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## **THE INTERACTION BETWEEN HIGHER EDUCATION AND LABOUR MARKET IN CHANGING ECONOMIC ENVIRONMENT**

### **Abstract**

This paper explores challenges higher education institutions face while ensuring one of the quality assurance criteria – meeting the demands of labour market. The relationship between labour market and higher education institutions becomes even more complicated during the periods of rapid changes in labour market caused by economic collisions. In this article statistical data on employment and higher education is analysed and compared with employers' position expressed in interviews. As a result it is considered that students/potential employees remain the main driving force that brings the demands of labour market into higher education.

Key words: higher education, labour market, employability

### **Introduction**

Meeting the demands of labour market has become an important criterion in the process of quality assurance of higher education institutions and study programmes. Considering higher education as a part of social life demanding significant funding – both public and private – concerns about practicality, usability of study results are obvious.

Development of high technologies and the emergence of knowledge society led to higher standards in the labour market as the employers in need of qualified employees were searching for people with higher education (OECD, 2001). Previous research (Hansson, 2007) has established that a better education and wider competencies of the working population ends up generating more economic activity and entrepreneurship and – consequently – more job opportunities for everybody. It is also well known, that in most developed countries unemployment is lower among people with higher education (OECD, 2015). At the same time debate has continued, whether the higher education systems are capable of meeting the demands of modern, dynamic labour market (Little & Arthur, 2010; Jacob & Weiss, 2010; Smirnov, 2008). During economic collisions and rapid changes in labour market, higher education systems are expected to cater to new demands, despite being affected by these collisions themselves.

The aim of the current research is to determine how higher education and the labour market interact during periods of changes caused by economic collisions, and what the driving forces of this interaction are.

### **Theoretical background**

The research on the interaction between higher education and the labour market usually is focused on graduates' chances to get a job, i.e. the problem is analysed from the perspective of the universities. For example, aspects considered to be significant in this context include the socio-economic background of the student

(Argentin & Triventi, 2011; Orkodashvili, 2011), the choice of the “right” higher education institution, or study area (Berggren, 2010, 2011; Lombardo & Pasarelli, 2011), as well as finding the right balance between the general and specific skills and competencies in the learning outcomes (Jackson, 2008; Pukelis & Pileicikiene, 2007).

In line with Bologna process focused on the employability of graduates the importance of generic skills has been stressed. The European Qualifications framework considers them as the descriptors of the learning outcomes of each cycle of education, thus they have become important quality indicators in the higher education quality assessment. However, some research results argue that the role of generic skills might be overvalued (Mason, Williams & Cranmer, 2009; Hejke & Meng, 2011): professional skills and work experience are more appreciated by employers as they curtail both time and resources allotted to the training of a new employee. This increases the importance of collaboration between a higher education institution and concrete employers of its graduates. In European Union a University-Business Forum annually brings together higher education institutions, companies, business associations, intermediaries and public authorities since 2008. The Forum points out that building and maintaining long-term strategic partnerships between higher education and labour market is a time-consuming process (Forum, 2011).

## Methods

Two arrays of statistic data covering the period from 1990 till 2010 were analysed and compared. The Latvian Central Statistics Bureau databases were used to extract data on the labour market – rates of employment and unemployment in different sectors, especially those requiring higher education (such as medicine, education, banking and finance). Data on number of higher education institutions, enrolment rates, amount of graduates in specific fields corresponding to the sectors of labour market and some information on graduates’ unemployment rates were found in the statistical annual reports on higher education prepared by the Department of Higher Education of the Ministry of Education and Sciences of the Republic of Latvia. Additionally, 14 semi-structured interviews were conducted with employers of micro-enterprises (with less than 10 employees) and small enterprises (10-49 employees) – whose business area requires hiring professionals with degree or higher education diploma: mass media, communications, printing, dentistry, private secondary education. Employers from Riga region who had some engagement with higher education institutions in recent past (have been lecturers, members of examination or accreditation commissions, mature students), thus have been familiar with higher education system, were included in the sample. Three interviews with representatives of large enterprises (in this case all three enterprises have more than 1000 employees) – a pharmaceutical company, a plywood producer and a dairy – were used in this research, one of them was published (Jakobsons, 2007), two others – conducted within the framework of the current research. The pharmaceutical company has a significant research unit, therefore a large part of its human resources are specialists with higher education. The plywood production company and dairy both require higher education in engineering and management positions that form around 25-30% of their human resources. All three large

enterprises included in the sample are stable businesses, established more than 20 years ago and therefore were considered to be long-term partners of higher education institutions.

