonomiki obrazovanja, 2007a). Experts explain this tendency by the strategy, which is now popular among private companies – to optimize expenses on its financial and organizational cooperation with the HE system and set up its own training courses and education centers. (Monitoring ekonomiki obrazovanja, 2007b). This allows providing in-house training for young specialists and developing tailor-made programmes at lower costs, thus securing the qualified labour force within the company.

The monitoring programme also indicates that larger portion of cooperation activities is done with industrial (55 %), communication (49 %) companies and companies providing business services (42 %). Large number of industrial companies which cooperate with HEIs is explained by historically developed strong cooperation. As it has been argued in former chapter, the HE system used to produce more technical specialists which had to accomplish internships before obtaining diploma. Thus, we may explain this number by historically developed tight links with HE system. Moreover, big industrial companies, in general, have better access to resources (money, number of personnel required).

Table 2 shows the sectoral division among companies using various forms of cooperation.

Table 2. Forms of Cooperation: sectors of economy (% , 2005)



Once again the numbers agree with our earlier conclusions. Characteristically, trade companies hardly use any form of cooperation with HEIs, the information provided by employers fall beyond 1 %. We may also observe that industrial companies tend to sign direct contracts to train specialists and actively participate in open door days and career fairs. Generally, industrial companies have higher manpower requirements and operate on a relatively stable market, so employers can forecast their requirements in labour force and develop HR policy accordingly.

## 5.5 CONCLUSIONS

Summarizing the above we pointed out that, first of all, the state has to operate in a complex HE environment and facilitate cooperation between the actors using a selection of policy instruments. The former tight link between the labour market and the HE system has been "broken" as Tomusk notes it (2000). However, the state relies on its authority, treasure and organization capacities to establish new ways of the state – market interaction.

We also note the significant value of nodality – the information, which is crucial for sound policy decision making. Tomusk (2000) analysis confirms that particularly nodality becomes important, since the HE system is still strong and heavily dependant on the central planning mechanisms. Nodality secures accurate manpower planning, but importantly, it provides guidance to students and ensures their successful transition to the labour market.

We further argue that nodality is inherently connected to treasure and authority, as in the case with GIFO financing. Gornitzka (1999) also notes the inherent connectivity of each policy action with treasure, by saying that it is hard to think of how the tool of organisation can be an instrument without some kind of money or funding attached to it. Organization in the form of specific governmental treatment, (i.e. programme and project financing) is a way the government puts various organizations to work and supports the exchange.

We argue that the state is now in a position to coordinate the environment, which is much more complex and comprises both the private and public sector. And here we would like to stress that it becomes rather difficult to draw the line between what is public and what is private in the provision of HE services. Our findings are in line with Marginson's (2007) statement concerning the complementarity of the nature of private and public goods produced by the education system, where private institutions can produce public goods and public institutions produce private goods, i.e. graduates trained in public HEIs are further seeking employment in private organizations and vice versa.

This once again stresses that importance of the cooperation between the stakeholders involved. Among other stakeholders we lay special emphasis on the cooperation with employers. Teichler (1999) notes at least two reasons why cooperation with employers should be favoured. The first one concerns the difficulties which imply when educators and policy makers try to identify the future tasks of the graduates and the competencies expected. He states, that constant communication, often on a regional and institutional basis should help to obtain signals from the world of work. And secondly, various means of cooperation should be employed, since only then educators can ensure that students are well prepared for the world of work. The following chapter will look into the specifics of the labour market, which, as we argue, have to be considered by policy makers for the successful HE policy.

## CHAPTER 6. NEEDS OF THE LABOUR MARKET

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This chapter will speak on the signals that are expressed by the employers. Our understanding of signaling has been described in the theoretical framework. For now we will summarize Spence (1973) argumentation of signaling by saying that an individual possesses certain alterable (education and former working experience, etc.) and non-alterable (sex and age, etc.) characteristics, which work as signals. For an employer such signals become parameters, according to which he/she hires an employee. In this chapter we will see what kind of signals are expressed by employers. The importance of identifying signals is explained by Teichler's (1999), who stresses that cooperating with potential employers become obvious, when it comes to difficulties in identifying the future tasks of the graduates and the competencies expected. This practice requires obtaining signals from the world of work on a continuous basis (ibid.). Firstly, some basic information of the labour market will be provided.

### 6.1 GENERAL FIGURES: LABOUR MARKET IN RUSSIA

To get a better understanding of the labour market structure we should provide some statistics, namely, proportion of public vs. private sector organizations indicates that 56,4 % of all the employed work in private enterprises. Other large portion of employees work in the public sector (32 %), and public-private organizations (6,9 %), minor proportion of employees works for joint-venture companies and various NGOs and religious organizations (4,7%) (Rosstat, 2008). Thus, we may conclude that former one-employer market has become diversified. At present, the private sector is an equal player, whose needs and requirements are to be taken into consideration.

