Higher Education Mergers: Does Bigger Mean Better?

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Within higher education, a popular way to cut costs and boost competitiveness is to merge institutions. Over the last few decades, Australia, China, Europe and the USA have all witnessed mergers of higher education institutions (HEIs), mainly to bring economies of scale. Yet the question remains: what is the best size to ensure the highest competitiveness and quality of output? Our new working paper, co-authored by Dr. Nyasha Tirivayi, attempts to answer this question.

Most universities and colleges need to juggle resources to maintain competitiveness, so directors have an interest in keeping costs down. Factors affecting these decisions include quantity and quality of output, whether to specialise or produce multiple outputs, and whether the institution should be small or large in terms of student enrolment or research.

Mergers are often seen as a way to achieve economies of scale while reducing competition in the market. In this context, the education literature includes many econometric studies that analyse economies of scale in HEIs by identifying optimal size and/or by justifying mergers.

Does bigger mean better?

Economies of scale are achieved when the cost of providing education falls as student enrolment rises. In the short-term an HEI can secure economies of scale by lowering quality and boosting quantity (student enrolment), but in the long-term the quality of instruction and research output also influence the HEI cost structure and are vital determinants of economies of scale.

The size-cost relationship has been flagged in many empirical studies, including through estimates of cost functions, calculations of overall and product-specific economies of scale, and illustrations of the shape of the average or marginal cost curves. Based on the empirical literature, this paper provides a “standard” optimal HEI size and then discusses the implications of merger strategies. To see the full report (34 pages), please go to: http://www.merit.unu.edu/higher-education-mergers-new-working-paper/

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