### **The labour market**

The period of transition economy in Latvia started with an abrupt isolation from what had been a large market on the East – the former Soviet Union. As a result big industrial enterprises (several of them were closely linked with the Soviet military industry) went bankrupt in the early 1990s. Within a decade (1990-1999) more than 50% of industrial workers lost their jobs and their qualifications and experience became useless (Vipule, 1999). The de-nationalization and privatisation of all kinds of enterprises led to the departure from extensive economics with full employment where everybody worked, mainly delivering no significant result, to more intensive and efficient way of production, thus even more people became unemployed. Unemployment was a new phenomenon requiring a legal framework, therefore the Law of Employment was passed in 1992. In 1997 a period of the economic growth started: entrepreneurs which had found targeted the former Soviet Union as their market largely reoriented their exports towards Europe, establishing partnerships. It became clear that lots of skills suitable in the Soviet era will never be useful again and people started to look for new qualifications. Therefore some part of the previously unemployed enrolled in higher education and became students.

As the independent country and its economy strengthened new fields of professional activities emerged: entrepreneurship, banking, social work, logistics and customs, defence, public communication and advertising, information technologies, etc. The remaining “post-soviet” industrial enterprises alongside with smaller businesses had to look for innovative solutions to stay competitive. Thus the demand for skilled and educated employees increased in the labour market.

The increase of employment and decrease of unemployment remained even until the economic downturn in 2008. Data from Central Statistical Bureau show that unemployment rate increased from 6% in 2007 to 18.7 in 2010. Until 2008 there were more people employed with a completed upper secondary education (with no qualifications) than people with higher education diplomas and qualifications (on average – 15%). In 2008-2010 20% of those with upper secondary education lost their jobs, and only 5% of those with higher education. Thus in 2008 we saw for the first time the number of employees with higher education exceeding the number of those with upper secondary education in the Latvian labour market.

### **Higher education**

Three legal acts framed changes in higher education in Latvia after the regained independence: the Law on entrepreneurship (1990), the Law on education (1991) and the Law on higher education institutions (1995). Two key aspects introduced by these laws were private funding of the education and academic freedom. 24 new higher education institutions were established during the first decade of independence (15 – by private owners) (data from Register of higher education institutions). Enrolment in higher education quadrupled from 8.4 thousands in 1992 to 34.1 thousand in 1999 (data from Ministry of Education and Science reports).

More than half were people with work and life experience gaining new qualifications. Responding to the labour market demands, new fields of studies emerge, such as business management, banking, computer technologies, etc. On the other hand, new study fields provided by the higher education institutions created initial impulses for new segments of professional activities to emerge, like social work and psychological consulting (Kestere & Gravite, 2011).

The number of state funded study places remained more or less the same during the whole period, therefore in 2008 75% of students both in private and state owned higher education institutions were paying their fees themselves, or using state guaranteed study loan system (data from Ministry of Education and Science reports). With the onset of an economic downturn, the rise of unemployment, stagnation of businesses and budget austerity directly affected both the household income level and – alongside with that – ability to pay tuition fees. The enrolment in higher education dropped by a quarter – from 41.6 thousands in 2008 to 31 thousand in 2010 (Ibid).

### **The interaction between the labour market and higher education**

There are three stakeholders in the process of interaction between the labour market and higher education: higher education institutions, employers and students who are to become employees. Successful partnerships between higher education institutions and employers are the results of strategic approach and long-term collaboration.

Interviews with employers showed different approaches from small and large enterprises. Small businesses usually don't have the time and/or resources to invest into collaboration with the higher education institutions – especially in the periods of rapid changes. A more common practice in 1990s was to send an employee to some crash courses to obtain particular professional skills needed for new tasks. Another widely spread practice was on-site vocational training. Three of the employers admitted that their office at times reminded of a make-shift vocational school for beginners: people were hired, trained and soon they moved to better paid jobs in other companies. One of them finally contacted a newly established private higher education institution, interested in providing the necessary education, and together they developed a study programme (digital graphic design) that met all requirements of the employer. However, such success stories are not characteristic of the period of changes.

