
FACULTY MOTIVATION AND THE ROLE OF SOCIAL CAPITAL IN HIGHER EDUCATION

Assoc. Prof. Dr. Dimitar Kanev

Nikola Vaptsarov Naval Academy, Varna, Bulgaria

9026 Varna, Bulgaria

Phone: ++ 359-52-632 015, ext. 336; Fax: ++ 359-52-303 163

E-mail: kanev@abv.bg

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1. INTRODUCTION

The support for personal development and community service lies at the core of higher education. With such a mission universities stand among many other public and private institutions, which create opportunities for learning and accumulation of human capital - bookstores, Internet providers, museums, theatres, cinemas, and publishing and software houses. In this group they are notable for their method of supplying the educational opportunities – creation of environment in which by means of academic association students and their professors exchange social, scientific and applied knowledge, experience and positive examples. This method turns the institutions of higher education into factories producing human relationships. There students not only acquire knowledge and skills to master the traditions and culture of their ancestors but also to establish personal qualities according to their own understandings. They also adopt social values and build up social networks, cooperative norms and interpersonal trust. In that way the institutions of higher education grow up to be factories producing social capital, i.e. “connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them”. (Putnam, 2000:19)

The results from social interactions in higher education are one of the main driving forces for its demand. Among these results are satisfaction from the possibility to exchange ideas, feelings of affiliation to a given group, and impact of contacts between students and professors on their personal development and quality of life. All these gains are independent from the higher education instrumental benefits. Although their size is difficult to be estimated its major role for the individual demand for schooling is undoubted. This is the explanation why people are not indifferent how to accumulate their human capital – by reading books, watching television and surfing the Internet, or by group interactions in class. In the latter case additional products form exchanges between participants in educational process are their personal relations which both have their own value and enable to increase further the size, scope and quality of the transferred knowledge.

Another way by which education creates social capital is through familiarizing students with social norms and habituates them to their recognition. Thus schooling socializes participants during the educational process, creates networks of personal contacts and mutual trust, builds up their reputation and signals their individual characteristics. As Brown and Duguid state, “the core competency of universities is not transferring knowledge but developing it, and it’s done within intricate and robust networks and communities.” ... “People leave college knowing not just things but knowing people and knowing not just academic facts but knowing

social strategies for dealing with the world. Reliable friendships and complex social strategies can't be delivered and aren't picked up in classroom hours alone, but they can give a degree much of its exchange value.” (Brown and Duguid, 1996:3)

In contrast with the other product from education – the human capital - the accumulated social capital depends on the social environment and is embodied in the social relations. It consists of “the stock of active connections among people: the trust, mutual understanding, and shared values and behaviors that bind the members of human networks and communities and make cooperative action possible.” (Cohen and Prusak, 2001:4) It also “refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions... Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together.” (The World Bank, 1999)

Individual benefits from using social capital are unquestionable. It builds reputation for personal knowledge, skills and aptitude for co-operation. For each person that sort of “good name” and trust among other people lowers transaction costs for his economic and social interactions and thus enable him to receive valuable recommendations, to attract good clients, to find better employment opportunities or to build stable business partnerships. Like human capital social capital is also important to the society. Enhancing social cohesion and improving information flows, coordination and cooperation is a major factor for economic growth. (Leadbeater, 1999) At the same time social capital may result in negative public consequences if the resulting social relationships inside the groups become an obstacle for the knowledge transfer, defend only special group interests, build trust mainly among the members of the educational institution, or lead to social segmentation. (Granovetter, 1973)

All these links between social capital and higher education are well-studied in the economic literature following pioneering work of Jane Jacobs (1961), Pierre Bourdieu (1983), James Coleman (1988) and Robert Putnam (1993; 2000). Nowadays we have strong econometric records that schooling fosters social participation and co-operation. Heyneman (1998) proved the responsibility of education for building social cohesion and Verba, Schlozman, and Brady (1995) found a positive correlation between education and political participation. Helliwell and Putnam (1999) found a strong connection between average education level and level of trust. In addition Wolfe and R. Haveman (2000) verified empirically that education reduces criminal activities.