According to Education Training Foundation (ETF country plan, 2007) country report on the Russian Federation:

Employment growth is mostly in the private sector, where, according to the Ministry of Trade and Economic Development, employment has risen by over 2% since 2000, reaching about 31 million people. About 60% of the employed work is in large and medium-sized enterprises. The growing sectors of the economy embrace coal mining, oil extraction and petroleum refining, metallurgy, energy, light and food, traditional industries in the machine-building sector, wood processing and furniture manufacturing, and manufacturing of construction materials. The information and communications technology (ICT) sector is growing rapidly and is considered to be one of the most attractive sectors of the economy for investment. The structure of employment is changing (reduction in the share of industry, growth in agricultural employment, "saturation" of the economy with engineering specialists), and the labour market continues to suffer from underemployment and latent unemployment, growing youth unemployment and a significant proportion of the population employed in the informal sector and secondary employment.



Interestingly, OECD report (2007) shows that throughout the entire period of reform, the level of total unemployment in Russia has remained one of the lowest among all countries with a transitional economy. Statistics show that country-wise unemployment rate decreased and in May 2008 reached 7,1 % (Rosstat, 2008). Contrary to the slowing down unemployment rate, figures indicate that the unemployed rate among youth is very high – 30,2 %, where 13 % of them have higher education (Rosstat, 2008). Psacharopoulos (1980) stresses that the simplest way of treating the problem would be to explain this phenomenon by identifying the mismatch between the supply and demand, where the HE system does not prepare adequately its graduates for the world of work. And this problem has stirred a lot of debate both in Russian and in European literature.

### 6.1.1 Mismatches on the labour market

Now let us see what kind of mismatches can be registered on the Russian labour market. We notice in the same way as Bydanova (2006) that quantitative research estimating the level of educational mismatch in Russia and, particularly in regards to HE graduates employment, is very scarce and information is not collected by public officials, thus we may only refer to sporadic surveys performed by individual universities, for example, the Russian State University for the Humanities (Izuchenie perspectiv trudoustrojstva vypusknikov RGGU, 2006). The research was done among the alumni, who graduated starting from 1993 to 2004<sup>33</sup>. They were asked a number of questions regarding their employment patterns, salaries, and sufficiency of their educational level for the labour market<sup>34</sup>.

The alarmingly big number of respondents from two groups answered that they are not working according to the specialty received in the University, namely 61,46 % and 48,15 % from each of the groups. 39,62 % and 37,84 % responded that they have not seek employment according to specialty, because the job would be low paid. 20,75 % and 21,62 % respondents answered that they could not find employment in the field. However, 5 % of respondents from the first cohort and 21 % from the second cohort have declared as being unemployed, though around 44 % of all respondents found job prior the graduation from HEI and only 6 % were looking for a job for more then 5 months. Most of alumni reported working in marketing, advertising, PR, trade, finance, insurance and industrial sector.

These figures show what is referred in Western literature a field mismatch. (Allen & Velden, 2001). Sadovnichij (cited in Bydanova, 2006) terms it an ‘internal brain drain”, which happens when graduate do not work within the university specialization and loose their professional knowledge and skills.

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<sup>33</sup> The respondents were divided in two groupings (333 in total), one group for year 1993 till 1999, and the second one – 2000 till 2004. For more details of the research see <http://marketing.rsuh.ru/section.html?id=1799>. (in Russian).

<sup>34</sup> Unfortunately, the sampling can hardly be called representative; however, it gives us certain ground to make interpretations on the type of mismatch that is characteristic to the labour market in Russia.

The findings of Bydanova (2006) also show that a field mismatch accounts for 25 – 45% among graduates. She claims that the highest percentage of field mismatch is claimed to be among graduates in chemistry, technical sciences, agriculture, and exact sciences. On the contrary, graduates in law, economics and humanities appear to be rather successful in finding a study-related work.

We note that the labour market is subject to cyclical fluctuations. As it has been already mentioned earlier the demand for economist, lawyers and financial analysis has now been replaced by engineers, sales and IT specialists (Kondratenko, 2008). Furthermore, the estimates of Ankor<sup>35</sup> recruitment agency (ibid.) demonstrate that in first quarter of 2008 Russian labour market has grown by 20 – 45 % in comparison to the same period last year and requests from employers for qualified labour force have increased by 44 %. The biggest interest was in the industrial sector (62 %), fast moving consumer goods (FMCG) companies (47 %) and pharmaceutical companies (31 %). The IT sector lowered its requests by 14 % in comparison to the same period last year (ibid.).

