

The Financial Implications of Funding Quality Practices: A Cost–Benefit Perspective

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EXECUTIVE SUMMARY

The case deals with an educational institution that is two decades old and is going for an accreditation process for the first time. To meet the challenge of accreditation, there are multiple quality criteria that the institution is not currently meeting. A decision needs to be made as to whether an enhancement of quality is required with respect to the criteria. The factors that would determine the decision to improve the quality practices are the estimation of the additional cost involved, the stakeholder benefits, the mode of the return on investment, the option to pass on the cost to the students, and finally the incremental benefits that the students will experience with or without the incremental fees.

INTRODUCTION

India has grown hugely in higher education, there are over 40,000 colleges and 12,000 standalone institutions. Though the number of institution and enrolment number have increased but the Indian universities continue to perform poorly in global rankings. Niti Aayog's three year action agenda for 2017-20 focuses on improving the quality of higher education by providing autonomy to top colleges and universities, reforming the regulatory system, improving the infrastructure and skill development. As per Agarwal (2009), 90 per cent Indian universities and 70 per cent colleges are of mediocre or poor quality. Many studies have concluded that the Indian graduates

have low degree of employability, which is a matter of serious concern for all the stakeholders. Industry has been regularly complaining about lack of corporate readiness of the B school graduates. This situation necessarily demands improvement in quality and assurance of quality as the ideal step. Accreditation and rankings are two ways of quality assurance and measurement (Nandi & Chattopadhyay, 2012).

Total quality management theories by Deming (1986), mentions about ‘quality control’ and ‘assurance’ in an attempt to ensure maximum efficiency and standards in manufactured goods. These terms started becoming familiar in the field of education and over time, quality assurance gained importance because assessment of quality was considered the first step for chalking out designs for future improvement (Nandi & Chattopadhyay, 2012). Monitoring the performance of higher educational institutes is extremely important not only for assurance of quality but also for bringing down the information asymmetry and imperfect information, for this is it is essential that the external agencies are independent and credible.

There has been increase in number of accreditation and ranking agencies, which leads to questions about their value. They do provide information to recruiters, students, parents, policy-makers, academicians, for assessing quality of education; but do they provide realistic demands to the institutions? Are the benefits derived through the accreditation process worth the efforts and money spent? Any school thinking about pursuing any accreditation exercise should carefully review the benefits and costs.

Earlier, institutions did not look into cost benefit analysis, as they thought that the accreditation at any price was a benefit and also they could not relate the perceived benefits directly to the cost. There are many methodological problems in quantifying the short run and long run benefits associated with accreditation, as most of it are qualitative in nature and are subjective and whereas the costs are largely quantitative and objective in nature in collating costs one faces issues in measuring opportunity costs associated with the process. Accreditation agency representatives are of the view that the benefits outweigh the costs. The benefits and significance associated with accreditation provided by the accreditation bodies is normally a very long list.

Institution’s representatives see accreditation benefits in terms of improvement that self-study process leads to and enhancement in quality resulting from the external review conducted by the peer review team (Yarbrough & Seymour, 1985). The costs are minimal only for those schools that are already compliant to the standards of accreditation, which is a rare case. As per Heriot *et al.* (2009) incremental cost is incurred as school has to be comply with the standards and additional costs has to be incurred on consultants, mock reviews and increased faculty development, as well as additions to the technology and library budgets. However, the single largest expense is in hiring new faculty and incentivizing intellectual contributions in case of AACSB accreditation. According to Quddus (2006) who conducted a study AACSB

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