In contrast to the question for the role of education for forming social capital, the reverse relation between them needs more attention. In spite of valuable contribution from American sociologist James S. Coleman - who stressed the role of strong communities and ties among parents, educators and pupils for fostering learning and decreasing drop out rates (Coleman, 1988) - functions of trust, co-operation, reciprocal engagement and social cohesion in the educational production remain less studied. Even Robert Putnam (2001) avoids causality analysis when he presented his persuasive statistical data on the positive link between social capital index and composite measure of educational performance (SAT scores, test scores, high school drop-out rate).

This state of the problem determines as principal aim of this paper to focus on the role of social capital not as an educational product, but as a resource in the process of education, and to investigate the incentive structure of higher education and the role of social capital in it. To achieve our goals, first, we will evaluate the capabilities of the market mechanisms to stimulate the creation of high quality educational outcomes. After that we will reveal the

benefits from reciprocal relations in higher education institutions and development of a system of altruistic moral norms, which turn universities into communities centered on cooperation, tolerance and solidarity values. Next the paper will consider the role of social capital for increasing educational revenues and decreasing the transaction costs and personnel expenditures. Finally the question of social capital accumulation sources will be analyzed. In all these our approach will be an economic one and therefore we will look for the optimal and rational solutions.

2. ROLE OF MARKET MECHANISMS IN ACHIEVING EFFICIENT RESULTS AND MOTIVATION OF PARTICIPANTS IN THE PROCESS OF HIGHER EDUCATION

In higher education we can distinguish three possible motivators for the participation in the educational relations. First is instrumental motivation. It is caused by the expectation that relationships within a given group will guarantee some level of monetary compensations or will help for the acquisition of valuable information. Second is the positional motivation, following from the perception that the association with a given group can be a resource for building prestige and social status. Third is the intrinsic motivation for community service. It is build on the altruistic concern for other people, moral believes that private actions are obliged to achieve broad social aims, desire for public recognition or aspiration for reciprocity.

First two motivators are based on market mechanisms. In many occasions they are applied independently and are in position to build up satisfactory interactions by hiring the other member in the relationship. Examples are contracts with general practitioners, private teachers and tutors. In all these cases motivation is external and price-driven. However this strategy has essential limitation, if the goal is production of high quality educational services. The reason is in the considerable transaction costs for mobilization of educational resources, production and distribution of educational products. Because of them market coordination of interactions between participants in the process of education will not be in the position to provide sufficient incentives for efficient behavior. (Dixit, 2002)

The fundamental sources of transaction costs in the case of market interactions between the participants in educational process are specificity and imperfect information.

Specificity causes problems to academic staff as well as to students. In their work lecturers should invest many specific skills and knowledge, which gives the demanders of their services the opportunity to behave opportunistically and thus discourages any specific investments of time, money and efforts. The problem can be solved by transferring the expenses for specific qualification of educators to the demanders of their services, but the element of general qualification in their human capital investments makes this inefficient, as this time it creates incentives for opportunistic behavior. Specificity also makes problematic market interactions between students and the suppliers of educational services. Parts of the learning and exams have little value if students terminate relations with their university. This places them in the vulnerable dependence on the university and allows the institutional management to increase their taxes or to decrease the quality of education. Students' position can become even more complicated and weak because their dependence on the institution do not end up with their graduation. For example, if the quality of education diminishes, diplomas

will lose their value as a signal and this will deteriorate the positions and prospects for professional and social realization of former students.

Another source of high transaction costs is imperfect and asymmetric information. Higher education demands considerable resources in forms of government subsidies, monetary donation from external donors and labor donations from their academic staff. In order to supply these resources government, faculty and other donors must be sure that their funds will be used only for increasing the quality and access to education. Obstacle to this is their imperfect information on how universities spend their money and manage their assets, as well as to what extent autonomous activities of higher education institutions correspond with their interests and is realized with minimal costs. This reduces their incentives to finance education and cuts down its quality.

