

## CHAPTER 10

# Establishing a New Research University: The Higher School of Economics, the Russian Federation

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A number of different university rankings have been established in the Russian Federation. If one looks at the top 10 institutions (among 1,600 Russian universities) in these rankings, the lists are almost identical. Moreover, they do not change over time, with one exception. One university that did not exist 20 years ago now appears in the top 10 in all rankings—the Higher School of Economics (HSE). How could a small school established in 1992 (the year of the lowest Russian gross domestic product [GDP] per capita in many years) become a member of the elite group of the best Russian universities?

Another question arises regarding new publications by HSE professors in international journals and at their presentations at major international conferences. How could a group of economists and sociologists trained in a Soviet-style Marxian political economy and in such an exotic discipline as “scientific communism,” under tight ideological control,

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manage to enter a global arena of socioeconomic research? This accomplishment is even more surprising because the notion of a research university was exotic in the Soviet Union. Almost all research was concentrated at the Academy of Sciences. How did HSE fight the stereotypes and develop a culture that made research and teaching equally important for professors?

### **Where Does HSE Stand Today?**

At present, HSE is the largest socioeconomic research and education center in eastern Europe. It operates in four Russian cities: Moscow, Nizhny Novgorod, Perm, and Saint Petersburg. It has 20 faculties (which include 120 departments), more than 120 continuing education programs (including master of business administration, doctor of business administration, and electronic master of business administration), and 21 research institutes. It has a team of 1,500 faculty members and 500 research staff members. HSE has more than 16,000 full-time students and 21,000 students in continuing education programs. Today it offers courses in almost all humanities, social sciences, economics, computer science, and mathematics. The university's reputation is confirmed by the fact that the average score of the national university entrance exam at HSE was the third highest in Russia in 2009.

Innovative curricular and pedagogical features of HSE include extended fundamental teaching of mathematics, philosophy, economics, sociology, and law; a system of research and development laboratories to help students develop the practical skills needed for productive research and analytical work; use of anticorruption technologies, including monitoring of students' work on the basis of written tests, and an antiplagiarism system.

HSE has developed strong links with leading European universities, including Humboldt University and Erasmus University, among others. In partnership with these universities, HSE offers 12 dual-degree bachelor's, master's, and PhD programs (with an annual enrollment of 350 students). It also offers a number of joint courses with foreign universities (often taught through video or Internet conferences). HSE has student exchange programs with more than 30 foreign universities (mostly in Western Europe). Together with the London School of Economics and Political Science, HSE has established the International College of Economics and Finance. This college awards two diplomas at the undergraduate and graduate levels: one by HSE and one by the London School of Economics

and Political Science. However, the scale of internationalization is too small to allow HSE to participate effectively in the global exchange of talents and ideas.

HSE contributed to the development of Russia's new socioeconomic science almost from scratch. Today, university researchers and students carry out more than 200 research and analytical projects a year, worth over Rub 850 million. In research and development costs per faculty member (US\$21,900), HSE is not only eight times ahead of the average Russian university (US\$2,800), but also ranks higher than central and eastern European universities, almost matching the average level of German universities (US\$25,000).

In 2007, HSE researchers published as many as 300 monographs and textbooks and 2,000 academic papers. HSE also leads Russian universities and research centers in international academic publications on socioeconomic studies. However, compared to leading foreign universities, the number of articles published by HSE researchers in international peer-reviewed journals is relatively small. The majority of professors still look at the national community of scholars as their target audience.

Academic research at HSE focuses primarily on the theoretical foundations underpinning effective modernization of the Russian economy and society, building on contemporary institutional economics and economic sociology. This focus helps HSE keep its strong position in Russia and receive additional funding from the government and private sector.

University researchers provided critical input into policy development in different areas: modernizing education and health care, advancing public administration and civil service reform, boosting competitiveness of Russia's economy and advancing the tools for a dynamic industry policy, reviewing prospects for effective policy making in innovations, improving government statistics (since 2002), and other issues.

## **Background to the Establishment of a New University**

To understand the driving forces of the emergence of a new university, one must consider the history of HSE in the context of changes in social sciences and economics in Russia and in the Russian system of higher education. Three aspects highlight the story of the development of the university. One is the entry of a new participant into a crowded and competitive higher education market. Another is the transformation of a small school into a large university with strong ambitions to become a

world-class research university. The third is the development of an organizational identity.

HSE systematically adopted and developed the main characteristics of the “emerging global model of the research university” in the specific Russian context (Altbach and Balán 2007; Froumin and Salmi 2007; Mohrman, Ma, and Baker 2008).

Following the research on newcomers in different markets (Geroski, Gilbert, and Jacquemin 1990; Pehrsson 2009) and on competition between universities (Del Rey 2001; Clark 2004), the chapter discusses the barriers to entry into higher education markets as a tool for understanding the strategic behavior of HSE.

