The Use of Subcontracting Mechanisms in Education as Means of the Increase of Business and Innovation Activity of Higher Education Institutions

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Abstract: This article investigates the modern phenomenon of subcontracting and searches for possibilities to implement a positive experience of this mechanism for the intensive development of PPP projects in education. The author reveals a new approach to the phenomenon of subcontracting in education, describes its key differences from outsourcing. The article suggests a basic algorithm for building the relations of partnership based on the mechanism of subcontracting in the context of PPP projects in education.

Key words: Subcontracting • Public private partnership • Educational system • Higher professional education

INTRODUCTION

In the present time, Russia’s higher education is functioning under difficult conditions of fluctuating market conjuncture, financial and social crises, as well as being intensively pressured by a set of the problems of socio-cultural and financial subsystems on the market for educational services. It is currently obvious that a thorough analysis of the efficiency of educational systems reveals a deep non-compliance of the quality of educational services with public practice. This also deals with the content of education, which the consumer of educational services receives and with the model of self-reproduction for the system of higher professional education (HPE). The current establishments of HPE can’t often adequately respond to the challenges of the 21’st century, including technological, informational, demographic, dynamic ones and those that refer to world outlook [1].

The aforementioned reasons show that there is the urgent need for the immediate application of efficient measures to reform the basics and principles of higher education establishments’ operation; the need for positioning them in the market for educational services; the need for modernizing the networks of their relations with other counteragents of the outside marketing environment, including both the region’s current enterprises and the state [2, 3, 8]. The latter should perform as a flagship throughout the process of these transformations, guiding the actions of all the participants of cooperation. Traditionally, the most convenient way to cooperate in these conditions is public private partnership. It can occur between a state university and the region’s private business. In this context, the higher management board of the university will express the state’s interests. If a higher education establishment doesn’t have the status of a state university, it can also be engaged in the relations of public private partnership with a private partner, attracting the state structures as both an “arbiter” and coordinator [4]. The experience on operation of national and regional subcontracting centres can appear to be useful and rather interesting while searching for and developing new mechanisms of public-private partnership (PPP) in education. In spite of the fact that the concept of subcontracting is initially referred to the sphere of industrial production, the positive effect from using a trilateral subcontracting contract may raise the final productive capacity of PPP projects in education onto a new, relatively higher level. However, to evaluate the possibility of using the subcontracting mechanism as a type of public-private partnership in education, it is necessary to clearly realize both the essence and specificity of this type of cooperation.
As mentioned hereinabove, “subcontracting” as a phenomenon is referred to the sphere of the industrial production of both goods and services and operates as a type of productive cooperation. Subcontracting is an efficient mechanism, which provides an enterprise with the opportunity to translate some productive functions to its counteragents under contracting out and to concentrate its own resources on the key directions of the main productive activity. This approach helps the participant of the market relations to achieve a more advanced level of specialization and, in case of the correctly organized cooperation, to increase the competitive power of not only a separate enterprise but also the national productive system as a whole [5].

The main participants of the subcontracting system are both a contractor and a subcontractor. As a rule, the contractor is a large production enterprise (LE), which possesses a minimum necessary own productive capacity of legal and financial independence. The subcontractor is associated with either a small or medium-sized single-purpose enterprise (SME), a legally independent entity, which either performs work or supply demanded accessories either on request or under the control of a subcontractor [5].

Subcontracting relations are comprehensively and clearly specified and stipulated by contractual documents. The final contract not only discusses the terms, scope of delivery and services but also gives the technical maps and specifications of goods, individual requirements on the quality of a supplied product, on its certification, etc. (see Fig. 1 for the detailed content of subcontracting).

The system of subcontracting features two basic directions of cooperation (“Flow 1” and “Flow 2”).

“Flow 1” shows the situation, when subcontracting cooperation is initiated by a small enterprise performing as subcontractor and being interested in the development and launch of own manufacture in tenanted areas and with production capacities of a large subcontractor. This is a comparatively rare type of subcontracting, which takes place in the practice of enterprises engaged in manufacturing goods for the ultimate consumer.

“Flow 2” is explained as a type of subcontracting, when the flow of orders goes from a large contractor to a small enterprise-subcontractor. Intrinsically, this variant of cooperation is closely associated with outsourcing; but in the subcontracting theory, it is different from outsourcing mainly in it dealing with the processes directly related to the main production activity of the

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Fig 1: Key elements of mechanism for public-private partnership cooperation in subcontracting system (built by the authors).
enterprise. This direction of cooperation proposes the potential of a small single-purpose subcontractor to be gradually engaged in a large enterprise’s production chain.

If the production environments, in which enterprises operate, feature a small number of product conversions and relatively low requirements to its quality (e.g., textile production) the system of subcontracting relations is organized by direct contracts between the contractor and subcontractor.

If the requirements to the quality of a product is rather high and its manufacture is complicated and multi-staged, there occurs the hierarchical subcontracting system, where the enterprise-subcontractor has relations stipulated by a contract with a limited number of subcontractors, each being capable of building a private network of suppliers and partners [5].

The international experience of subcontracting shows the following variants-general production subcontracting; subcontracting based on flights of production; either temporal or permanent subcontracting; research and development related subcontracting; subcontracting, which implies special tools and equipment supplied by contractor [6].

Making comparisons between a production enterprise that manufactures industrial goods and a higher education establishment that manufactures and sells education services as a goods item, it becomes possible to discover new wide possibilities to implement subcontracting as a specific efficient type of public-private partnership in education.