The employers adapted to new, dynamic market situation much faster and easier than higher education institutions and the academic society. The largest difficulties were faced in case a higher education institution had guaranteed state funding and was in a monopoly situation as they did not feel a need to change. Medical education provided a good example: one interviewee – the owner of a private dentistry practice – described the professorship of the institution she graduated from as “a group of conservative, self-sufficient people who think that they are the smartest in the world and don't need to listen to anybody”. When asked about the role of the professional society – the Dentists' Association – she replied: “They form the board of that as well!”. In dentistry, private school and editorial boards of magazines an excellent graduate from the higher education institution was considered to be “a good material to start to work on”. For employers in public

communications, advertising and publishing businesses the formal education in 1990s was not considered relevant at all – the employee's experience and creativity were much more important, thus the employers of micro-enterprises and small enterprises that formed the biggest part of the labour market (98%) showed little or no interest in collaboration with the higher education institutions. During the following period of economic growth some employers themselves decided to continue studies or to gain a formal education and/or additional qualifications (4 out of 14 interviewees). Two interviewees returned to studies during the economic downturn as their business activities became less intense.

Three interviews with the representatives of large enterprises (only 0.26% of employers in Latvia are large enterprises) showed different approaches to collaboration with higher education institutions, being involved in such activities on a long-term basis. These companies managed to emerge from old soviet enterprises due to innovative production and business solutions. As soon as they reached some economic stability in late 1990s they re-established partnerships with particular higher education institutions providing study programmes in the field of their interest. The pharmaceutical company and the plywood production company have long-term cooperation programmes with universities. The first one provides scholarships for successful students, runs research competitions and allows students to do their research or spend internship period in its laboratories. The other provides internship places and makes suggestions on changes in the curriculum. The dairy mainly delegates its concerns regarding the curriculum to a professional organization – the Dairy Farmers society – and deals only with students on internships. All three are involved in the process of evaluation of study programmes and assessment of diploma works. The chance to get acquainted with students – potential employees – as early in the study process as possible was mentioned as the main advantage of collaboration. Two representatives of small businesses also agreed that participation in assessment of diploma works allow them to “skim the cream” by offering a job to the most talented graduates. The plywood production company's representative admitted, however, that the best and most devoted graduates remain out of their reach as they come from families that run their own businesses in related fields (timber production, log buildings, furniture production, etc.). Because of their background knowledge and experience they are the most demanding students and – consequently – become good professionals, but they usually return to their family business. It was admitted in the interviews that the willingness to collaborate with the higher education institutions is driven purely by the business interests of the employers, therefore they have no intention to maintain the partnerships if their own affairs are endangered. Their interest in hiring new employees or making suggestions for the curriculum is cyclic, it depends on their plans to expand, or implement some innovative solutions. The last economic downturn of 2008-2010 however did not affect these three large enterprises – partly because of a smart, skilled and well educated managerial and engineering staff who were able to make the right decisions in right time.

## **Conclusions**

Despite the ongoing public discussions about poor collaboration between employers and educators, the positive influence of expanding higher education on

the working population and the labour market seems to be evident, although the contribution of the higher education system to the increased welfare of the country remains a subject of unresolved debate.

Large, well-established companies are most likely to be interested in collaboration with higher education institutions, but they form the smallest part of employers, although each of them has large number of employees. Smaller companies are much more dynamic, their impact on labour market is stronger: one might say that they are the ones that create those widely discussed “labour market demands”. They are also more open-minded to innovations and learning, although their resources are not sufficient for maintaining long-term partnerships with higher education institutions.

It is hard to maintain long-term strategic partnerships during periods of economic collisions when both the employers and the educators are affected. However dialogue between labour market and higher education remains strong through the main stakeholder who brings the demands of labour market into higher education – students/potential employees.

The biggest employer in the labour market that has the strongest influence on higher education is the state. The assessment of its impact on the labour market/higher education relationship through funding, legislation and strategic planning in Latvia’s case requires further research.

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