Essential problem before the use of market motivators is also the lack of efficient control over activities of the academic staff. Since efforts and final results from teaching are hardly observable, compensations can not be based on them. Serious efficiency losses follow the fact that higher education has many outcomes, some of which are better measured than others. (Holmstrom and Milgrom, 1991) For example if looking for better incentives faculty compensations are made dependent from easily observed students' marks, students will be systematically over-marked. The possible reaction to this - to use external examiners who possess good reputation and have interest to be correct - is also inefficient, as it creates risk for concentration of teaching efforts to transferring of knowledge which can be easily evaluated in expense of other unobservable components of good teaching.

Other factors that decrease effectiveness of market motivators are uncertainty about curriculum and opportunities for professional development, threat of administrative pressure and restrictions over faculty freedom to determine its scientific priorities and to allocate its time between teaching and research. In order to develop their potential academic staff needs guarantees that courses will be delivered during sufficient time period, that their scientific careers will not depend from their administrative positions, that educational technology and methodology will be left to their own choice, that no one will force them to follow and express ideas which they do not share, i.e. that in practice academic staff will be in the independent position outside the control of administration and to some extent even outside the students' control. Of course many of these guarantees are impossible and the best solution is to provide the academics with power to participate in decision making and rights to present and defend their interests personally in one open and democratic process of governing.

Lastly, essential manifestation of informational imperfections is informational advantages of students in relation with their willingness to pay for their education. This is a problem for the sector because of the heterogeneous preferences and weak competition between consumers of educational services. (Weisbrod, 1988) Despite of strong competition for admittance, education of admitted students does not give rise to rivalry between them and education has the characteristics of collective good. However in spite of its individual demand all students are compelled to consume the same product and if its price is uniform supply will correspond only to the preferences of median students. In result under the prevailing taxes students with low demand will find their expenses as too high, while those with high demand will consider both quantity and quality of education as lower than the one they would like to have. This problem can be solved by price discrimination and higher taxes for high-demand students, but this solution raises another question – how to determine individual demand and reservation prices of different students. In the latter respect universities must stimulate their students to

reveal their actual educational preferences, motivation, resources and reservation price, as well as to agree to price discrimination.

High transaction costs are example of market failure which deviate educational system from efficiency results. The way to restore efficiency is to replace traditional market exchanges with long-term systematic and trustful institutional interactions. One mechanism for guaranteeing the interests of participants in educational process and their trust in relations with others is the adoption of structure of property rights and control in which rights are assigned to the part in relation with which market works with higher transaction costs.

3. INSTITUTIONS VERSUS TRANSACTION COSTS IN HIGHER EDUCATION

The logic behind this mechanism is revealed in classical work of Oliver Hart “Firms, Contracts, and Financial Structure”. (1995) According to him bargaining power is affected by residual control rights and reallocating ownership influences the incentives of individuals. Thus if physical capital market works with high transaction costs, they can be avoided by assigning the residual control rights to capital suppliers. Instead of renting or selling physical capital through the market they will directly take on management and control of production processes by using their own physical capital, buying labor through the labor markets and selling final products to consumers in the product markets. Thus failing capital market will be isolated from market transactions and owners of capital will receive the ownership rights over the whole business.

That is the organization in classic capitalistic firms. Its widespread existence could be easily explained by the considerable financial risk for capital owners and by the fact that in the absence of substantial failures in other resource markets or market for final products this risk can be reduced without difficulty through assigning the residual control rights to capital owners. Private and public organizations controlled by their workers or consumers are governed with the same logic. (Mikami, 2002:4-5) In the case of worker-controlled organizations inefficiency is result of failures in the labor market. The way to get over them is to bypass the labor market – not to hire labor from it, but to engage workers in management by using their own human capital, hiring or buying physical capital and selling final products to consumers. In the case of consumer-controlled organizations final product markets work with high transaction costs and the efficient solution is to organize the production into consumer cooperatives. Inside them consumers mobilize resources through markets, organize production process and distribute final products between themselves without mediation of product markets.

