



Katowice School of Technology

# The development of higher education as a tool of city marketing

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# **The development of higher education as a tool of city marketing**

edited by Aleksander Ostenda

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## UNIVERSITY, SOCIAL ENTERPRISE, AND ECONOMIC DEVELOPMENT: SEARCHING FOR MISSING LINKS AT THE REGIONAL (CITY) LEVELS

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**Abstract:** This article investigates theoretical links between three concepts: university, social enterprise, and economic development of a city. It is shown that a region can prosper due to high quality educational institutions that implement social entrepreneurship in many ways: by teaching existing social entrepreneurs based on the research done in this field, by encouraging and helping current students to start social enterprises and by managing university as a social enterprise. So far, only some examples from Ukraine and the US were used to support the theory explained in the article. Thus, there is a need for future empirical testing.

**Keywords:** city, university, higher education, social entrepreneurship, economic development

In the era of globalization and knowledge economy, higher education is the driving force of the economic development of a territory: country, region, and/or city. Supply and demand for higher education are two important forces that drive the market of higher education. The supply side of this market is formed by universities and colleges (sometimes referred to as "institutes" in many of the CIS countries). People interested in studying at under- and postgraduate levels represent a demand side on this market. Mainly the demand for higher education corresponds to the interests of students in their last year of high school.

Over past decades a steady increase in demand for higher education was observed both in developed and developing countries. For example, in the OECD countries during the last decade percentage of adults with higher education degrees increased from about 20% in 2000 to over 30% in 2010 [1].

Demand for higher education is influenced by various factors, including the following [2]:

1. Expected return on investments. Higher potential income after graduation creates greater demand for higher education.
2. Real income of graduates after graduation. It should be noted that often potential students overestimate their future earnings.
3. Profit loss created during years of graduate studies. A positive correlation exists: a shorter duration of graduate studies as well as lower level of salaries for unskilled and uneducated employees, create smaller profit loss and higher demand for higher education.
4. Income gap. Differences in earnings of those who graduated and those without higher education degree. The bigger the gap, the higher the demand for education.

5. Competition at the admission stage. On one hand, this factor limits the demand for quality education, on the other hand, it determines intellectual approachability of education at the entry level.
6. Level and quality of pre-graduate training. The higher the level and quality of pre-graduate training, the higher the demand for graduate education from potential applicants.
7. Level of parents' education. On the average higher level of parents education leads to greater demand for graduate schooling for their children.
8. Average family member income. The smaller the size of a family income (which depends both on parents' earnings and number of children in the family), the lower the demand for higher education on the part of the potential student.
9. Job prospects. Higher education degree is treated by employers as a signal of acquired comparative advantages. *Ceteris paribus*, when hiring a new employee preference will be given to the individual with a degree. In some countries, for instance Ukraine, it is often given as a basic prerequisite for the employment.
10. Risk of job loss as a result of market instability. Workers with higher education degrees have a lower risk (compared to workers with just secondary education) of losing their job during economic downturns.
11. Quality of institutional environment. Improved institutional environment leads to increased productivity of highly educated and skilled employees. This improves returns on educational investment and thus provides additional incentive to receive higher education by a larger number of talented people.

Constant demand for higher education assigns universities the role of key players that influence socio-economic development of a territory (country, region, and/or city). Previous research results [3] identify a number of ways in which universities promote social and economic development of a region. They include:

- A) knowledge creation through R&D programs that utilize the potential of newly developed technologies and approaches;
- B) knowledge transfer through education and human resource development;
- C) contribution to the socio-economic development of areas by knowledge spillovers that promote innovation at local, regional, and national level.

Thus, endorsement of social and economic development of the region (namely city) has become one of the main strategic goals for modern universities. Correspondingly, the following tasks can and should be performed by universities:

- 1) political objective – formation of future political elite, development of civil society, creation of city's image and its political weight in a country;
- 2) economic objective – promotion of small and medium-sized businesses, labor market development, and integrated development of the city which includes environment, infrastructure, transportation, etc.;
- 3) social objective – preservation of local traditions, improvement of the social climate and standard of living, reduction of social differentiation and polarization, promotion of continuous education, aid in solving migration problems, youth policy, sports, etc.