We should keep in mind that starting from the end of the 90-ties the higher education sector has been experiencing an influx of students, which correspondingly resulted in the increase of number of graduates with higher education on the labour market (Education in the Russian Federation, 2006). This factor in combination with the low level of unemployment across the country makes experts believe that such a situation might be attributed to general market absorption and a gradual fall in the value and quality of higher education diplomas where graduates have to take jobs, which require lower level of education (Kapelyushnikov, 2006). The questions arises weather this is the case or it is the jobs that used to be occupied by foreman and manufacturing supervisor morphed into a variety of new occupations requiring postsecondary education, including the modern manufacturing engineer? (Carnevale, 2008). And it is simply mere statistics that can not catch these changes?

In European literature the phenomenon, when individuals have to work in jobs that require, in our case, a lower level of education is termed horizontal mismatch (Garcia-Aracil & Van del Velden, 2006). Though, Sichernan (1991) study shows that an over-education at the beginning of the career has a transitory character, when entering the labour market young professionals accept lower positions in order to be promoted and to get access to higher positions in the future. So, they intentionally put themselves in unfavourable position at present in hope that in the future it will bring good returns (cited in Bydanova, 2007). Carnevale (2008) argues that it might be attributed to a steady increase in the educational requirements for work, i.e. "upskilling". And the argument is based on the assumption that workers with the most education are likely to be the most effective learners in the high-performance work organizations typical of the new knowledge economy, which is, as we will see later in the paper,

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<sup>35</sup> Ankor recruitment agency operates on the Russian labour market starting from 1990 and by now has extended its network to CIS countries, Ukraine, Byelorussia, Kazakhstan. It has a network of filials working on the whole territory of the Russian federation.

turns out to be one of the key competencies required by employers (ibid.). We would like to underline that these are clear indicators that the structure of the labour market is changing and we should now have a closer look at what kind of signals are expressed by employers.

## 6.2 SIGNALS FROM THE LABOUR MARKET

### 6.2.1 Working experience

The problem of graduate employment and transition from education to the labour market is rather pressing. Researchers notice that the transition to the labour market starts earlier, i.e. students tend to combine their education and work attainment (Monitoring ekonomiki obrazovanja, 2007a). Thus, initial working experience becomes one of the signals for successful employment on the modern labour market in Russia.

In addition to this, surveys, for example, by Ankor recruitment agency (Kondratenko, 2008) shows that one more year of working experience in a popular HR position adds more on a payroll of a candidate, where the starting level would be \$ 800,0 (without initial working experience) and \$ 1000,0 – 1200,0 (with one year of working experience). Specialists that have 5 years of working experience might earn up to \$ 3000,0.

Bydanova (2006) also registers that graduates wages have increased considerably since the first employment after graduation and have almost doubled since 2000. Carnevale (2008) believes that this is an indication that economy is demanding more-educated workers.

Unfortunately, we have no evidence whether the absence of working experience leads to unemployment, but as it has been mentioned earlier the market normally absorbs all the graduates.

We also argue that the lack of working experience for graduates means the loss of competitive advantage on the labour market. The labour market clearly send a signal saying that vocational skills (for example, ability to learn, to collaborate and to respond flexible to changes in the work place) are growing in value, increasing graduates' chances on the labour market and maximizing his/her profit.

### 6.2.2 Value of Diploma

The findings of the monitoring programme (Monitoring ekonomiki obrazovanja, 2007a) revealed that about 70 % of employers agree to hire an overeducated worker, i.e. HE graduates are offered positions which used to be occupied by workers with lower level of education.

We pick up the earlier argument and say that higher education is perceived as a signal that a worker has creative potential and is capable to learn and make use of new knowledge, easy to adapt to new environment.

Moreover, Psacharopoulos (1980) argues, that if the HE system is used as a mechanism for screening, i. e. those selected for HEIs are the more able for the high-pay jobs, employers will

look at the degree level rather than the content of education. He argues that the possession of diploma impacts the starting salary of a new-hire. His explanation is as follows: "employers do in fact offer higher starting wages to people with degrees because they do not have any other information about the new employees' productivity". His argument is in line with the Kapelyushnikov's (2006) observation, who writes that HE diploma guarantees higher income: employees with higher education earn an average of 60 – 70 % more than those who did not enter a higher education institution.

### 6.2.3 Changes in the preferred specialties for studies

OECD (2007) report indicates that in recent years there is a significant change in the priorities for specialties among to-be students. The economic and management fields, as well as social/humanitarian specialties are most in demand among young people. For example, at the start of the 2003/2004 academic year in the public HEIs about half of students chose these fields, while at the start of the 1995/1996 academic year only 36 % had done so (ibid.). We remark that rapid growth is observed in health, safety (the increase in the number of students is amounted to about 2000 %) and the service industries specialties (583 %). However, for the reason that have been already described in Chapter 4 (lack of proper information on changing labour market trends and employers' requirements) 90 % of to-be students still choose to study economics, management, and humanities (OECD, 2007).