Applied to higher education the idea for avoiding transaction costs by assigning the property rights gives reason to transfer the management and control rights into the hands of those who have more specific, uncertain and frequent relations within and with organization. (Gui, 1991)

The access to capital is crucial in professional education, which needs more financial assets, and in higher education institutions, which cannot attract the best academic resources, produce low quality products and therefore can not rely on high taxes and donations. In these cases the attraction of potential investors will be much more successful if institutions are profit oriented and residual control rights are in the hands of capital owners. In such conditions this is the best solution because here the primary goal is to draw potential investors and to do this their financial interests must be defended against the dangers of bounded

rationality and opportunism. Conversely, concern about the investors' interests at the same time means that universities will be forced to sacrifice its academic autonomy, freedom and reputation, to overlook the relational problems with faculty and to some extent to give up their orientation toward students and society. Nevertheless, in these circumstances it is justified by the necessity of financial capital, impossibility to substitute it with quality academic resources or to mobilize it on the reciprocity base.

In general case of higher education, however, market mechanisms regulate with higher costs interactions not with physical capital owners, but with students, faculty possessing specific qualification, and donors. This imposes as effective solution substitution of market mechanisms in their relations with universities and defending their interests and trust by assigning the ownership rights to them. This solution means that in general higher education institutions must be organized and financed according to principles that place them between traditional private businesses and public organizations and that transform them into the "social enterprises". Like these they can function under different organizational forms.

First is labor cooperative. Under this type the university is governed by its academic staff, while relations with consumers and owners of other resources are conducted through markets. According to Estelle James institutions of higher education use mainly this form. (James, 1981) It is oriented toward loyalty of the faculty by increasing its personal reputation and institutional prestige. Labor cooperative is especially successful form if there are market and organizational problems in relations between institutions and their faculty or if academic staff possesses specific qualification and is expected to contribute a lot with its labor donations in order to improve the access to universities for low-income students.

Two factors determine the behavior of universities when they are governed by the faculty. On the one hand academic staff will try to maximize its own prestige, which is built mainly from researches and teaching in master and doctoral programs. On the other hand in allocating their time faculty will take into consideration that their efforts in bachelors courses have lower rate of return in terms of reputation. (Massy and Zemsky, 1994) All these create clear preferences toward researches and teaching masters and doctoral courses and most of resources will be directed to these activities. (James and Neuberger, 1981) For that reason, if universities are controlled by its academics, they will put less and low quality educational resources on bachelor level teaching in order to subsidize researches and education on higher levels. As a result labor cooperative will be efficient form primarily for research universities.

Second form is consumer cooperative. Here universities are governed by their students while relations with faculty are driven by market forces. This organizational form puts the accent on the solution of problems between institutions and their consumers and engagement of students with internal subsidizing and price discrimination. For this reason again the main institutional goal is prestige maximization, but in contrast with the first form it is achieved not by scientific researches and education at higher levels, but by attraction of better students and using the resources mainly in their academic and nonacademic interests. (Winston, 2003) Good examples for advantages of consumer cooperatives in education are four-year liberal art colleges in United States. At the same time it is not widespread solution because it can not defend successfully faculty interests and as a typical result the quality of instruction is lower than is demanded by the quality of students.

Third form gives the government into the hands of donors, supplying institution with financial resources. It is widespread among educational institutions supported by religious and business

organizations and is especially successful when redistributive component in organizational goals dominated and there is a need for considerable external financial support. Of course if donors can not easily control use of their funds, rights over control can be shifted on trustees or representatives from local community. Here the basic instruments for motivation are nondistributive constraint and insurance of the loyalty of donors to organizational goals and interests of faculty and students.

