CONCLUDING THE FIRST WAVE OF HE DEVELOPMENT IN POLAND: THE END OF "POLISH HE 1.0"

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Abstract:
In 2010 Polish HE entered a decade of upheaval that will result in the failure and disappearance of dozens of institutions. With pent-up demand from the Communist era and a Capitalist culture favouring tertiary degrees, the first two decades of post-Communist transformation provided enough students to fund growth of new institutions and expansion of existing ones, from 100 in 1990 to 460 in 2010. Currently these institutions find themselves overextended financially and resource-wise, while facing a decade-long demographic low and unable to find new students elsewhere. Radical reform, ruthless downsizing or collapse are in the future of many HE institutions.

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1. Introduction.

Polish higher education was one of many social sectors, which suffered persistent underdevelopment and underutilisation by Communist authorities. Universities, academies and polytechnics were victims of decades-long ideological and political power plays, resource starvation and minimal HR improvements. Less than 100 institutions (universities, polytechnics, medical academies, etc) served the needs of 36-million citizens and provided mediocre, formalised education, infused with "correct" ideological content and subject to Communist ideas of equality and effectiveness. 1989 opened the doors for entrepreneurship in all sectors and two decades later Poland's economy hosts 3.3 million commercial entities, ranging from privatised/transformed State-Owned Enterprises (SOEs) and international corporations, through large private companies all the way down to nearly three million Small and Medium Enterprises (SMEs). All of these companies required highly trained employees and this demand for trained cadres of all types and levels was identified (in some cases even foreseen ahead of time) by a new type of entrepreneurs, who founded the first of Polish private HE institutions and by state university managers, who strived to create new institutions and enhance existing ones.

2. The first wave—upward phase: 1989-2009.

The two decades of transformation after 1989 saw the first "wave" of HE sector growth, where institution numbers increased from 100 in 1989 to 458 in 2009 (GUS, 2010). Expansion occurred in the state-owned (public) sector with new universities, academies and polytechnics appearing (created through Parliamentary decrees following a Ministry of Higher Education decision) and many existing institutions establishing new subsidiaries (Public Higher Vocational Schools) in smaller towns of 60-100 thousand inhabitants (unable to sustain entire universities). Yet, the majority of growth occurred in the new segment of non-public HE institutions, where entrepreneurs set up over 330 private, tuition-based HE institutions (GUS, 2008). The private institutions are formally classified as "non-public" and non-profit (equivalent to "charities" in UK or "foundations" elsewhere), while their founder can be an individual, association, NGO (Sejm, 2005).

Both public and non-public institutions depend for their funding on students: public universities receive a fixed fee from the Ministry for each accepted student, while the non-public institutions collect their tuition directly from each client. Keen to enhance their revenues, all institutions pursued a strategy of maximising student numbers. Every school opened multiple programmes at undergraduate, postgraduate and professional levels and student numbers exploded, levelling-off at close to 2 million students (MNiSW, 2010) The market supported growth in institutions and degree numbers through Communist-era pent-up demand, as millions of mature individuals pursued degrees (previously inaccessible in the limited number of institutions and places), often spurred-on by evolving laws that created formalised degree requirements for many professional posts in government, business and institutions. The younger generations, brought up in a post-Communist society that cherished tertiary degrees and thus enforced a cultural expectation of degree completion, were further motivated by the evolving labour market where the simplest of posts are advertised as requiring a degree.

A qualitative division emerged, partially thanks to HE rankings (also a novel concept), with top private institutions easily overshadowing many state universities, thanks to teaching quality, client orientation, international cooperation and advanced infrastructure. State-funded universities fought back through the provision of free education. By the mid-2000s an uneasy balance was reached with both groups represented by different associations, each lobbying the Ministry of Higher Education and lawmakers for changes to key legislation that would benefit only them, neither willing to engage the other and propose a systemic reform that would benefit both sectors. This entrenched conflict is extended to students, alumni and employers, all of whom affiliate with either public or non-public institutions: many governmental decision-makers, often educated under Communism in public universities favour state-educated graduates, while private entrepreneurs or senior managers in modern companies prefer the end-product of top private institutions.

3. The first wave—peak: 2010.

By 2010 it became clear that Polish higher education has reached a key milestone, beyond which lays the need for urgent and radical reform. A series of key developments indicate the end of the upward phase of the “first wave” of HE development in post-Communist Poland.

