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For a more meaningful regulatory role

THE ONGOING debates on higher education, especially in the context of the recent Supreme Court judgment on various issues including the issue of regulating unaided institutions, as well as the approaches of most Universities and State Governments defy common sense economics. Here we have Universities, which are nothing but Government protected territorial monopolies trying to regulate self-financing educational institutions, which operate in a competitive market. A University degree acts as a filter that simplifies the selection process employers adopt. Hence employers as well as potential employees value the degrees. The credibility of this filter will be at stake if fly by night operators take advantage of liberal policies in licensing higher education. On the whole this could be true, but one should look at the nuances in this.

Broadly, there are two segments of institutions that seek University affiliation and consequently they subject themselves to regulations by the Universities. The first segment caters to those students who are in institutions merely for a degree or for the symbolic value of a University degree. The degree does help as a filter while seeking jobs requiring generalised skills such as those required for clerical jobs in Government organisations and banks. Undergraduate and postgraduate degrees in arts, science and commerce belong to this category. The second segment caters to those students who not only want a degree but also want enhanced competencies that are in high demand, such as managerial competence and IT competence. Degrees such as MCA/MBA belong to this category. While the former category of institutions is not sensitive to the needs of employers, the latter category is. Universities generally do not make these distinctions while trying to regulate them. The simple principle from economics is that if the market regulates institutions more efficiently and effectively than the State, then the task of regulation should be left to the market. The best way of subjecting market sensitive institutions to the regulations of the market is by facilitating an oversupply of such institutions.

In simpler words, allow MBA, MCA, BE degree courses to freely spring up in the States. The institutions will go through a period of intense competition followed by a period of consolidation; the less competent ones will disappear and the ones that are competent will survive. The better amongst them will offer good quality training and command a premium price in the form of higher fees. Regulating these institutions other than through the market is at best redundant and at worst harmful. Quality as well as price commanded by these institutions is best left to the forces of the market. Universities by tradition have experience only in regulating institutions that cater predominantly to students who are there merely for degrees. The regulating bodies themselves are dominated by academics from disciplines that are nothing but conduits for giving degrees merely for their symbolic value. Hence neither the political economy nor the professional competence of Universities places them anywhere near the market in being an effective regulator of market sensitive courses. The best role model for Universities is from the financial services industry, that of SEBI (Securities and Exchange Board of India). The objective is to facilitate those factors that prevent market failure as in the case of stock markets. There is the possibility of asymmetry of information between service providers and the customers. Such asymmetries can lead to wrong and costly decisions by students as well as by employers who recruit from these institutions. Enforced transparency is the solution and it should be treated similar to disclosure norms in the case of listed companies. For example, student ratings of teachers and what the institution did to make good any sagging ratings should be available to potential employers of graduating students.

Similarly, the employers' ratings of alumni performance should be available to prospective students, the admission process should be transparent and made public, details of sources and applications of funds should be available to all stakeholders. So the important role for the Universities is to ensure that the consuming public consisting of students and employers are well informed about the strengths and weaknesses of each of the self-financing institutions. While such disclosure norms can be designed and implemented, there is no guarantee that new and unknown institutions will not spring up, cheat the gullible amongst the students and disappear. Such aberrations are part of any industry and it is too costly to design regulatory mechanisms that can take care of all such aberrations. If Universities become preoccupied with the need for controlling fly by night operators over the need for better disclosure norms, self-financing educational institutions will ultimately become more sensitive to the regulatory needs of the University than the needs of the employers, thereby denying the student community the opportunity to have an educational process that imparts value for the price it pays.

In the present structure of the University system in the country, the Universities cannot have any other meaningful regulatory role with regard to self-financing institutions other than ensuring transparency on their part. If you allow the institutions to be in an excess supply situation, the forces of the market will take care of quality in a more effective manner than any committee of professors from any University. The present structure of the University system does not allow affiliation of institutions from territories of other Universities. If such affiliations were allowed, the Universities would have competed amongst themselves for affiliations and in that process would have created distinct identities for themselves. That would have given each University a more laudable regulatory role. This situation is not available in any state in the country. In case of postgraduate courses, many Universities themselves run high demand courses such as MBA/MCA. This leads to one more contradictions as the Universities find themselves incapable of competing with good self-financing institutions that are affiliated for the very same courses.

The inflexible bureaucratic structure of the Universities leads to their courses becoming poorer replicas of the courses run by affiliated self-financing institutions. It is high time Universities gracefully admit this contradiction and take up roles that the self-financing educational institutions in normal course will not take up. More importantly, Universities should research on the methodology and pedagogy in running such courses that would give them valuable inputs for helping the self-financing educational institutions run their courses in a better manner. Proliferation of self-financing courses will also lead to demand for teacher training programme and development of well-researched course materials. Universities could undertake both these tasks. Hence Universities will make a better contribution, especially in disciplines in which self-financing courses are going to proliferate, if they are ready to get out of their delusions of grandeur as super competent regulators. They will be able to cut out more useful and creative roles for themselves if they also accept the fact that their function has to be complementary and facilitative and not regulatory.

When monopolies are given regulatory roles, they will try to extract abnormal profits through regulation. When Universities are allowed to be monopolies in regulating self-financing institutions in their territories, the abnormal profits take the form of exercise of power by University administrators and academics. Left to them, self-financing institutions imparting professional education will compete with each other to deliver quality. Universities will be able to discover a more meaningful regulatory role if they themselves are subject to such competition. Once the territorial monopolisation is removed, differentiation will become the basis for competition amongst Universities. Like a franchisee, the affiliated self-financing institution is then forced to contribute to the process of differentiation of the affiliating University. Only then will regulation have a meaningful role that will benefit the two customers of education, the students and the employers.

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