Ankor experts forecast that for 2008 such occupations as financial analyst, IT specialist, HR manager will be required on the labour market. Furthermore, highly specialized professions, such as IT experts with the knowledge on ERP system, or senior IT strategic manager will be demanded on the market. Moreover, Ankor experts register the lack of marketing analysts (Knyazeva S. , 2008). This tendency indicates the growing tertiary sector, which is focused the interaction of people with people in the process of service provision.

### 6.2.4 Employment Selection Criteria

The monitoring programme (Monitoring ekonomiki obrazovanija, 2007a) examine the opinion of numerous employers when hiring young professionals for certain types of positions. The initial review indicates that such signals as previous working experience, certificates of professional attestation, HE diplomas, status of the educational institution of the graduate, computer literacy, types of courses taken in the educational institution, foreign language proficiency are paid specific attention to by employers.

Characteristically, the Russian researchers notice that until today employers can not clearly formulate the requirements that would signal their needs in the type of labour force needed on the labour market. In each case employers are mainly guided by its own selection criteria. The selection process is focused on the results of an interview with employer and in some cases is conducted in the form of tests and exams.

So, let us have a closer look at factors that influence employer's choice in the selection process. As we have already noted earlier former working experience and recommendation letter(s) from employers are highly considered by employers, unlike the marks received during the years of education (Monitoring ekonomiki obrazovanija, 2007a). The results of the monitoring programme directly correlate to the findings of recruitment agency Ankor, which can be formulated as "a graduate must have a working experience when he/ she comes to the labour market", should he/ she wishes to succeed.

We note, that it might signal the growing demand in vocational skills of employees and the changing requirements for competencies, which a graduate must acquire during the educational process.

As Russian researchers further notice that in the case of personnel shortage Russian employers tend to use the adverse risk behavior and hire an employee with a probation period. The probation period lasts at least 3-months, when a newly-hired employee is get familiarized with company's corporate rules. In its turn, probation period turns into a period when an employer evaluates a new employee, provides him with basic organizational training and assesses his/her abilities and knowledge (Monitoring ekonomiki obrazovanija, 2007a).

## 6.3 SKILLS AND COMPETENCIES

### 6.3.1 Generalist or Specialists

It becomes important to see what types of graduates are required by the labour market: generalist or specialist. As for the general directions in which HE should be developed most experts agree saying that it must "devote greater attention to generic competencies, social skills and personality development, prepare students for the growing globalization and internationalization, and serve students through an increasing variety of means beyond classroom teaching and learning" (Teichler, 1999). Furthermore, Bydanova (2006) findings confirm that "in line with tendencies appearing on graduate labour markets in Europe, not only professional expertise, but a wide range of competencies turn out to be essential to acquire".

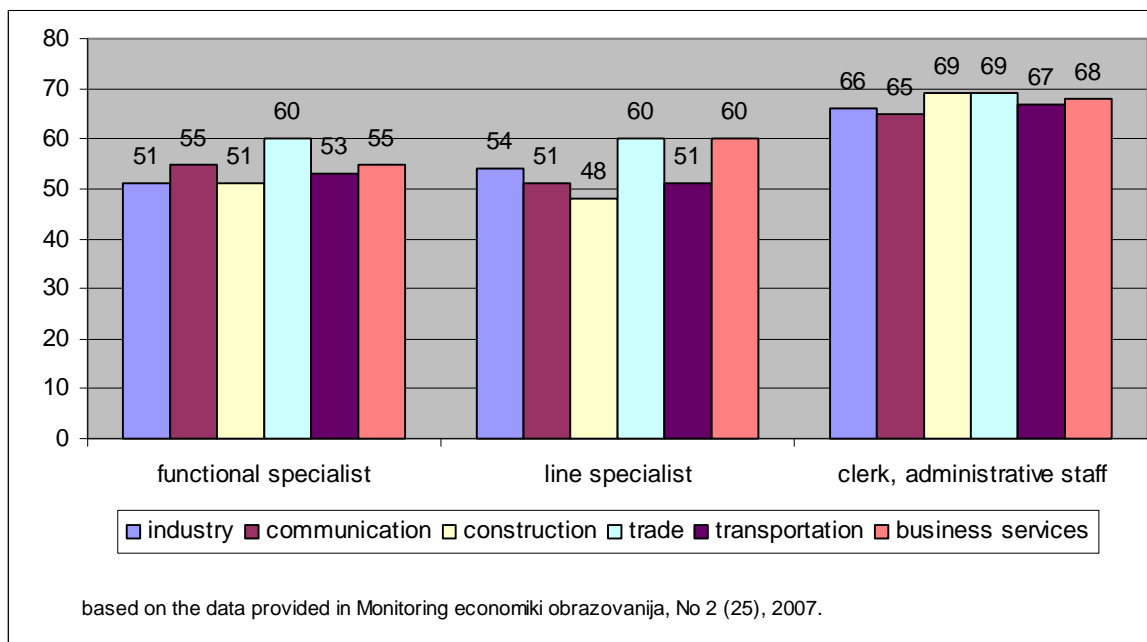
Teichler (2002) believes that HE should not only be focused on providing deep knowledge in a particular field. In his opinion, a conviction spread during the last few decades that higher education should play a stronger role than in the past. It should seek to foster "competencies beyond systematic cognitive knowledge". Next to the traditional belief that universities are to transfer theories, methods and a systematic body of knowledge related to particular discipline or domain of work, Teichler (2002) states that "higher education should foster competencies relevant for successful professional practice which are based to a lesser extent on cognitive and systematic learning.