For data collection, 20 interviews were conducted with the members of the current university management team and those who founded the university. The HSE institutional research unit provided the data about enrollment, graduation, and research activities. This unit also provided the results of different surveys conducted among students, professors, and alumni over the past 15 years.

For the reconstruction of the market niches and strategic choices, statistics data and interviews were used. The interviewees included leaders from other universities (HSE competitors) and former and recent officials from the Russian Ministry of Education.

In addition, the analysis of media sources was used to reconstruct the transformation of HSE’s self-image and its central mission within the changing environment.

## **Building New Social Sciences and Economics**

In the late 1980s, the Soviet Union found itself in the emerging market economy with a lack of intellectual tools to understand this transition. This situation became even more striking in the early 1990s; 1992 was the first year of independence for the Russian Federation. Drastic political and economic reforms needed sound research support. There was little capacity for forecasts and reviews of outcomes of ambitious socioeconomic development projects. With the exception of a couple of small groups of scholars in the Russian Academy of Science, nobody was familiar with modern economics as a science.

### ***Setting for HSE***

The roots of this situation start in the intellectual history of the Soviet Union. In the beginning of the 20th century (and even in the first

postrevolutionary years), Russia produced quite a few bright scholars in humanities and social sciences. These scholars became the first target of the Bolsheviks. Some of them were executed or imprisoned; some were exiled abroad. The so-called iron curtain was erected between the Soviet economics and social sciences and the international mainstream. Thus, the Soviet academia had invented its own scholarship in these fields. Some of these areas of research (mainly the area related to construction of mathematical models) were of a high world-class level (it is not incidental that a Soviet scholar, Leonid V. Kantorovich, won the Nobel Prize in economics). But most areas either were dogmatic and ideological in their nature or reflected the reality of the planned state economy in the totalitarian state (Makasheva 2007). This science did not require internationally created knowledge.

Perestroika gave birth to new areas in social sciences, some of which had not existed before. Ironically, the first learning materials for teaching modern political science were published in 1989 in an official journal called *Moscow University Journal of Scientific Communism*. Often the modernization of social sciences was limited to simply renaming the Soviet textbooks. According to observers,

The rapid change in benchmarks and the ideological (and sometimes political) pressure for the fastest possible assimilation of the Western standards in economic science led to schism and disorientation within the academic community. (Avtonomov et al. 2002, 4)

In 1992, a new Russian government led by Egor Gaidar conducted large-scale privatization and other economic reforms. Members of the government understood that the existing research and educational institutions were not capable of addressing these issues. Institutions, such as Moscow State University, resisted the changes; they became strongholds of political and economic conservatism. It became clear that reforms of existing universities would lead to huge political costs. A decision was then made to develop new Russian economic science by establishing a new university where advanced research would be combined with training of specialists in modern economics.

Therefore, the new organization was defined as an actor in the area of social sciences and economics, shaped as a competitor to existing relevant institutes rather than as a partner in solidarity with them. It was a process of imitation (of foreign science) and a negative reflection of the past and the recent practices of the existing Russian universities. At the same time, government requirements forcibly and clearly expressed to the new

institute (HSE) must be examined. The positive identity was largely defined by the direct order of the state. The HSE case demonstrates that the government had a vision and directed this young university to provide theoretical support and human capacity during the transition period. The government influenced a particular direction of the new university's research and development activities. In the early 1990s, the government was not interested in basic research, but in knowledge support for ongoing social and economic reforms. This demand shaped the research profile of the university, making the research at HSE more applied and policy oriented.

### ***Building an Educational Institute's Identity***

Where did HSE receive its teaching model? Whereas the development of HSE's identity in research was done from scratch, a similar process in teaching was far more complicated given a common belief that Soviet higher education was of high quality and should form a model for young universities.

In 1992, Russia experienced one of the most difficult periods in its economic history, and thus, it was the worst year to establish a research university. The education system (all public at that time) suffered dramatically. Consolidated public expenditures on education dropped to 3.57 percent of GDP—the lowest level between 1980 and 1998 (Gokhberg, Mindeli, and Rosovetskaya 2002, 51). Public expenditures on higher education declined 39 percent in 1992 (Morgan, Kniazev, and Kulikova 2004). As a result, salaries of university professors became much lower than those in other sectors. The universities did not have access to public funding even to cover utility costs (Boldov et al. 2002). The state tried to reduce the number of places for new students in the existing universities. The relevant number of students in higher education in Soviet Russia was 219 students per 10,000 people in 1980. The third year of perestroika (1989) initiated the significant decline of this figure to 192. The lowest level was reached in 1993—171 (Bezglasnaya 2001).