Demographic trends have turned against university education in Poland. A demographic low has appeared that will continue to worsen until 2020, restricting the inflow of 18-year olds: already by 2010, state-owned universities have enough places to accept all high school leavers (Interia, 2010). Additionally, the number of mature students began to fall, as the group of those wanting or needing a degree was satisfied: those whose posts require a tertiary degree have already completed at least an undergraduate programme, while no new vocations are expected to undergo a tightening of entry requirements. For those for whom a degree may be a hobby or a an opportunity to satisfy personal ambitions, the current prices are an effective deterrent (Bankier, 2010).

The global economic crisis brought with it a reduction in corporate training/education reducing a vital revenue stream: postgraduate (post-BA and sub-MA) and professional programmes, where HE institutions were able to generate notable profit margins (often beyond 50% of total tuition revenue). Uncertainty hit another lucrative segment: MBA programmes, as both tuition-paying employers and self-funded individual employees are forced by market uncertainty to forgo such courses. Weekdays see empty corridors as students switch their preferences to part-time (weekend) education to pursue full-time paid employment to fund their life and tuition (Bankier, 2010). Many BA graduates show an increasing tendency to delay postgraduate degrees until the economic climate improves (students and their tuition leave after 3, instead of the usual 5 years of BA + Masters) and are unreceptive to any marketing or creative cost-saving offers (for example: two degrees studied at the same time for a single programme’s tuition).

Poland’s 2004 EU accession opened the doors for top students to pursue degrees in Western institutions, gain scholarships abroad and have the right to undertake well-paid employment during and after studies (Grabau, 2010). The opportunity to study in top internationally-recognised universities is welcomed by the best (grade-wise), wealthiest, most motivated and career-minded students who, thanks to preparation in a very good primary and secondary education system, have few problems achieving good results in western higher education. International recruitment, undertaken haphazardly and without governmental support, has failed to cover the fall in numbers of Polish students (GUS, 2010; Duszynski, 2011).

The abovementioned external factors assure a continuous reduction of available student revenues, leaving the institutions to battle their immense fixed costs, resulting from investments in infrastructure and staff undertaken in the initial growth/competitive phase. Advanced infrastructure, acquired by leading non-public schools pursuing a qualitative differentiation strategy, has forced both public and weaker non-public competitors to invest heavily in renovation of buildings, acquisition of new ones, IT and other infrastructural investments. The majority have been funded by commercial borrowing, with only the wealthiest institutions able to pay from current cash reserves. Banks awarded multi-million Polish zloty loans (often in heavily-fluctuating foreign currencies equivalents: Swiss Franc, Euro, US dollar) on the basis of previous positive cash-flows (themselves a result of good “fat” years), with little interest in the future market size and its ability to support credit repayments. The first defaults (on loans and/or invoiced payments) emerged in 2008 and have increased in number, with HE institutions from both sides of the ownership divide reported by desperate creditors to the Credit Information Bureau and its Defaulter Index (BIK, 2010).

Every Polish HE institution offers multiple degrees, often created to match a short-term localised market opportunity or through following market leaders. Degree awarding rights are granted to each institution by the Ministry of Higher Education (MNiSW) and require the fulfilment of specific conditions, separately for every degree. The fundamental requirements are on provision of specific and narrowly-defined subjects (“degree core”, often 50-60% of all subjects) and the employment (and precisely defined utilisation) of qualified academics, representatives of the given discipline (understood as having the appropriate education, titles, publications, teaching experience: MNiSW, 2007). As a result, each opened degree carries large, long-term fixed costs, while the system effectively prevents staff/student/subject cross-over and the pursuit of economies of scale, vital in a shrinking market. Due to institutional commitments to staff, students and Ministry (as well as issues related to prestige), degree closure is very difficult, costly, time consuming and many institutions are slowly driven under by their inability to shed useless ballast in the form of uneconomic degrees.

4. The first wave—downward phase: 2011-2020.

Polish HE institutions in 2011 and beyond, find themselves over-extended financially, over-committed infrastructure- and staffing-wise. They lack the experience of dealing with a mature market system where competition is brutal, only the best survive and price-based sales strategies doom most to failure. Even EU funding, distributed in hundreds of millions of Euros in pursuit of key EU priorities, only delays the painful reality and, with the current global financial crisis, EU funding must begin to wither and be redirected to much more needy nations, denying Polish universities such a supply of stable and “easy” funds.

Radical transformation is required, to adjust to a shrinking market, mature clients, evolving institutional and regulatory environment, increasing global competition (aggressive, well-funded). Otherwise, the early individual school collapses (Interia, 2010) will avalanche into what the media predicts as a brutal culling, with over one third (or even half) of all 460 institutions vanishing within the next decade (Grabau, 2010). The downward phase of the “first wave” will see behaviours familiar to any observer of the international business environment and its cyclical nature.