Let us have a closer look at the type of specialist a modern employer seeks to hire. We note that by specialists the authors of the monitoring programme mean such professions as

accountants, finance specialists, HR managers, brand managers, sales managers, etc. So, these are experts that possess specialized type of knowledge in a certain field. Contrary to specialists, generalists are those, who have to perform multiple tasks, thus requiring skills and knowledge from various fields (Monitoring ekonomiki obrazovanija, 2007c). So, the findings indicate that employers choose to hire generalists with abilities to further training, when it concerns vacancies for line and divisional managers, clerks, administrative staff, which are regarded as entry-level positions. The figures of two-year programme illustrate that there is a growing preference among employers to hire generalists (67 %) for clerk and administrative positions, next to the diminishing demand for functional and line specialists (55 % and 56 % correspondingly). This tendency can be explained by the specific character of duties, i.e. employees in clerk and administrative positions have to perform tasks in multiple fields, while certain level of specialization is required for functional and line workers.

Let us now see how employer's preferences vary depending on its economic field. The data is presented in the Table 3.

Table 3. Types of companies that prefer to hire generalists (%), 2005.



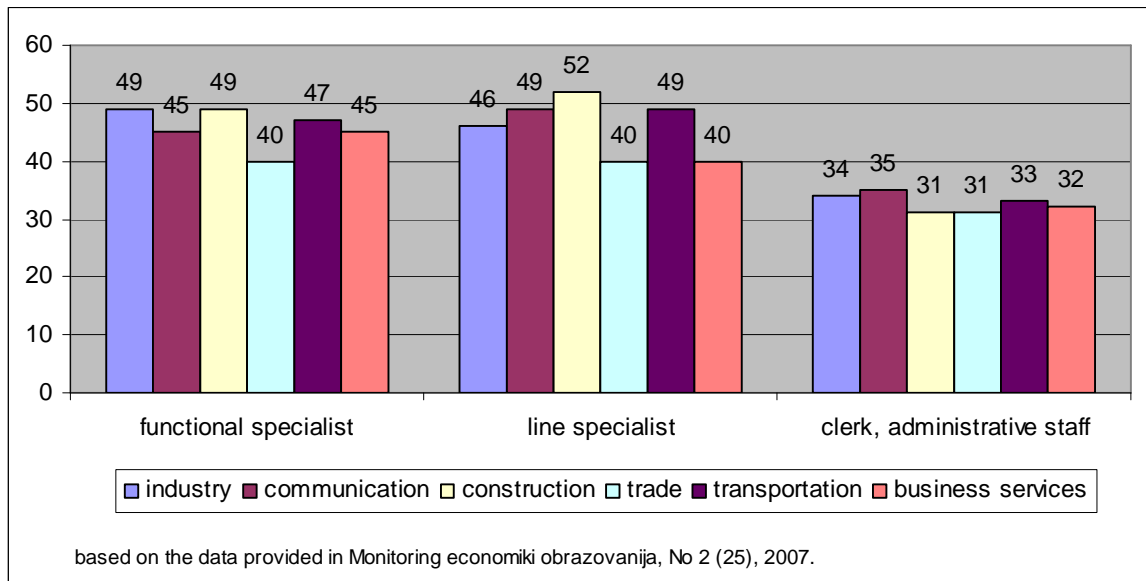
Characteristically, the lowest number (48 %) is observed in the construction industry for the position of a line specialist, since it implies a production process, which is usually split into process-oriented phases. The functions of line specialist assume clear-cut division of work activities and imply certain level of specialization, which naturally can not be accomplished by a generalist.

Teichler (1999) explains the increasing role of generalists above specialists by the following reasons: 1) specialized professional knowledge is now becoming obsolete more quickly than in the past; 2) a growing number of professions and of positions within enterprises and public agencies is not clearly demarcated but rather based on knowledge deriving from different

disciplines; 3) flexible and generally educated persons are expected to be less disappointed about frictions in the employment system and to adapt more easily to job tasks which are not anticipated in advance.

However, we note that not only generalist are required on the labour market. Table 4 indicates the companies that prefer to hire specialists.