Partly in response to the economic difficulties and as an element of movement to a capitalist economy, a new law on education (1992) made it possible to establish private higher education institutions (Shishikin 2007). By 2000, their numbers had increased to 358 from only 78 in 1994 (Klyachko 2002). Simultaneously, public universities earned the legal right to charge “additional” tuition fees to students. As a result, Russian public universities found themselves with two distinctive groups

of students: those who were paying tuition fees and those who received their education free (budget-funded places). The number of fee-paying students in Russian public universities grew from 1.9 percent of the total student body to 45.0 percent in 2000 (Bezglasnaya 2001). Universities realized that they had to enter market competition to survive (Kolesnikov, Kucher, and Turchenko 2005). It was a critical moment in the marketization and commodification of the higher education system in Russia (Canaan and Shumar 2008). Mainly as the result of skyrocketing fee-based enrollments, Russia experienced a rapid growth in enrollments from the end of the 1990s up to 327 students per 10,000 people in 2000 (Gokhberg, Mindeli, and Rosovetskaya 2002, 12).

The overall growth in enrollment was particularly impressive in social and economic disciplines. In 1992, 33 (public only) higher education institutions specialized in economics and law. Their number expanded to 69 during the 2000/01 academic year (Gokhberg, Mindeli, and Rosovetskaya 2002, 16). The growth in the number of students in these areas was even more impressive—from 39,400 first-year students in the 1992/93 academic year to 151,300 in 2000/01 (Gokhberg, Mindeli, and Rosovetskaya 2002, 26). These figures provide a context for the establishment of this new university (HSE). Although this time was the most economically difficult in recent Russian history, it was a period of growing demand for higher education. For the first time, universities obtained access to both public and private finance. HSE could directly compete with the existing universities, as they also entered a period of substantial changes.

The Russian government lacked a clear strategy for higher education reform. This climate affected the behavior of the Russian universities. The mid-1990s were described as a time of structural adaptation of the Russian universities to the changing environment (Morgan, Kniazhev, and Kulikova 2004). Most universities chose to survive and wait until better times returned (Titova 2008). HSE did not have this option because it needed to find resources to survive. As opposed to a proactive strategy, to a certain degree, HSE *reacted* rather than set goals. Thus, the identity of the new university did not emerge through a detailed strategy developed in advance, either by the government or by HSE itself. The government established HSE and forgot about its existence. The university was evolving mainly through competition with other universities as the entire higher education system adapted to constantly changing conditions. The following section examines how competition for leadership in the higher education market shaped HSE's identity as a research university.

## **HSE Establishment and Its Transformation through Competition**

One can divide the history of HSE into two stages. During the first stage (from 1992 to the end of the 1990s), it created its own position in Russian higher education. Within the second stage (since the beginning of the 2000s), HSE discovered itself as an international actor and began to transform itself into a global research university.

### ***HSE Competitive Advantages and Weaknesses***

The situation around HSE's establishment explains both competitive advantages and limitations in actions undertaken by the university during its short history. HSE was founded by the Russian government as a single-discipline higher education institution under the Ministry of Economy. The government's resolution set the mission of HSE quite clearly: to train a national cadre for the emerging market economy and to provide technical assistance to the Ministry of Economy. The prime minister at that time, Egor Gaidar, supported this decision.

The establishment of HSE under the jurisdiction of the Ministry of Economy became its unquestionable advantage. At that time, an overwhelming majority of universities reported (and still report) to the Ministry of Education. They are forced to focus on centrally determined educational standards more than HSE. The powerful Ministry of Economy provided political protection to the innovations of "its" university. It allowed HSE to develop its curricula, bearing in mind worldwide best practices rather than the average standards of the Ministry of Education. Proximity to the Ministry of Economy also provided a unique place for many students. The Ministry of Economy began actively using HSE as a testing ground for discussing new ideas, which improved the prestige of the young university and helped update its curricula in accordance with new tasks and trends.

A rather high budget allocation per student, set by the government decision on the establishment of the university, became another HSE advantage. Until 1992, such a high per capita norm was used only for a small group of highly reputable traditional universities. Therefore, setting such a rate meant the recognition of the high status of the young university. In the early 1990s, however, this rate did not address the issue of HSE financing, as government funding of the entire higher education system was reduced.

Important advantages of the newly established university included the lack of institutional inertia and the possibility of putting together a team

of modern and innovation-oriented teachers. These advantages resulted in international support for establishing HSE, because the early 1990s constituted a period of intensive foreign support of modernization processes in Russia. Although bulwarks of classical Soviet education were hesitant about the cooperation with “suspicious” Western institutions. HSE made the most of the substantial resources of the European Union programs. In 1997, HSE launched an external program of the London School of Economics and Political Science with the support of international and national sponsors. Today, this assistance looks rather small scale, but at that time it provided significant resources and support for university development and for launching of coordinated programs with leading international universities. Foreign grants made initial investments in human capital possible, especially helping contract negotiations with the first 25 staff members. The acquisition of a modern HSE library and the first purchase of computers occurred under these projects.

