

ic institution (“ $x$ ”) and the quota for other institutions (“ $y$ ”) should also have been decreased to maintain equilibrium. If higher education institutions had acted according to the formula  $x + y = a$ , they should have realized that the expansion policy would equal bankruptcy.

According to further Ministry of Education statistics, about 43 percent of private institutions were below the quota for the academic year 2008/09, and 47 percent are in debt for the fiscal year 2007/08. Most of these are small higher education institutions located in rural areas. Tuition is the main source of income and, at many institutions, up to 80 percent of total revenue. Institutions that fail to recruit students not only lose financial resources but, if they fall below 70 percent of the quota, government subsidy as well. These institutions will experience a harder time in stopping the drainage of reserve funds so long as they fail to fill up slots to their *tei-in*.

#### FINANCIAL BURDEN OR ASSETS FOR PRIVATE INSTITUTIONS?

Private institutions’ are required, under the private school accounting laws, to maintain a certain amount of money as basic reserve funds. The reserve funds include 50 or 100 percent of the retirement payment for full-time faculty and depreciation expenses for new facilities (calculated according to a prescribed formula). Under a definite plan for construction of a new building, the necessary amount of money must be put aside as a reserve fund.

*A strong tendency exists for high school applicants to flow into metropolitan areas, thus making it more difficult for small/rural higher education institutions to recruit students.*

An institution’s fundamental reserves vary according to the size of an institution and whether it has any midterm plan for a new facility or campus expansion. When the bank interest rate was around 3 to 5 percent, many institutions put their reserve funds into bank accounts and realized income from assets. Now that the bank interest rate has lowered to 0.5 percent, many institutions carry out asset management by government securities, structured bonds, foreign-currency deposits, or bank debentures. These policies are at low to medium risk compared to investment trusts, equity investments, or derivatives trading.

The media reported that the anonymous K university (5,500 student *tei-in*), for example, lost US\$150 million before it withdrew its reserve fund from derivative trading. It had to make up its loss by a bank loan. Many higher education institutions obtain loans from banks for new buildings. In the case of another anonymous T university (1,700 student *tei-in*), instead of putting its reserve funds in high-risk but high-return derivatives, it managed its assets by structured bonds, bank debenture, and foreign currency trusts. It enjoyed a return rate of

2.69 percent in 2008, earning US\$15 million. However, the projected interest rate from asset management for this institution will be down to 1.25 percent, resulting in earnings of US\$7 million for 2009.

Clearly, it seems that small/rural colleges end up receiving less extra income from admissions over the *tei-in* level. This loss creates less scholarship money for capable students. Moreover, the attractiveness of the colleges to prospective students decreases, reflected concretely in fewer applications, and the greater likelihood of actual enrollments below the *tei-in*. The small/rural institutions are likely to lose prospective students as a negative cycle works against them. This tendency, in turn, augments the opportunities available to large, metropolitan higher education institutions. In Japan, a clear division is anticipated, with the larger institutions getting much larger and the smaller and rural ones getting much smaller. With no sign of extra assistance from the government directed to small/rural institutions, it is likely that some (specific number unknown) of them will be driven out from the college market. This is a hard fact that we will face in the foreseeable future. Large higher education institutions will survive these changing circumstances. ■

## Germany: The Quest for World-Class Universities

BARBARA M. KEHM

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Despite widespread criticism of global rankings, it has become politically attractive in nations across the globe to position at least one if not more of their universities among the top-ranking institutions. It is a matter of national prestige to have a global player among the higher education institutions in almost every system around the world. Germany, which has been known for the organizational diversity as well as legal homogeneity of its higher education system, shares this course of action. In 2004 the education and research federal minister thus made a proposal to identify Germany’s top-level institutions. “We need lighthouses” was the minister’s argument to secure Germany’s competitiveness and economic future in the emerging knowledge society and to strengthen the international visibility of German universities as high-quality institutions with cutting-edge research.

This plan formed the birth of the German “excellence initiative.” After complicated negotiations with the German states, which are politically and financially responsible for higher education, a competition was organized in three categories: gradu-

ate schools, clusters of excellence to carry out strategic research in interdisciplinary teams with various partners, and institutional development concepts with the potential to become top-level universities. In each category a considerable amount of extra funding was provided for altogether five years. The selection was a very complex and time-consuming procedure, and at the end 9 universities were identified in the third category, to become future elite institutions.

The initiative not only triggered more competition among German universities; it also marked a conscious shift toward a more vertical differentiation of the system as a whole.

*The initiative not only triggered more competition among German universities; it also marked a conscious shift toward a more vertical differentiation of the system as a whole.*

#### A CRITICAL ANALYSIS

The competition and its outcomes included two principal impacts. First, in the process the longstanding fiction was given up that all universities in Germany were basically equal. Second, universities that participated in the competition but were not selected and those that did not apply, given their slim odds for success, now feel related to the “second league” or even classified as losers. These attitudes were not surprising because no rational thought had been given to the issue of other forms and types of excellence rather than just research to merit support and reward. However, universities outside the excellence initiative still have a serious role to play of providing the pool of talents from which the top-level institutions might eventually recruit their students and academic staff. The institutions must be motivated to engage in these goals.

But what can be learned from the trends and impacts emerging out of this exercise in a more general way? At least eight critical issues should be mentioned:

First, based on a political prognosis about the competitiveness of the German higher education, research, and innovation system the initiative had identified a number of problems, some of which were purely reputational.

The selection process suffered from a lack of distinction between proven performance and potential to perform. Thus, the validity of the selection and award decisions suffered.