Table 4 Types of companies that prefer to hire specialists (%), 2005.



As we see the lowest level of specialization is required for clerk and administrative positions. Comparing Table 4 to Table 3 we can observe the reverse trend. Employers prefer to hire specialists when it concerns functional and line specialists, with the exception of trade sector, where more generalist are required. Moreover, experts believe that the pronounced employers' preferences are explained by changing trends in production, which requires flexibility and broader knowledge on the part of employees (Monitoring ekonomiki obrazovanija, 2007a). Furthermore, Reitor's analysis (2007) and the results of monitoring programme indicate that employers build up the volume of in-house training and short-term intensive course for newly-hired employees. Employers declare that 38 % of functional specialists and 46 % line specialists required additional training (Monitoring ekonomiki obrazovanija, 2007a). Among the reasons for additional training the employers specify the lack in general and specialized knowledge as well as the lack of practical experience. They also notice the existing gap between the knowledge received in HEIs and required by the labour market. Furthermore, communication skills and ability to use information, which we already noticed earlier, is also noted as missing by employers (Reitor, 2007).

Russian researchers Glazychev et al. (2004) questions the necessity of training specialists in the HE system. He claims that the purpose of training specialists can be questioned by the existing reality, when each year new professions appear, and the system of HE education simply can not catch up with the developments. Secondly, an individual generally changes a

profession each five years or even more often. And thirdly, as he believes, the success in certain industry or profession generally does not depend on the qualification listed in a diploma. It requires practice and validation of other experts. Thus, he claims that a HEI should equip an individual with skills and competencies, but can not make a specialist out of him.

### 6.3.2 Types of Skills and Competencies

The results of Bydanova findings (2006) allow us to shed light on the type of skills and competencies required by employers. She has accomplished a survey among the graduates from Volgograd and Moscow regions by using the methodology developed in REFLEX<sup>36</sup> project and IREDU (Institute of Research in Economics of Education, University of Burgundy). She hypothesizes that, first of all, a capacity to acquire new knowledge is as much appreciated as the expert knowledge. Secondly, there is a number of competencies that are as much important as the domain-related knowledge. Thirdly, the expert knowledge is far from being the only and the most important competence at work.

Following Teichler's logic and analyzing the graduates employment on the Russian labour market, Bydanova (2006) depicts that changes in organization of the modern society bring about new challenges for highly qualified specialists and it is not only knowledge in a particular field that is important nowadays, but a set of the below mentioned competencies becomes relevant for successful professional practice.

Her assumptions are supported by the results of the empirical findings (survey performed among graduated from Moscow and Volgograd regions), which prove that knowledge in the field is far from being the only and the most demanded competence on the labour market. Besides the 'expert' knowledge (knowledge in the field), some other competencies appear to be highly required by employers, namely:

- capacity to manage effectively time at work;
- capacity to write reports;
- capacity to acquire new knowledge;
- capacity to assert own authority,
- capacity to express one's own ideas,
- computer and internet literacy

Her findings help us to make the picture of the graduate employment market in Russia complete by providing explicit argumentation on type of skills and competencies required by modern employer.

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<sup>36</sup> See more on <http://www.fdewb.unimaas.nl/roa/reflex/>.



## 6.4 CONCLUSIONS

Summing up our findings we may conclude that, first of all, former one-employer market has become diversified, where nowadays the HE system has to supply qualified labour force for enterprises of public, private and mixed forms of organization.

We further note that a number of signals have been voiced by employers. Our general observations are the following: employers require a recent graduate to have basic vocational skills, which are usually acquired during employment or through internships. It signals that graduate's knowledge and skills have been validated by experts' society. The importance of employees' capacity to acquire new knowledge is much appreciated by employers, which is best trained in HEIs. Workers with the most education are likely to be the most effective learners in the high-performance work organizations (Carnevale, 2008).

The analysis shows that on the Russian labour market both vertical and horizontal mismatches are occurring. However, they do not influence significantly the unemployment rate among graduates with higher education, since most of them are gradually absorbed by the labour market. Market absorption is attributed by some researchers to the growing general complexity of tasks graduates have to perform on a working place.

Moreover, most jobs occupied by HE graduates are concentrated in the growth industries. Our analysis shows certain trends, where employees with service-oriented professions (financial services, marketing, PR and advertising) will be required on the labour market in the current future. Moreover, next to the service-oriented professions, we expect that highly qualified specialists will increasingly be working in industrial sectors in the field of health and safety, IT, HR. Upskilling is regarded as a direct result of the rise of the post-industrial service economy, and accordingly to some experts believe will only require more postsecondary graduates in the not-too-distant future (Carnevale, 2008).