At the same time, when making its first steps, HSE ran into serious challenges compared to its competitors. A major impediment involved HSE’s physical infrastructure; the government did not provide the necessary buildings. Underdevelopment of the infrastructure was and is still a major competitive weakness of HSE. The young university had to open its doors to students without a long preparatory period or adequate educational materials in the Russian language. But this weakness was converted into an advantage when in due course the university managed to provide the most advanced textbooks and educational technologies. Some Western textbooks were translated, and a number of new textbooks were written by HSE professors. The approach to the library creation was an example of intelligent strategy. HSE could not have a library larger than the libraries of its competitors. Thus, it decided to have the best digital library in the country and succeeded. At the same time, Moscow State University invested millions of dollars into a new library building that does not really reflect modern ideas of information support for learning. Priority given to digital resources helped HSE modernize not just a library, but also the learning process as a whole.

Energetic planning, considered an advantage, was also a weakness. The university did not have enough teachers for all training courses. Yet over time, this weakness became an advantage because to fill the gap, the university invited famous practitioners and foreign professors, which significantly improved its prestige. An interesting point here is to compare HSE with another university established in the same period—the Russian State University for the Humanities. To a great extent, their roots are

similar; both universities were founded during a period of change and increasing need for modern social knowledge and humanities. However, the Russian State University for the Humanities was not a new university; it absorbed two existing schools and to a great extent became a hostage of its institutional culture. These competitive advantages and weaknesses underpinned the university strategies in a competitive struggle in various markets.

### ***Strategies of Market Entry and Competition for Leadership***

Theories defining the entry of new players to the market state conceptualize an accurate determination of niche, quantity, and price as a primary success factor. Initially, the management team of the new university was purely academic; it did not have basic marketing competencies. In defining its market strategy, HSE relied on a sensitivity to changes. Its success was defined by the fact that its competitors had the same level of marketing skills with a lot of self-assurance and snobbism.

***Defining the niches to enter the market.*** Initially, HSE relied more on the will of the government. In the summer of 1992, the Ministry of Economy intended to launch a master's degree program in economics and retrain talented students from advanced universities.

It immediately became clear that to sustain this program, a bachelor's degree program in economics was also needed. So on September 1, 1993, both the bachelor's and the master's degree programs were launched for first-year students. This practice strengthened the initial self-identification of HSE as a single-subject institution.

HSE, led by its ambitions, looked to famous universities with a long history—for example, Moscow State University, whose economics faculty provided cadres for a Soviet elite. The decision was made not to directly compete with such universities but rather to focus on different subjects. In higher education, brand and tradition play such an important role that it is difficult to imagine how a young university could compete with well-established universities without entering a new field.

The young university made use of the reform wave of the early 1990s when everything new and unusual came into fashion. HSE positioned its brand as market orientation, timeliness, and nontraditionalism. When the well-established Russian universities opposed the introduction of the Bologna Process, HSE was one of the first to adopt a two-tier system and make it part of its public image (Chuchalin, Boev, Kriushova 2007). It was an ingenious move to take advantage of the high prestige of the

Soviet tradition in mathematics and physics and apply it to the social sciences. HSE associated its style of teaching economics with the style of teaching physics and mathematics. In doing so, HSE attached itself to a tradition that was of high repute at home and abroad.

Another distinctive feature of HSE's positioning was (and still is) its international engagement. Thanks to the grants from the European Union and some European governments, HSE established close ties with several leading universities. Those links became an important aspect of HSE's public image. The opportunity to participate in exchange programs and to study abroad became an important attraction for many Russian students.

Thus, HSE successfully identified its initial niche of modern, international, and innovative (as opposed to outdated, isolated, and traditional) economic education, focused on the realities of the market economy and pluralist democracy (as opposed to planned economy and totalitarian regime).

By 1995, it had become clear that advising the Ministry of Economy on social and economic reforms required expertise not only in economics, but also in social and political sciences and law. HSE leaders also realized that a modern research university should have a sufficient range of disciplines (as does the London School of Economics and Political Science). At the same time, researchers from other academic fields observed the new university with its attractive academic environment and approached its management with ideas for new areas of study and research. As a result, HSE management proposed to the government to broaden the scope of the institution's mission. The Ministry of Economy supported this move because it wanted to expand its influence and perspectives. In 1995, the government awarded HSE the status of university that signifies training and research in a wide range of areas including law, business, and humanities. In 1996, HSE began undergraduate programs in sociology, management, and law.

In this environment, the niche for content widened, primarily through the introduction of areas for study and research that either were absolutely new for Russian higher education or had rapidly increased in popularity. In the former, HSE not only forecasted, but also shaped the growing market (for example, in management studies). In the latter, HSE directly competed with well-established universities by stepping into traditional fields. From 1996 through 1999, HSE established faculties of law, sociology, management, psychology, and political sciences. The demand for training in these fields was quite high, so HSE could easily

obtain second-class students. However, HSE positioned itself as an innovative university, even in these traditional fields, to attract the best students. Whereas most competitors continued to preserve their existing curricula as long as possible, HSE emphasized new content areas and curriculum structures. This emphasis worked as a marketing strategy, although in some cases its claims were not completely justified.