As long as subcontracting is always associated only with the main production activity of the enterprise, it will refer both to any of the processes that occur while educational services are being produced and sold to their ultimate consumers and to the complex array of the relations that occur being promoted and expanded in the market.

Thus, the definite spheres of implementing subcontracting mechanisms in a higher professional education can include the development of new educational programs and courses in compliance with the latest requirements, put forward by real businesses, to future specialists, especially for profession-oriented module subjects; the provision of information and the computerization of educational process, necessary for the efficient training of students at the lecture or in self-tuition; material and technical facilitation of educational process; marketing and information policies of a higher education establishment, related to a direct cooperation with consumers. A higher education establishment can perform as both contractor that places orders for private partners, e.g., the order on the material and technical facilitation of the educational process (any repairs or services related to the process) and subcontractor (i.e., completing the order from the enterprise on research and development work, providing laboratories and current equipment for either testing pilot prototypes of industrial products or examining qualities of its definite parameters).

As far as higher education establishments are concerned, independent from their official categories of ownership, subcontracting will be a category of public-private partnership. If the university has “the state” status, it formally refers to one of the state structures; and entering into any economic relations with it, a private partner inevitably occurs in the PPP sphere. In the situation, when a private higher education establishment is engaged in subcontracting, the participation of the state is not so evident, but it is constantly experienced, being of crucial importance. The state issues a private university the licence to carry out educational activities. Failing to obtain the licence, none of the higher education establishments can legitimately operate, i.e., can render fee-charged educational services, whose sales profits constitute the main commercial objective of a private university. In this context, the educational establishment won’t be able both to enter into a subcontract and to become an equal partner in this cooperation. Therefore, through granting the licence for educational activities, this guarantees the quality and legitimacy of newly appeared subcontracting relations of a private university and automatically diminishes the entrepreneurial risk for an enterprise-partner. Nevertheless, the influence of the state and its participation in a subcontract may be significantly reinforced by introduction to the contract and registering in appropriate state agencies, provisions stipulating, e.g., a special tax treatment for an enterprise-subcontractor, within the period of its performance, under a contract.
Thus, there occurs the mechanism for the practical realization of subcontracting cooperation between a university and a private enterprise. In the educational sphere, the public private partnership, which is related to the projects on producing and selling educational services, can be organized as trilateral subcontract. The parties of such contract are higher education establishments, private enterprises and the state acting either directly on behalf of the management board of a higher education establishment, if this establishment is in public ownership, or indirectly through licencing, taxing or other public agencies. It is necessary to point out that to avoid the confusion with a regular outsourcing, the sphere of applying the subcontracting mechanism and, therefore, the subject of a contract for a higher education establishment, will be limited to works and services directly related to the main activity of a higher education establishment—the production and realization of educational services, as well as the activity necessary for facilitating an efficient and stable functioning for this process.

The specific character of subcontracting as a category of PPP in education gives the participants of cooperation relations significant advantages in comparison with the standard procedure of partner search.

These Advantages May Include:

- Fast and qualitative renovation of the informative part of educational services, its compliance with the current needs and challenges of the public practice;
- Optimization of the organizational structure by liquidating the inefficient, invalid, incidental inner structures of a higher education establishment (unfortunately, in contemporary state universities, such structures are marketing offices);
- Possibility to concentrate attempts and resources on strategically important directions of development, on implementing new technologies;
- Services of higher quality from a special-purpose enterprise-subcontractor;
- Optimization of personnel arrangements by increasing the portion of academic personnel and reducing the administrative staff, etc.

Entering into subcontracting relations with a higher education establishment, a private partner hopes:

- To obtain long-term orders and cooperation, as well as possible state privileges and preferences;
- To increase the efficiency of his own production cycle and services by gradually building a network cluster with a large education and scientific establishment;
- To improve his reputation and market position by the gained reputation of a university-contractor, etc.

Stimulating subcontracting, as a PPP category, between the region’s higher education establishments and enterprises, the state, in its turn, obtains a natural and adequate solution for a set of problems in higher education; triggers the business activity of the private sector; and generally decreases public tension in the region.

Entering into trilateral subcontracting agreements for higher education establishments and their partners should be reasonably conducted, implementing the mechanism of currently existing regional and national subcontracting centers. Cooperating with such centers (subcontracting exchange) provokes the occurrence of the additional advantages general for all the participants of contractual relations, which imply:

- Acceleration of the procedure of partner search;
- Simplification of the organizational scheme for business partner search through the gained practice of subcontracting exchange;
- Guarantee of reliability and confidence in a partner’s business reputation;
- Decrease in transaction expenses on conducting the preliminary stage of bargaining;
- Free-of-charge legal support on preparing necessary documents for consummating a deal;
- Simultaneous access to a large number of counteragents and possibility to choose an optimum variant, etc.

In the present time, regional subcontracting centers are successfully operating in more than 40 lands of the Russian Federation including Moscow, Chelyabinsk, Sverdlovsk, Voronezh, Volgograd and other regions; Stavropol and Krasnodar Krai; the Republic of Tatarstan [7]. Implementing the information system of subcontracting would contribute to forming an open, healthy and competitive environment in the context of education-related PPP projects, as well as decreasing
temporary organizational and financial costs on partner search. In the long view, it would make it possible to monitor universities’ business activity in various aspects on either regional or national levels.

REFERENCES