The last form is an attempt to solve simultaneously the problems of all parties in educational relations. It assigns the ownership rights to all participants in educational process and uses democratic rules for institutional governance. (Borzaga and Mittone, 1997) In combination with nonprofit constraint and nondistribution of residual revenue this solution is an effective safeguard against conflicts and helps to create atmosphere of cooperation among and inside the groups of lecturers, students, and donors. It also is a credible guarantee for idiosyncratic investments in their human and social capital and by facilitating communication and coordination it gives them better opportunities to represent their positions, desires and intentions. In addition collective governance reinforces emotional involvement, which often is a more powerful base for developing of fruitful, stable and long-lasting reciprocal actions. Although here individuals are not owners of the organization in legal terms, the absence of legal owner, who has the right to rule according to his private interests, creates in everyone awareness that the individual is not an ordinary agent in business relations. Thus the latter form of governance contributes in a higher degree for building better personal interactions.

The effectiveness of collective governance and control of universities is multiplied by common goals of students, faculty and donors. For all of them the prestige maximization is the best organizational end and their involvement in governance turns it into a sole legitimate goal of the institutions and residual result from their activities. (Clotfelter, 1996) In collective democratic governance the rights of control, which give an opportunity to participate in decision making, and the ownership rights, which are the argument for claims on residual, are jointed and assign to the same group. This solution is an effective one. It is also fundamental for profit oriented organizations. (Milgrom and Roberts, 1992) In them control belongs to those who have a share in distribution of profit and this is an exceptionally powerful device to deprive the controller from shrinking. It also emphasizes the organizational goal – profit maximization and the supremacy of this goal over the rest private interests.

In the case of higher education the residual result is the prestige and institutions will be managed in effective way only if ownership and control rights are assigned to individuals whose interests are affected strongly and positively by institutional reputation – students, faculty and donors. This turns them into „shareholders” of the universities and gives them the rights to determine the rules and norms, to select the leader and governing body, and to control their activities periodically. The one and only difference with corporate shareholders, whose goal is profit maximization, is that academic community, students and universities’ donors are not able successfully to delegate the important decisions into the hands of professional managers and must be engaged directly and in higher extent with the questions of governance. The reason is that unlike any corporate shareholder they do not have the needed guarantees for their interests. Faculty, students, alumni and donors are not in the position to limit their reputation responsibility, to sell and capitalize their shares in institutional prestige, to withdraw if they find that management behave badly or to walk out in order to terminate the negative effects over their reputation. All this restricts chances to defend their reputation if they transfer part of the ownership and control rights on any

representatives and makes more efficient the direct collective and democratic form of governance.

However, because of the differences in the possessed expert knowledge and in order to avoid the persecution of other interests, different from reputation, universities usually restrict some of the rights and assign them to only one of participants in educational process. For example, in spite of facts that in elite universities all decisions about educational policy, curriculum, teaching and studying, material and human resources are collective, the decisive factor is the position of academics. The reason is that in the university they have the expert knowledge about most appropriate educational technology. Similar logic determines the decision of more prestigious colleges and universities how to elect their presidents. For example in a good number of the high-ranked American universities the president is elected by alumni. This is very rational because academic staff and students may sacrifice prestige at the expense of their short term interests. Although they are concerned in the long run with institutional reputation, their short run interest is to allow some transient compromises with the quality of education while they are in the university. Thus their reputations will diminish slightly, but it will be reasonable as their efforts will be lower. If every generation of students or faculty thinks in that way and have the right to vote in the president election, educational institution inevitably will lose its face. For that reason the best solution is to assign the voting rights only to those who are completely interested in the maintenance of signaling function of university diplomas – the alumni.