HSE sometimes tried to seize control over entry into new market segments from well-established universities that until then had monopolized certification of new specialties, programs, and textbooks. The master's degree programs in social sciences and economics are good examples of such aggressive competitive strategies. Because HSE was the first reputable university to open master's degree courses in a number of areas, it began claiming the control over the certification of such new programs and textbooks. The leading universities did not pay much attention to that approach, because the share of master's degree programs in Russian universities in the late 1990s equaled less than 3 percent. However, following Russia's accession to the Bologna Process in 1998 and enactment of the respective law, a large-scale transition to master's degree programs in social sciences and economics became a reality, with HSE acting as a leader and market-entry controller.

HSE used similar tactics in other cases. Its most audacious move was to establish and then legitimize completely new study areas. For instance, in 2001 the Ministry of Education authorized HSE to pilot business informatics training. It designed a new curriculum and enrolled students. Then, HSE lobbied for the approval of national standards for that field, based on the results of the pilot, and became a natural leader and a trend-setter in that area. HSE followed a similar approach when introducing new study areas such as logistics or statistics. Courage and intuition helped HSE effectively use these strategic opportunities.

A critical issue in niche identification was the focus on research. An important aspect of HSE's market positioning and its organizational identity was based on the idea of a research-intensive university. Why and how did HSE strengthen its emphasis on research? The main impetus for this focus was its initial affiliation with the Ministry of Economy, which considered HSE a think tank from the beginning. It often contracted with HSE for conducting empirical studies and applied analysis for economic reforms.

Another reason for focusing on research was the competition for students. Recent studies show that focusing on research increases universities' abilities to compete for students (Del Rey 2001; Warning 2007).

Therefore, HSE's focus on research helped it not only compete for research funding, but also attract the most productive students.

Identification of its size and scale of activity was another important component of HSE's market-penetration strategy. As a newly established institution, HSE was free to drastically increase student enrollment from the beginning. Yet it selected the strategy of "limited edition" to increase the attractiveness of its educational services by deliberately restricting the availability of these services. This strategy obviously helped maintain quality standards. However, it was also a well-considered move in the competitive struggle. The fact that HSE did not increase its enrollment and also did not open extramural or part-time departments contributed to its reputation as a high-quality higher education institution and stirred up interest among potential students. Such approaches enabled HSE to compete successfully both for good students (to fill budget-funded places) and for the financial resources of fee-paying students.

***Competition for good students to fill budget-funded places.*** The struggle for high-quality students whose motivation and skills could become the young university's most empowering resource was the key competition field for HSE. In its first year, the university failed to attract even a sufficient number of applicants. As a result, the university needed to extend the enrollment deadlines for undergraduate programs. Later, the situation improved because in the early 1990s, more secondary school graduates rushed into economics and were looking for any higher education institutions or faculty specializing in economics (Egorshin, Abliazova, and Guskova 2007). Therefore, in general, entry into that growing market was not extremely difficult for universities. Moreover, traditional barriers to the higher education market entry—certification and licensing—stopped in the revolutionary chaos of the early 1990s. Yet, institutions' entry into the elite segment of the economics education market remained quite problematic.

To enter this segment, HSE decided to use its innovative brand and provide an explanation of its innovations to future applicants and their parents. Thus, the university used a multilevel (person-to-person) marketing strategy in the first years of its operation. In 1994–97, HSE managers and teachers visited about 300 schools in Moscow and other cities to make presentations at parents' meetings, each attended by 300 people on average. Their main message was that a "new economic order" required a new kind of training that could be provided only at new institutions. As a result, in 1994 the university received 4.5 applications for each student position.

However, a new positioning of economics (and then other social sciences) in secondary schools formed the truly strategic marketing move. In the past, only one social discipline—ideologically overburdened “social studies”—had been taught in secondary schools in the Soviet era, with a low status among teachers, students, and parents. HSE professors began promoting the introduction of new secondary school disciplines such as economics, political study, and law as early as 1993. To that end, they initiated the development and publication of school textbooks and workbooks in those disciplines. HSE found a business partner, a commercial publishing house interested in establishing and developing a new and rather profitable segment of the textbook market. Promotion of these disciplines (and the newly developed textbooks) in secondary schools was facilitated by the fact that the university launched an ambitious teacher retraining program to create a pool of teachers in economics. HSE professors also suggested another instrument to promote social and economic knowledge in secondary schools (All-Russia Academic Olympics in Economics). HSE organized the competitions, and many winners of the Academic Olympics were enrolled in HSE.

One of the most effective strategies for competing in a quasi-market is institutional transparency and informational support for students and their families (Woods, Bagley, and Glatter 1999). This strategy led HSE to develop the most informative website for potential students, according to the rating of the independent agency, Reitor (Reitor 2007).