This list of tasks is not complete. However, it can be considered as a most common one, applicable to all cities. While political and economic factors are of obvious importance, further on we plan to focus more on the social objective.

Growing recognition of societal challenges can be observed not only on a daily basis but also in numerous publications, conferences, and recently undertaken initiatives. The latter include but are not limited to: the launch of Social Innovation Europe initiative, the UK Social Stock Exchange, Skoll's Social Progress Index, EU Framework Program projects such as, RECOSET or PERSE. Universities and colleges from around the world have joined this trend by starting to focus more on corporate social responsibility and social entrepreneurship.

A number of European universities have created dedicated centers that conduct research in this field that underpins the educational programs run at universities. This list includes but is not limited to the Centre for Social Economy at the University of Liège (Belgium), Institute for Social Innovation at ESADE (Spain), Skoll Centre for Social

Entrepreneurship at Oxford (UK), The Centre for Social Entrepreneurship at Roskilde University (Denmark), Social venturing entrepreneurship at Nyenrode University (Netherlands), The Social Entrepreneurship Initiative at Trinity College, Dublin (Ireland), The Social Entrepreneurship Initiative at INSEAD (France).

The social entrepreneurship phenomenon has created a dynamic rapidly growing market in EU countries. With rising demands for qualifications by social companies and social entrepreneurs, separate courses and training programs were set up across EU universities to fill the gap between the demand and supply for qualified personnel in social enterprises. Most of them teach how to create business plans for social entrepreneurial organizations, many encourage students to start their social enterprises while continuing their education. At the same time they should become social enterprises themselves.

Previous research [4] has revealed that universities around the world use both business and social entrepreneurship models. Universities which are mainly driven by social mission are more likely to transform into social entrepreneurial institutions. At the same time, currently there is no clear understanding of what social entrepreneurship in higher education is about and this might slow the initiatives to get involved in solving community problems. Social entrepreneurship in higher education needs to be studied and promoted at the same time. This is true both for developed and developing countries. For instance, according to a ranking done by The Ukrainian Philanthropists Forum (UPF) and the NGO „Socially responsible society” altogether the top 20 companies contributed 140 billion USD to charity activities in Ukraine in 2012. That sum was a) twice as high as the 2011 budget; b) accounted for 24% of the total budget. Charitable budget of 2012 was distributed in the following way: health - 14%, sport - 6.7%, social security and assistance - 3.5%; art and culture - 2.2%, environment - 1.8%, science and education - 0.5%. The largest part was classified as „other” (67.8%), and was primarily related to such social problems as local community infrastructure development, management capability, and support of local initiatives [5]. As we can see, from the perspective of social change, education is not a popular investment.

Social entrepreneurship is still treated as a relatively new phenomenon, especially in post-transitional countries where social services were provided only by the state for almost seven decades. After the collapse of the Soviet Union, the lack of state support led to the emergence of the third sector. As of now, NGOs in these countries help to solve many social problems, but due to limited organizational capacity and low organizational maturity, their efforts are still in infancy. Most NGOs are ineffective due to a lack of basic managerial competences. This leads to rejection of steps which must be taken by a business to solve acute social problems, such as social marketing, business planning etc. However, in recent years more and more NGOs, as well as people with background in social services (public sector) and business field, are looking into social entrepreneurship concept and understand the need for better skills and knowledge. However, currently in Ukraine there are no dedicated courses for would-be or existing social entrepreneurs provided by universities. Several NGOs do conduct training aimed at social entrepreneurs but normally such training seminars are organized ad hoc, do not have a properly devised curriculum and do not provide proper academic and educational footing for attending participants.

It should also be noted that in Ukraine universities are mainly located in large and medium-sized cities (i.e. number of inhabitants exceeds 100 thousand). In Table 1, one can see rankings of top Ukrainian universities, which was conducted by “Compas” in 2013. While other rating agencies use other methodologies and have other results, there is one conclusion that is true for all existing rankings: the best Ukrainian universities are located in the capital and in major cities that are regional centers.

**Table 1.** Ranking of top Ukrainian universities in 2013 and population of the cities in which these universities are located [based on data taken from 6, 7].