The open acknowledgement of existing differences among German universities did abolish the longstanding fiction of a relatively homogeneous system, in terms of quality. However, by focusing the process only on research, the importance of excellence in teaching was relegated as a second-rate qualification.

In general, the pressure to perform is passed on from the level of central management to the basic units, which tends to make the latter risk averse. However, avoiding unorthodox and

“risky” research might turn out to be the opposite of innovative and “cutting—edge” research.

Undecided, at the beginning of the process, was whether the initiative should be a sole event or one to repeat in the future. It remains unclear if a one-time approach may actually serve a catalytic function to achieve a sufficient critical mass so that unassisted development can continue after five years.

It was a serious political oversight not to consider the effects of the initiative on the overall configuration of the German higher education system and the implications for institutions that did not manage to win. It needs to be determined at one point in the future whether the extra funding will lead to better performance of the “lighthouses” only—and possibly the winners in the other categories—or of the system as a whole.

The term “excellence” has acquired a highly inflationary meaning, infiltrating widely into the expression of calls for proposals, tenders, and applications. However, the claim of excellence should not be mistaken for real excellence.

Finally, the excellence initiative can also be seen as a process for the distribution of reputation. Reputation, however, forms an attributed status or a social construct that can no longer be objectively measured and assessed, based on actual performance within the classical forms of peer review led by scholarly and scientific criteria.

#### COSTS AND BENEFITS

On the macrolevel, the identification of world-class universities through rankings or other types of competition is supposed to serve as a type of market regulation of the sector as a

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whole. This arrangement does not only imply the abdication of the state as a key regulator, allowing rankings to become the drivers of development, but can also lead to ruinous competition among institutions, thus threatening the balance of the system as a whole.

The institutional rankings and other types of competition to identify “the best” may serve as some form of institutional characterization. However, the race for prestige and position can easily lead to mimetic isomorphism—that is, the imitation of “the best” by all the others. Thus, instead of focusing on a given institution’s individual strength, such a development will eventually lead to less profile and identity with questionable usefulness for the system as a whole.

It is common wisdom that no university is “excellent” across the board. A considerable amount of tacit knowledge—nationally as well as internationally—also covers which institu-

tions are “the best” in any given system of higher education. Whether this needs to be reproduced by rankings or by the identification of world-class universities, often with questionable methodologies, remains an open question. As early as 1983, Burton Clark emphasized that the knowledge created in universities is contextual, integrated, and culturally embedded. It is not something that can easily be measured. ■

## “Taking a Closer Look at the OECD Tertiary Statistics”: A Response

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*The editor of IHE suggested that colleagues at OECD might wish to respond to the article on “Taking a Closer Look at the OECD Tertiary Statistics” by Arthur Hauptman, which was published in no. 55, Spring 2009.*

*E*ducation at a Glance is the annual result of a long collaboration between governments of OECD countries, experts, and institutions that participate in the Indicators of Education Systems program of the Organization for Economic Cooperation and Development (OECD). The publication is comprised of around 30 indicators along with over 100 tables and charts—that is, more than 25,000 figures closely verified every year.

Indicators are selected for their cohesiveness; together, they tell a coherent story, analyzing trends and challenges that face governments in the years to come. Cultural differences and peculiar features of education systems are carefully considered in order to create common definitions and a single methodology that countries need to observe. If these technical standards are not respected, data can and will be removed from the publication, either by the countries themselves or by the OECD.

Even with all these precautions, the quality of indicators can always be reinforced, and the constant improvement of national data collection is a good step in this direction. While Arthur Hauptman expresses his concerns about the methods used to calculate and report our indicators, several of his remarks deserve further comment.

### INTERNATIONAL STUDENTS AND ENROLLMENT RATIO

The high proportion of international students in some countries does have an impact on the indicators, especially in

Australia and New Zealand where international students make up over 15 percent of the enrolled student population. However, even when international students are excluded from the calculation (this is planned for the next edition of *Education at a Glance*, where the two different measures are available) the ranking of these two countries remains identical for the indicator on tertiary graduation rates.

Arthur Hauptman inaccurately described the calculation of enrollment rates. Enrollment rates are calculated as net enrollment rates, by dividing the number of students of a particular age or age group enrolled in all levels of education by the number of people in the population of that age or age group. The data are presented by age group (i.e., enrolled 20- to 29-year-olds as a percentage of the total 20- to 29-year-old population), and not by level of education. Additionally, international students are included in the numerator and the denominator of this ratio. The only potential skewing of data could be in situations where students residing in one country study in another, despite being accounted for in their resident country's population data. Such is the case for students in Luxembourg who reside there but most of whom study in tertiary programs in neighboring countries such as Germany, Belgium, and France.

### INDICATORS TO INTERPRET THE RESULTS

It is not necessarily an anomaly that university-level graduation and completion rates differ because access to tertiary education often influences the results. Japan is a case in point, with only 45 percent of young people entering university, compared to an average of 56 percent in OECD countries. The high completion rate (over 90%) compensates low access and allows Japan to rank at the level of the OECD average when analyzing the graduation rates.

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It is true that the data extracted from labor-force surveys and data coming from institutions need to be closely checked to ensure their coherence, particularly with regard to the classification of educational programs covered in both types of surveys. However, the number of university-level graduates in Canada is below the level of education attained by the total population of 25- to 34-year-olds because the data coverage is not the same. When taking into account only the university level, Canada appears to be close to the OECD average for both indicators.

### PRIVATE FUNDING AND R&D

The United States' high level of expenditure on tertiary education is influenced by endowments and tuition fees that are