HSE's approach to admissions to master's degree programs clearly demonstrates the key competition principle chosen by the young university: to predict market-development trends and to become the first institution to enter growing market segments. Since 1994, Russian higher education institutions could open two-level bachelor's and master's degree programs (four plus two years)—the Bologna model—parallel to the development of the traditional continental European model featuring the award of the specialist diploma (five to six years). Most leading institutions that competed with HSE vehemently opposed the Bologna Process and did not open master's degree programs. Unlike them, HSE took active steps to introduce the model, and in 1997, it became the first sizable university with a diversified and large-scale master's degree program. Therefore, HSE managed to attract gifted graduates from other universities, including those specializing in technical disciplines and sciences, which also contributed to significant diversification of the market.

It is interesting to note that such tactics failed in some segments of the education market. For instance, HSE was not able to become a leader in

PhD-level studies. HSE wanted to use aggressive marketing tactics and announced that it would offer non-fee-based PhD-level programs to maintain quality and integrity. However, graduates of other universities did not run to HSE because the PhD certification procedures were and still are controlled by the association of several traditional universities and the Academy of Sciences. This status prevented HSE from imposing a new set of specialties and new thesis standards. Therefore, HSE had to comply with the existing rules, which create implicit incentives for graduates to stay at their alma maters for their PhD-level training.

***Competition in the market for fee-based education services.*** Development of HSE's brand facilitated its entry into the market for fee-based education. That market emerged simultaneously with HSE, and therefore, HSE and its potential competitors encountered about the same experience in such an environment. The young university pursued an aggressive policy, becoming one of the more expensive providers in the local market from the first years of its operation. Such policy was well in line with the general atmosphere in the market of goods and services, which saw the emergence of an expensive high-quality product segment in the early 1990s. Most players in the higher education market assumed that the sector of inexpensive, low-quality education was the most profitable and opted for price competition. Almost all institutions that provided fee-based education services in the social sciences and economics developed inexpensive programs, implemented as extramural or part-time courses. Demonstrating its special niche of high-quality fee-based education, HSE refused to follow an easy-money approach and declared that it was not going to have extramural or part-time departments for undergraduates.

Although charging high tuition fees, HSE was one of the first Russian universities to announce a system of discounts for applicants who demonstrated special achievements in one of the entrance exams or in the course of studies. It was one of the first institutions in Russia to begin cooperating with commercial banks on education loans for its students, which also led to the qualitative growth of students willing to pay for their education. Thus, HSE competed for quality rather than quantity. Because of this strategy, HSE retains its price leadership today, with tuition fees generating more than one-third of its budget.

Continuing education was another emerging sector in the market of educational services in the early 1990s. A rapid growth of the new economy sectors, with up to 50 percent of qualified specialists taking new occupations (mostly in the area of finance and business) has required a

prompt retraining of tens of thousands of engineers and military personnel. Several niches emerged in continuing education as well. Many universities launched programs of accelerated, formal retraining that resulted in the issuance of a diploma or a certificate. Their competitors have offered some longer, more traditional programs. Within continuing education, similar to the basic education sector, HSE offered innovation products. HSE was among the first group of Russian universities offering their master of business administration programs and courses on project management and international finance. HSE management considered continuing education a stable and promising market. Therefore, a key element of HSE's approach was to establish a special department in charge of marketing and direct contacts with a corporate client to implement any continuing education program. Most competitors lacked a strategic attitude toward continuing education as a source of extra income. In their view, providing any continuing training services defined just a source of extra income for their professors rather than a separate and critical market segment. Thus, in the majority of competitive universities, extended education services were provided by the same units that provided basic education services.

***Competition in the market of intellectual services and research.*** A sector of intellectual services (consulting, analysis, audit, and so forth) in social and economic areas emerged together with the market economy and political competition. However, in the early 1990s, this market remained as yet undeveloped. No Western consulting firms and think tanks were yet present in the market, and no mature Russian companies had been formed. The Russian government lacked the funds for commissioning studies and analytical work, and there was insufficient demand and supply. Under the above conditions, most universities did not treat any socioeconomic studies and analytical work as a promising market. Unlike other universities, HSE invested its earnings into public analytical work, which has contributed to its image as a well-known analytical and research center. Close contacts between HSE and the Ministry of Economy were critical in taking a strong competitive position in the intellectual services market. The university could see the areas where research and analysis were mostly needed. Gradually, the supply of analytical papers created a demand. As a result, in terms of the scope of work completed, by the end of the 1990s HSE had become a key Russian center for applied socioeconomic research and analytical work. Income from these contracts constituted at least 20 percent of HSE's total income. This result was important

for capacity development in applied research. However, it did not help further develop a capacity for basic research at the international level.

The decline of the Russian Academy of Sciences opened new possibilities for HSE's competitive positioning in basic economic and social research (Avtonomov et al. 2002). Many young researchers from the academy's institutions moved to HSE, which offered them a fast promotion, better income (including for those from contracts on applied research), and opportunities for international cooperation. However, the lack of external funding did not offer sufficient impetus for basic research. Bright graduate students and researchers preferred external contracts for applied studies. This situation did not stop HSE from becoming one of the leading research centers in Russia. Yet this procedure happened in the atmosphere of the general decline of basic research in the country.