#	Rank	Name of the institution	City	Population of the city, in thousands (01.01.2014)
1	1	National Technical University of Ukraine "Kyiv Polytechnic Institute"	Kyiv	2869
2	2	Taras Shevchenko Kyiv National University	Kyiv	2869
3	3	Kyiv National Economic University named after Vadym Getman	Kyiv	2869
4	4	National University "Lviv Polytechnic"	Lviv	729
5	4	Donetsk National Technical University	Donetsk	950
6	4	National University "Kyiv-Mohyla Academy"	Kyiv	2869
7	5	Kyiv National University of Construction and Architecture	Kyiv	2869
8	5	National Aviation University	Kyiv	2869
..	..	...	...	...
28	8	National University of Kriviy Rig	Kriviy Rig	652

As shown in the table the best university which is not located in a regional city center ranks 8th and is 28th on the list of all universities (as a number of universities can have the same rating according to the methodology). At the same time, it should be noted that Kriviy Rig is considered a major city. As of 01.01.2014 the number of inhabitants was about 652 thousand people. This confirms the fact that the best schools are located in big cities. They are attractive for the economically active population, especially for young people, as they provide access both to education of higher quality and better internship/job prospects [8].

Let's now consider the major roles that universities can play in city development.

1. Buyer. For example, in the U.S. universities spend more than 1 billion dollars yearly on purchase of goods and services. The implementation of local procurement programs creates partnerships between universities and local communities (i.e. program for securing investment in local businesses, quick delivery of services and goods to universities given the proximity of local vendors) [9].
2. Seller. For example, the University of Arizona in 2004 secured the release of over 41 000 highly qualified professionals, while earning 1.2 billion dollars. The total contribution of the University of Arizona to the economy of the region amounted to 2.3 billion dollars. [10].
3. Employer. In the United States institutions of higher education employ more than two per cent of total number of people employed in the country [6]. In Ukraine, in 2013/2014 academic year universities and colleges (so called III-IV levels accreditation) employed almost 159 thousand of pedagogical and scientific-pedagogical workers. This equals 0.77% of total employment in the country [11].
4. Business incubator. Universities participate, both directly and indirectly in the creation of technological parks and business incubators, thus contributing to local economy. In Ukraine, for instance, the science park "Kyiv Polytechnic" was created in 2006 to "stimulate innovative activities aimed at intensifying the process of economic development, production and implementation of high-tech products on domestic and foreign markets, increasing revenues to state and local budgets, accelerating innovation development of the Ukrainian economy" [12]. The structure of this science park includes industrial park "Kyiv Polytechnic", business incubator "Kyiv Polytechnic", and other scientific, industrial and educational institutions, together with consulting, legal, financial and other entities which carry out recruitment, legal, investment maintenance and support of innovative activity.

A number of indicators can be used to assess the impact universities have on a city's economy. The most important are the following: number of enrolled students, benefits

from the conducted research activities, which include creation of jobs and tax revenue received by local and state budget as a result of such activities [10].

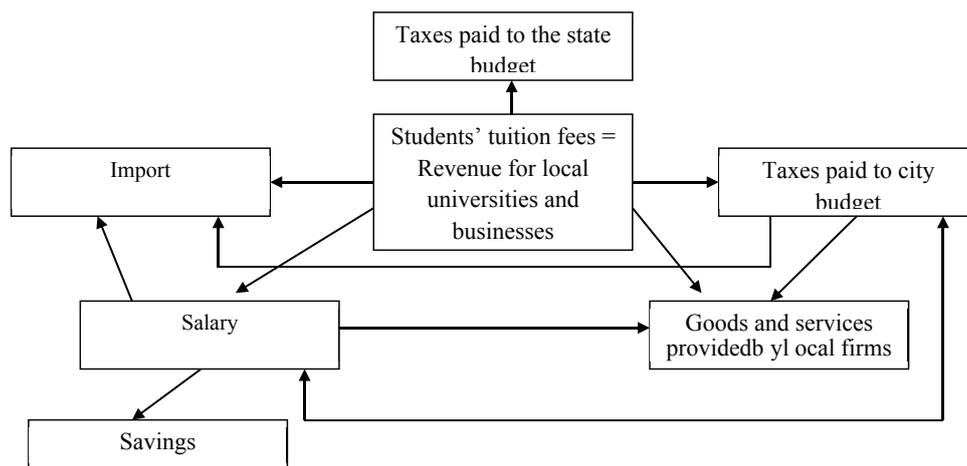
The impact university can have on the economy of the city (region) can also be analyzed from following two perspectives:

- 1) direct expenditures of university staff, students and visitors, on goods and services. This money supports local entrepreneurs who, in turn, hire local people to sell goods and provide services;
- 2) indirect (or induced) expenditures. Firms and individuals who receive money as direct payment, spend these funds in the city, thus creating derived demand and need for the creation of additional jobs. [13]

Thus, university's impact on the economy of a city is characterized by the multiplier effect. University that provides competitive educational services, promotes the influx of students, teachers, and staff from other cities. In addition to that, city residents who plan to pursue higher education have the opportunity to study locally, thus financing local economy. From this perspective, the impact of students on the city's economy is similar to the impact of tourists on the city's economy [12].

Circulation of revenues and expenditures created by educational services providers is represented in Figure 1. Students' education may be financed both from the state budget and from private funds (as expense of individuals and legal entities). Tuition of students coming from other cities can be considered as a type of export of educational services.

**Fig.1.** Circulation of revenues and expenditures created by universities



The growth of aggregate income of the university and local businesses will be higher than student expenditures that caused this increase. In other words, there is a multiplier effect similar to the effect of a tourism multiplier [14].

Multiplier of educational services is a coefficient that shows the change of the indicator (for instance, city's employment or local budgets revenues etc.) compared to the change in student expenditures that have impacted the above-mentioned indicator. As local budget revenues are extremely important for the development of a city, it is suggested to determine its dependence on the changes in the number of students. For this purpose two types of multipliers can be calculated.

1. Multiplier of city budget revenues is an indicator that shows to which extent changes in budget depend on changes in students expenditures:

$$m_B^1 = \frac{\Delta \text{ revenues } \phi \text{ local (city) budget}}{\Delta \text{ students' expenditures}}$$

2. Multiplier of city budget revenues is an indicator that shows to which extent changes in budget depend on changes in number of students enrolled in a city's universities:

$$m_B^2 = \frac{\Delta \text{ revenues } \text{ } \text{local (city) budget}}{\Delta \text{ number } \text{ } \text{students in the city}}$$

If the university is closed (or relocated to a different town for security reasons, for instance), it will have negative consequences for the economy of a city.

In Ukraine, due to occupation of Crimea and the Donetsk, and Lugansk regions, universities were relocated to safer regions of Ukraine. At the end of October 2014 total of 9 universities were evacuated: Donetsk National Technical University moved to Krasnoarmajysk, Donetsk National University to Vinnitsa, The Tugan-Baranovsky Donetsk National University of Economics and Trade and Donetsk Institute of Law Ministry of Internal Affairs of Ukraine – to Kriviy Rig, Lugansk National University to Starobilsk, East Ukrainian National University of Dal and Lugansk State University of Internal Affairs to Severodonetsk, Luhansk National Agrarian University to Kharkiv, and Lugansk State Medical University to Rubizhne [13]. While recognizing the difficulty of the situation from the perspective of staff and students of evacuated universities, it is worth noting that cities to which universities have been moved will most likely benefit due to all of the above-mentioned benefits.

**Summary:** In current economic conditions social entrepreneurship is seen as one of the best development strategies. It allows combining the best of both worlds (nonprofit and profit) to tackle those social problems and needs that are not properly addressed by businesses and governments. That is why, promotion of social innovation and social entrepreneurship is among top policy priorities. To achieve this goal society first has to invest - invest in education of future social entrepreneurs.

Universities should focus more on empowering future social entrepreneurs. At the same time they should become social enterprises themselves. Universities which are entrepreneurial are more likely to be competitive on the new market of higher education and this will lead to their further development in the newly created environment based on extreme competition.

Universities, especially those that promote social entrepreneurship and corporate social responsibility, play an important role in the economic development of a city. In turn, increase in city's attractiveness and competitiveness contributes to the development of universities located in these cities. However, these theoretical links still need to be empirically tested.

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