## CHAPTER 7. STEERING HIGHER EDUCATION TOWARDS THE LABOUR MARKET

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The objective of this research was to explore the use of policy instruments in Russian higher education and the needs of the modern market economy in Russia. As the reader may have observed it we have gradually disclosed the issue in question. At an earlier stage, we have intentionally set the picture of Russian HE system and labour market as a whole. As a second step, we viewed the policy instruments, providing a zoomed-in view of HE system and the labour market. Thereafter, we have showed how the use of policy instruments develops, becoming more diversified. Furthermore, we stressed that the government has to operate with new policy instruments to manage the complex environments. Then, we reviewed the requirements of the modern labour market, which are to be met by graduates. And finally, in this chapter we will reflect on our general findings and discuss the usefulness of the various policy instruments. By the usefulness of policy instruments we mean that it provides a fair access to HE for everybody, that it is aimed at achieving its goals in a most timely and efficient manner, and that it secures the quality of services and needs of the modern labour market.

### 7.1 STATE – MARKET RELATIONSHIP

Hereby, we notice that former linear relationship between the state and the market has been changed by introducing new players on the market, thus affecting the place of the HE system on the state – market continuum.

Our observations show that the modern educational market is not merely divided between the state and the market, representing a zero sum balance (Marginson, 2002). We argue that the HE system in Russia can be characterized as the one that is widely dependant on authority and exchange and which represents a cobweb of relationships between the stakeholders involved. Clark (1983) argues that the division of power, support of variety and legitimate disorder is the way to manage systems, since it gives more opportunities for all stakeholders to ‘have their say’, thus balance the supply – demand equilibrium in a better way.

The issues of power, variety and disorder have been challenged by the modern market economy, where the inefficiency of resources allocation during the exchange process brings about market failures (layers of coordination, overproduction of specialists, etc.) in the HE. Thus, we claim that the government is considered to be a warrant to remedy these market failures (Jongbloed, 2003). It is to intervene and carefully arrange the framework, boundaries and playing fields for the providers of HE (ibid.). In much the same manner as Gornitzka (1999), we argue that the established relationship between the state and the higher education give more room to manoeuvre and accommodate the needs of the growing labour market demands. The most characteristic example would be the new format of national educational standards, which allows HEIs design curriculum and apply new modes of teaching and requires employers to contribute and participate as well.

## 7.2 USEFULLNESS OF POLICY INSTRUMENTS

As we have shown in Chapter 4 the HE market actually consists of a multitude of markets, which, in its turn, increases the complexity of the system that the state has to operate. Hood (1983) claims that complex environments require tailor-made tool-kit of the policy instruments to provide for sound and balance system management.

In much the same manner as Hood (1983), we argue and demonstrate that the modern policy instruments represent a mix of instruments different from what existed before, i.e. the ingredients are the same but the recipe is different. By using various types of policy instruments the government encourages or discourages certain type of behavior among actors. As we have noted in Chapter 4, the behavior of actors on the educational market is characterized by a higher level of institutional and academic autonomy of HEIs (discretion in respect to financial issues and drafting academic programmes).

We see nodality as a very powerful policy instrument, since timely provision of information or failure to do so, impacts on decision of consumers. This concerns several aspects, namely, the primer decision to investment in HE services, the choice of HEIs and the graduates' success on the labour market.

Thus, we believe that regular data collection (surveys) on the costs of HE services, types of programmes, and the employability of graduates (professions, wages, time for job search, etc) on the labour market, similar to the practice, for example, introduced in the Netherlands will ensure that educational providers reveal the quality of their services (Ogata et al., 2007). Information exchange between educators and employers will create an operating environment, where both of the parties benefit from each other. Employers thus will be able to communicate their needs, which will stimulate the educators to adjust the curriculum accordingly. Furthermore, consumers (to-be students and households) can not be missed, since, as we have already noted, they bring in financial means into the HE system and afterwards their skills and competencies into the labour market. By letting stakeholders speak out their needs, the government will increase the exchange of information and take away information asymmetries (Jongbloed, 2003).

Furthermore, we see the gradually increasing role of authority in the hands of the government. The new format of national educational standards that has been framed within the requirements of Bologna agreement creates a number of advantages for the participants of the educational process. It increases mobility of students and provides them with fair chances to find employment on other markets, thus affects their employability.

However, we see specific value in Hoods' (1983) observations on the "size of clientele", which is important for the selection of policy instruments. In the case of Russia we argue that economic, geographic and demographic differences of the regions have to be taken into consideration. In such light the level of discretion (up to 50 %) for programme drafting is fairly

justified and it gives the possibility to reflect the regional specificity in the educational programmes.

We claim that licensing, attestation and state accreditation are restrictive policy instruments. Though, the problem in question is twofold. The government, firstly, has to secure its function of information provider and, secondly, to guarantee the quality of educational services. However, we see more accountability and legitimacy in self-reporting practices, where HEIs are to provide information on their outputs and compete on an equal basis, thus bringing more consumer sovereignty.