### ***Conclusions on the role of competition in forming the university's identity.***

The actions of the university under the conditions of competition were largely opportunistic and reactive. At the same time, literature suggests that strategic behavior is critically important for newcomers in overcoming entry barriers (Geroski, Gilbert, and Jacquemin 1990). What was the strategic element of HSE's competitive actions? The analysis shows that a certain interpretation of an ideal model of a research university preconditioned the entry into various sectors of the education market. The key element of university identity and image also included internationalization, innovations, and a predominant orientation toward elite and emerging markets.

Another important factor affecting many of HSE's decisions was its mission as an innovative university that supports Russian economic and social reforms. This ideology often justified aggressive actions by HSE (even arrogant, from the point of view of its competitors).

Likewise, marketization of higher education forced HSE to develop itself as an entrepreneurial university (Clark 1998) with strong and centralized management, diversification of financing sources, and a complex system of academic incentives. It became an interesting hybrid of models of both a research and an entrepreneurial university.

An interesting example of this combination of semistrategic, missionary, and opportunistic behavior was a (not planned) geographic expansion of HSE. HSE was offered facilities from the regional authorities in a few Russian cities to open educational programs there in 1996 and 1997. HSE used this new opportunity to expand its operations and to raise its national profile. Obviously, that procedure was not necessary for the

development of HSE as a research university and even led to heated discussions within HSE's leadership. But HSE had a mission to promote innovative approaches in teaching economics and social sciences, which drove its geographic expansion.

However, in the early 2000s, after HSE reached the top of the Russian higher education system, the university's actual steps were traditional rather than innovative. Many innovations initiated by HSE were adopted by its competitors. Some critics noticed that HSE culture was becoming similar to the culture of traditional Russian universities, which meant stagnation for HSE leaders. To avoid the stagnation, the university had to move away from the opportunistic behavior toward more strategic positioning. There was no option to become another Moscow State University or to follow the international model of a research university. The decision was made. HSE announced its strategy "to become a research university of global standards" as early as 2002 (Higher School of Economics 2006).

### **Toward a Research University Model**

It is not a coincidence that the new strategic direction appeared in the time of accelerated growth of the Russian economy, based on high oil prices. New resource opportunities and challenges for the Russian economy affected HSE's behavior. The institutional inertia pushed the university to quantitative expansion (the number of first-year students doubled between 1999 and 2004). The strategic vision required qualitative changes.

The strategic transformation will be examined using the framework by Jamil Salmi (2009). This framework includes three main conditions that are critical for any university to achieve world-class status: attraction of talents, sufficient resources, and effective governance and management systems. The analysis also includes a review of the research priorities important for understanding HSE's emerging identity as an international research university.

#### ***Attraction of Talents***

HSE's strategy to attract the best students has been previously described. Because of that strategy, HSE has been attracting active and dynamic Moscow secondary school graduates. However, HSE initially fell behind leading Moscow universities in attracting academically oriented youth from other Russian regions. As a result of being the first to accept national

university entrance exam results, an average number of HSE applicants from the region grew, and HSE has reached its major competitors.

HSE's leadership in promoting the master's degree-level training has been previously mentioned. However, it has been difficult to transform this advantage into a new inflow of talented graduates from other universities because the quality of training received at regional universities does not allow their graduates successfully to pass HSE's master's degree-level entrance examination. To solve this problem, in 2001, HSE established a system of free winter preparatory schools for the most talented final-year undergraduates from regional universities. In 2008, HSE actually extended its master's degree program for these students and began using an extra year (remedial) for their training. As a result, HSE has already outpaced some leading Russian universities in the number of graduate students. Today, the share of graduate students at HSE is 15 percent. In 2009, the intake of students for master's degree programs at HSE reached 1,500, one of the largest in Russia. In the next 10 years, HSE plans to increase the share of master's degree students up to 40 percent.

Once the best students are available, it is important to maintain their academic motivation and secure a fulfillment of their talents. HSE has developed a number of economic incentives for accomplished students by introducing special grants for free students and discounts for accomplished fee-paying students.

At the same time, poor infrastructure, lack of courses delivered in English language, and a low international reputation of Russian socioeconomic sciences have resulted in a low percentage of foreign students. Even the best Russian-speaking students from the former Soviet Union prefer studying at the universities of Western Europe and the United States. In recent years, the number of foreign students has reached only 3 percent.

A key element of the strategy to implement the world-class research university model has been the attraction of talented teachers and researchers. HSE has faced a lack of specialists available in Russia in some subject areas. Therefore, different approaches to establishing strong academic teams have been applied in various socioeconomic sciences. In the area of applied mathematics (applications to the economy), Russia has had its longstanding traditions and internationally acknowledged scholars. The majority of the scholars were employed by the Academy of Sciences, which experienced a dramatic funding decrease in the early 1990s. HSE was able to hire these specialists by offering them attractive contracts, which allowed it to establish academic teams working on an international

level within a few specific research areas. This step was critical because these teams are to disseminate these standards in other research areas. No such capacity was available in other segments of socioeconomic sciences. Therefore, HSE had to choose between mobilizing foreign academics and nurturing a team of local researchers.