In summary, we can conclude that in order to reach their organizational efficiency universities must be governed collectively and with democratic methods. This is not to keep within a given academic tradition, but the only rational approach toward their goals and the best reaction to the significant competition inside the sector. Otherwise the concentration of power and benefits in the hands of a small minority will make impossible the task to attract educational resources from so many sources – students, faculty, donors, and the society as a whole. The institutions of higher education can limit such a danger by giving the power to all concerned parties and strong democratic control over the educational management and administration. This is the way for building the mutual trust between suppliers of educational resources and the best guarantees that universities will follow their social role and will serve to the interests of all participants in educational processes.

4. THE ROLE OF RELATIONSHIPS AND SOCIAL CAPITAL

The crucial determinant for the character of relations inside universities is the fact that good education presupposes building of personal interactions, in which significant role plays not only objective behavior, but also peoples' attitudes and motivations. (Kelley and Thibaut, 1978) Even if the market mechanism is sufficient to stimulate the proper conduct by price-driven exchanges, the market is an impersonal institution not able to encourage true and satisfactory personal relationship, sympathy and concern. (Zelizer, 1998) Their formation requires collective efforts of many people, who are intrinsically motivated to cooperate with each other and are persuaded of importance and realistic nature of the educational project. For that reason efforts of the participants in educational processes must follow not solely the instrumental goals of increasing the reputation or monetary gains. They also have to possess their own substantive values as means of personal realization and dedication to a given social mission.

In the absence of appropriate market stimuli and dependence on intrinsic motivation, quality

of educational service depends mainly on the personality of faculty and students and their social values and behavioral models for human capital accumulation. (Akerlof and Kranton, 2002) Such a normative foundation of higher education constructs its system of exchange as different from those in traditional businesses. While usual market exchange is driven by financial and material benefits, which have priority to social consequences of activities, in universities social relations are more important than economic expediencies. While market exchange is based on contract, in institutions of higher education governance relies on reciprocity and moral norms, which formulate cooperation, tolerance and solidarity as basic values and turn the relations into a „gifts exchange”. Finally, if in traditional market exchange as a rule parties are egocentric in following their self-interests, in academic communities the main personal motivators are altruism and reciprocal altruism.

The presence of altruism implies that individuals succeed in internalization of part of external benefits from their education. It supposes that individual utility depends not only on personal consumption but also on well-being of others. An altruist will be happy both if he has a positive net return from education and if other people are better-off too. Thus altruism multiplies the individual incentives for investments in education. It increases the satisfaction from studying and investments in education, as here this satisfaction has double sources - personal prosperity and well-being of the others.

On first glance the idea that higher education can rely on altruism contradicts to the fundamental economic idea that people go after their self-interests, not after greater ideas and aspirations for self-sacrifice. In 1776 Adam Smith wrote that greater goals – for example to achieve justice or to serve the humanity – are able to motivate someone, but this great objects are neither necessary nor sufficient to lead to reliable outcomes: „The greatness of the objects which are to be acquired by success in some particular professions may, no doubt, sometimes animate the exertion of a few men of extraordinary spirit and ambition. Great objects, however, are evidently not necessary in order to occasion the greatest exertions. Rivalship [sic] and emulation render excellency, even in mean professions, an object of ambition, and frequently occasion the very greatest exertions. Great objects, on the contrary, alone and unsupported by the necessity of application, have seldom been sufficient to occasion any considerable exertion.” (Smith, 1776) Regardless of this opinion, which is absolutely right in general circumstances, we think that in higher education individuals are much more altruistic and that, in combination with incentives, commitment of educators to truth, duty, justice, and other virtues, can achieve higher results than competition and incentives alone. We can point out at least two strong arguments in support of this thesis.

The first one is related with specific selection of students in the process of their admission. Education is a result of series of social interactions in which cooperation is the basic source of success. For this reason universities have a preference for admitting candidates with developed altruism and strong propensity to help others. Later during their education they place students in environment that cultivates and further develops their altruistic dispositions. Without this universities can not produce high quality products and rely on sustainable and generous donations from their alumni. Thus the level of altruism among students is higher than average and egalitarian tastes, which universities educate in them, are foundations to assume that students will be more willing to take special care on others.