And one of the possible ways to implement is to let stakeholders participate in the process of quality assurance. In the case with Russia it is the development of occupational standards, which is to make the link between the education and the world of work closer. As it has been described in Chapter 6, until certain moment the signals that were coming from employers were sporadic and heterogeneous. The voice of certain industry representatives have been heard, but not framed in the legally supported movement to tackle the problem. Once this idea received the governmental impetus, it is gaining the proper momentum.

Moreover, we see the value of creating additional incentives and involving employers in the process of programme development. As, for example, the practice adopted in the Netherlands where the Law prescribes that institutions should have a board of governors appointed by the government, whose members are representatives of public sphere and private business (Ogata et al., 2007). Furthermore, close interaction with employers might be also established through research alliances, networks, work-training schemes, staff-exchange agreements, sponsored endowed chairs, etc. (Jongbloed, 2003) Besides, there is still another way to attract private business in the process of intense interaction with the HE sector, namely, to create financial incentives in the form of tax exemption, as it has been introduced by the Dutch government (Ogata et al., 2007). The recent amendments to the Tax code allow for such tax exemption, though Shokhin (2008) suggests that investments in so-called corporate universities, which are either organized on the basis of existing HEIs or within an organization, can be subject to income tax exemption as well. He believes that it will invigorate employers' efforts to invest in on-job learning practices.

In spite of the fact that US apprenticeship (Carnevale, 2008) has fallen short under the Clinton Administration, we believe that in Russian system the preconditions to strengthen and further develop internship and apprenticeship practices, especially when it concerns public sector are more favourable. Since the state is less affected by general market fluctuations and is able to plan with relative precision the amount of labour required, we believe that it can sign direct contracts with HEIs to train specialists. Moreover, the specialists should be guaranteed to have a career development plan and competitive salaries, thus their rights on the labour market will

be equal with those on the private. Similar approach we find in the Dutch practice of dual learning (Ogata et al., 2007).

Treasure appears to be the most commonly used instrument by the government. We note that governments instead of direct financing tend to use demand-driven schemes and targeted funding; however, it is restricted mainly to public HEIs. We see that such an approach restricts private actors and diminishes their role on the educational market. Jongbloed (2003) terms it “uneven level playing field”.

Furthermore, we concur with Marginson’s (2007) statement who argues that the governmental role in the process of policy making is to enhance those public goods that markets create, and to compensate for those public goods that the market tend to suppress. Thus, evaluating the function on HE system, we believe that possible ways to steer HE policy might be a selective approach to support certain specialties, such as natural science, agriculture, education, culture, as it has been described with GIFO financing scheme. These are traditionally the fields that have not received much appreciation by the market, though require equal attention.

### 7.3 CONCLUDING REMARKS and FUTURE RESEARCH

As we have argued at the very beginning of our research the processes that are happening to the HE system in Russia are similar to the rest of OECD countries and the policy vectors indicate that Russian HE system is moving towards knowledge-based economy. We see now a challenge to benefit and learn from the experience and practices of other OECD countries. In the section above we have evaluated the possible alternatives of policy instruments that might improve the operability of the HE system. However, we believe that educators and policy maker will gain much from further comparative research concerning the practices that are employed in other countries with a knowledge-based economy.

The research and development policies have been set outside the principle tasks of our research. Though, in the pan-European community it acquires significant value, since it becomes an engine in the overall economic advancement. It ties up the knowledge generated by researchers with the economy and society. And as Dyker and Radosevic (2000) notice it the dimension of industrial relevance is the one on which least progress has been made so far in countries with transition economies.

Our research also reveals the increasing labour market demand for more highly skilled workers. The issue of upskilling have not been considered by Russian scholars. However, scholars agree that high levels of human capital constitute a comparative advantage for knowledge-based economies, and we feel it necessary to explore the fields and professions that required more knowledge and skills.

In fact, we believe that the initiative undertaken by the Higher School of Economics (Moscow, Russia) has been only the first step in the process of evaluation and conceptualization of the

higher education system development. Moreover, it becomes important to perform a thorough research into the occupational trends on labour market and explore the needs set by employers for the educational level and proficiencies of graduates on a country-wise basis. The good examples of such an approach has been set by REFLEX and CHEERS projects implemented in several European countries. Such practice gains significant important in the light of the Bologna process and the issues of globalization.

Furthermore, our analysis also shows that the introduction and implementation of certain instruments requires sometimes a political will on behalf of the governments. We argue that an element of strong political will and governmental support can be found in the recent move to improve the cooperation activities with employers. It would be important to note that no matter how balanced and appropriated the state policy might be the implementation process and the use of authority, nodality, and treasure and organization gains special importance.

However, as Carnevale (2008) argues that apart from monetary rewards that we have thoroughly discussed in the paper, the higher education is more than "dollars and cents", it is about cultural and political missions that promote societal values.

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