Skilled managers, many of whom are currently outside the HE sector and will only be hired in the coming years as business rationality takes over, will be successful in guiding many institutions (public and non-public) through the difficult time of reductions, cutbacks and cost-saving reorganisations. Non-core physical assets will be sold-off, reducing costs and generating a one-time windfall, to be used in balancing the overall debt level or as strategic investment in new products. Many staffers will be laid off, subject to market-oriented evaluations of their institutional value as researchers (publishable and international results), grant winners, lecturers (client satisfaction, flexibility in teaching different subjects), ability to innovate, the willingness to contribute to commercially-oriented projects or willingness to reduce own burden upon the institution by undertaking additional (external) employment. Once the stigma of degree closure is removed by more proactive (or desperate) institutions already informing the Ministry about their intent to cancel entire programmes (MNiSW, 2010), the flood of degree terminations will begin. It is safe to assume that within a decade the number of degrees will be halved, allowing institutions to focus on core activities (for example: polytechnics focusing only on technical education) or offering highly-profitable (specialised or servicing a market niche) degrees.

Where management (existing or imported) will fail in reforming struggling institutions, Poland will witness multiple failures of tertiary education institutions (Bankier, 2010), as schools close down, first by cancelling degree after degree until there are no students, and then being deregistered by the Ministry, while creditors and owners fight for whatever remains of the assets (Chalupka, 2010). While the business, ownership and legal squabbles will eventually find resolution, it remains to be seen how the labour market will react to “graduates” of collapsed institutions who, in essence, have “worthless degrees” (by being educated in an institution which could not take care of itself), akin to owners of products whose manufacturers have ceased to exist and no warranties/support are available.

An intermediate response has three possible dimensions. The first involves takeovers by stronger players, keen to access new markets (new degrees, new locations), acquire selected competencies (staff, research, consulting, grants, contacts) or strategic infrastructure that is costly, difficult and time-consuming to develop internally (for example: laboratories). Such activities have started by 2005, but remain largely invisible to the market as ownership changes take place at the level of founding shares, with both sellers and buyers preferring to withhold information from the market, and preferring to keep institutions separate (retaining their brand, locations, even keeping management structures separate). The second dimension has not yet materialised, but must be expected: purchase with intent to shut down, where a strong institution will acquire a weakened competitor (in a given segment of degree category or in the specific location) and shut it down, taking over all students and assuring itself better recruitment results in the future. The third is a less aggressive strategy: alliances of multiple institutions, keen to optimise, cut costs or achieve life-saving economies of scale. Here, first attempts were undertaken in 2007 and are accelerating each year with schools uniting on the basis of core competencies (alliances by type of institutions: medical, engineering, etc), location (alliances of diverse institutions within one town or city, trying to develop a joint competitive advantage based on geographical proximity) or by market position (alliances of weak institutions that manage to find other partners in similarly desperate situation).

Those institutions that emerge from the culling, to ascend the "second wave" (a "Polish HE 2.0"), will be much different, forced into a new regime (of financial discipline and careful planning), streamlined and efficient. The reversal of the current demographic trends by 2020 will come as a reward to those institutions that were well-managed and survived. They will be required to meet the needs, expectations and capabilities of mature HE clients and stakeholders, as most segments of the nation will evolve over the next decade from chaotic post-Communism to true Capitalism.

5. Summary.

Uninterrupted growth in tertiary education that spanned the first two decades of Polish post-Communist transformation is coming to an abrupt end. Demographic changes will reduce available revenues from a decreasing number of new students, while institutions find themselves burdened with excessive costs that are a result of own mistakes and the requirements placed upon them by the governing state authority. The conflict between state and private institutions further weakens all institutions as they fight for the same client, but each side tries to entice him with a (mostly) undifferentiated offer.

Industry observers predict a reduction in HE institution numbers in the coming decade from 460 to under 300, maybe even sub-200. Survival will be a result of difficult business-style reforms, well-known from other industries and nations around the world. Public and non-public schools will have to embrace Capitalist practices and allow managers with a background in "real" business to reorganise, streamline and improve all processes, structures and assets. Otherwise they will experience unavoidable collapse that will dramatically change the academic community, research and education as a business sector and impact hundreds of thousands of students/clients who will invest time, effort and funds only to find themselves holding a degree of recently-defunct tertiary schools. Governmental involvement (as a force for reform or bailout source) cannot be expected, as it continues to fail in current areas of responsibility and will be unwilling to take on an additional burden. Similarly, the European Union will prove unwilling to fund resuscitating any market failures. The free market with all of its opportunities and dangers has arrived and calls for professional management and restructuring of Polish higher education.

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