The second reason is connected with the specific characteristics of ideas, knowledge and skills learned in education. They are essential part of our individuality and their development and accessibility is one of the more important channels for our social reproducibility. As

social animals we value our ideas and knowledge, think for them as our intellectual children and are willing to sacrifice not only part of our time and funds, but even our lives in order to create and develop them. Looking from this angle diffusion of our human capital and positive external effects from our education on society does not make us worse-off. Just the opposite – when other members of society benefit from our human capital, we become richer and this is the obvious explanation why most of the people share fully their knowledge, without thinking about the costs of their accumulation. There is nothing irrational in this altruistic sacrifice, because external benefits are internalized and transferred into pure private benefits.

The stock of sufficient altruistic motivation enables development of reciprocal relations between participants in educational process and transformation of universities into prosperous and rich of social capital communities. (Putnam, 1993) In them faculty and students are not simply and only resources producing services according to given educational plans and requirements for teaching and studying. They build collegial associations, subordinated to shared group norms and convert education from “consumption” and “investment” to long-term “commitment” to knowledge, institutions of higher education and their personal relations. In that way collegial association, group norms and trust between participants in the educational process become social capital for universities and main production input for achieving their goals.

Social capital has major role in higher education because besides motivation it can substantially increase educational revenues and decrease personal and transaction costs.

First, the existence of social capital gives universities the opportunity to maximize their revenues. Having considerable stock of social capital they are functioning as clubs in which entrance depends on decisions of those who are already members and membership is granted for lifetime. Within such universities cooperation, altruism and reciprocal behavior are encouraged by organizing of various extracurricular and club activities in which faculty and students participate together. The system of financing also works as an implicit contract between all engaged parties. Every new “club” member contributes according to his financial resources and if he can not pay the entrance and annual fees, others cover them up to the moment when his own benefits from club membership allow him to make his contributions and donations. The guarantee that this will happen is the moral of faculty and academics, which is an essential part of the institutional culture in higher education. It gives the opportunity to admit everyone who is expected to be a valuable future member; motivates students to agree to price discrimination in taxes and fees; and is an effective stimulus to alumni to donate funds and to contribute with additional financial resources complementing those which a university can mobilize through educational market.

Another effect from using social capital in educational production is that it allows to substitute and to keep personal costs low. Like human capital, social capital is inseparable individual worth (Gui, 1995) and the opportunity for its accumulation is a valuable nonmonetary compensation for faculty efforts. For most of the members of the academia relations with people, sharing similar values and interests, feeling for belonging to academic community, trust and cooperation with others have not only instrumental, but also substantive merit. Because of this they are concerned about the level of social capital in universities, loyal to their goals and intrinsically motivated to contribute with labor donations. Thus the opportunity to build social capital is another benefit from participation in educational process. It creates better motivation and higher productivity of faculty as well as attracts academics with less monetary costs. If we take into consideration the fact that in education more than 70

% of costs are labor compensations, it is obvious that this is an important method for universities to supply competitively their services.

However the fact that the faculty considers the opportunity to build social capital as a benefit does not mean on its own that universities will offer them lower monetary compensations. They do this because of three reasons. First, in education high wages can induce an adverse selection problem - individuals without concern for the educational mission or output take the job and knowingly underperform because they will not be financially penalized. (Francois, 2004) Second, by offering low wages universities want to attract more labor donations for achievement of their educational and social missions. And third, low compensations are in the position to signal the level of altruism and individual aptitude toward non-monetary characteristics of academic career: comparatively lower compensations and insufficient high-power market stimuli help to select intrinsic motivated academics, driven by concern for the quality of educational output.

Last but not least social capital and reciprocal relations are beneficial to universities because they facilitate coordination and cooperation and cut down transaction costs. Social capital builds up among participants in education mutual trust and system of shared values, motivates them to follow jointly uniform goals, ensures internal integration of universities and focuses individual efforts on community interests. Thus, while based on altruism and reciprocal relations, social capital is also a crucial factor for their reproduction, development and employment as factors of production of educational services.

All these imply that regardless of their interests in increasing the social capital, which is among the characteristics of non-profit universities, institutions of higher education can obtain substantial benefits from accumulation and utilization of the social capital.

5. HOW TO MOBILIZE SOCIAL CAPITAL

In conclusion the crucial role of social capital in higher education poses the question of its accumulation. Since most of education-related social capital is specific and does not have enough alternative applications, a danger of opportunistic behavior from educational management exists. In this situation to stimulate the investments in social capital institutions have to establish trust relationships with its faculty and students. Since the goal of profit maximization and the hierarchical management structures reduce trust (Gui, 2000), the best organizational form for accumulation of social capital is the social enterprise and the most successful governance structures are those that stimulate academic freedom and equal rights of participants in educational process. That is why in comparison with institutions relying on physical capital universities employ flatter organizational structures, value labor highly than financial contribution and assign power in a democratic manner, that shares governance and distributes rights not according to financial inputs but equally.

The necessity for development of academic democracy is especially clear when we consider the dangers, following from persuasion of labor donations and orientation toward nonmonetary forms of compensation.

First, except for their aptitude toward nonmonetary characteristics of work people are different in their abilities. For that reason in the presence of lower monetary compensations for academics employers outside the sector can draw more able work force by offering higher

wages. Thus universities will be attractive mainly for persons with good intentions and willingness, but with lower abilities. The necessary reaction against this danger is to compensate low market stimuli with more decision making power, which gives faculty considerable career security and assurance against exploitation. Thus while in traditional business organizations labor risks and efforts are compensated with higher wages, in universities they have to be compensated with ownership and control rights. The latter is absolutely competitive as an incentive for high ability candidates and can maintain their interest in academic careers.

Second, the willingness to attract individuals, who value the collective nature of educational products and want to serve the society and students by their labor donations, will not be a highly restrictive barrier to those who have no scruples to extract immoral private gains from education. These people will not be satisfied from monetary compensations, but will enter the academic career because of the opportunities that it offers for corruption, exploitation of colleagues with lower aspirations for personal benefits, or persuasion of hidden economic, social and political ambitions. (Besley and McLaren, 1993) Thus low faculty compensations will be an ideal background for opportunistic behavior and in absence of mechanism keeping them outside the sector the result will be adverse selection and turning most dedicated to education and its social goals people out of the career. The best safeguarding devices against this danger are academic democracy and the right of everyone to participate directly and truly in governance and decision making. They are the only guarantees against opportunistic people and most effective tool for building necessary trust that organizational goals are directed to higher quality of education and are incompatible with profit seeking or other business interests.

However, higher reliance on democratic mechanisms and reciprocity relations can give birth to low managerial flexibility, little innovative power and high governance costs. This is because the democratic process has to account for and to coordinate much more viewpoints and interests than any hierarchical authority. If the environment is dynamic and calls for fast reaction this could be a barrier for the efficient conduct of universities and is an argument for replacement of collective democratic governance with assigning the power to a charismatic leader. In our view this argument is strong, but in case of higher education it is compensated by much stronger counterarguments: the leader is in a position to manipulate the university in order to prolong his authority even in times when this is not necessary; and empowering the leader will weaken motivation of other participants in educational process and will decrease their productivity and involvement. Finally, changes in the educational sphere are never so dramatic to justify such a radical decision - sacrificing the principle of academic democracy and reciprocity. On the contrary, higher education and its institutions are valued because of their tradition, prestige and conservative reputation. That is why in order to keep their value in the future they have to reject the opportunity for nondemocratic governance and to put their leaders under the permanent democratic control of their communities.

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