At about the same time, the New Economic School was established in Moscow. That institution has taken the first path demonstrating that the option of hiring internationally recognized academics would be efficient in allowing a new institution to participate effectively in global knowledge generation and international exchange networks. However, the above option could not be fully implemented given the absence of abundant financial resources, which were not available in Russia then. Therefore, HSE followed a more complicated strategy.

During the first two years, up to 30 percent of professional courses were taught by professors from foreign universities. As a matter of priority, young academics who had already established themselves at HSE took their short-term probation at foreign universities, where they could master the relevant courses and get acquainted with modern research methods. HSE supported both their lecturing activities and their research.

Aware that Russian science would not be able to compete with Western science in the areas of economic or sociological theory in the near decade, HSE decided to use a unique advantage of operating in Russia that was truly a “laboratory of a transitional economy.” Western researchers had no easy access to such a laboratory. Therefore, HSE’s specialists dealing with empiric studies of a transitional economy and social processes have become partners for leading foreign specialists in socioeconomic theory. In fact, the strategy of cultivating talented researchers was coupled with the method of cultivating modern socioeconomic science in Russia. HSE nurtured a group of young specialists who became unique among Russian universities. In the 1990s, the average age of lecturers was 33 years, and the average age of HSE managers was 36 years. Today, the average age of HSE lecturers is 43 years, which makes HSE the “youngest” public university in Russia. These young professors came mainly from the Russian Academy of Sciences and Moscow State University. They were attracted not just by career prospects, but also by opportunities to enter the world of modern social and economic sciences, escaping the Soviet ideological cave.

Another element of HSE’s staffing strategy involved mobilizing foreign specialists on a temporary basis (usually for one semester). It was also

aimed at developing certain training courses later commissioned to the Russian lecturers. Obviously, foreign professors taught in English, which was illegal because the existing regulatory framework did not permit teaching in a foreign language. HSE lobbied the changes in the regulatory framework that made this practice acceptable. Currently, even some Russian professors teach in English. The university aims to have sufficient courses in English to attract more foreign students.

One of the unique elements of the staffing strategy was the invitation of leading economists and politicians from the government to teach at the university. All ministers of economy and finance were professors at HSE. They brought the vision of real-world problems into the classrooms and research groups.

It was equally important both to attract and to retain talented professors at HSE. The key task was to secure their loyalty to HSE as their primary place of employment. Two factors made this a difficult task.

First, as previously mentioned, universities in the Soviet Union were not considered a natural place for research. This approach manifested itself in a high teaching load for lecturers (up to 700 hours per annum) that left no time for research work. Some leading universities had close contacts with the Academy of Sciences, which allowed its researchers to become part-time professors and actively engaged many students in research activities. Also, at the Moscow and the Saint Petersburg universities, the share of postgraduate students was high, which contributed to the research activities. However, this environment was an exception rather than the rule. Therefore, the key task of HSE was to make research and teaching equally prestigious goals for professors.

Another specific problem of higher education and science in Russia in the 1990s was the reduction in funding, resulting in a dramatic drop of academic salaries. Within one year, university professors revealed that their salaries did not maintain their former living standards and would not allow them to survive. In 1993, the monthly salary of a professor at an average Russian university was US\$50, and the monthly salary of a professor at the major universities was US\$100–120. This salary was much lower than a starting salary for many university graduates. As a result, practically every professor had to take several jobs and visit his or her base university only to lecture.

A critical task was to fight the trend of turning all professors into multiple jobholders. To cope with this problem, HSE management developed a special theoretical concept—the efficient contract (Kuzminov 2006). It is a system of mutual obligations, with an aggregate of incentives

(primarily financial ones) for HSE to secure the loyalty of lecturers to the institution as their primary place of employment, including their engagement into basic and applied research. An efficient contract system did not mean that all professors of the same rank would receive an equal salary. For those employees who demonstrated international competitiveness, efficient contracts were a tool for earning an income similar to that at international universities. Professors holding a strong position at the local market would receive a different salary. An efficient contract system does not always mean a guaranteed payment for a standard scope of work. Normally, an efficient contract is related to the possibility to gain some extra income at the university by contributing to any fundamental and applied research and any high-cost training programs ordered by major corporations. This system also rests on a set of incentives such as salary supplements for regular publications in any reviewed scientific magazines, internal research grants, and special grants to young teachers.

Today, more than 30 percent of HSE professors are on efficient contracts, which secure their loyalty to HSE and their active engagement in research work. The efficient contract system allows professors to maintain a middle-class lifestyle.

Tenure contracts are not permitted under Russian legislation. HSE has tried to imitate tenure by introducing the internal status of “distinguished professor” supported by a higher salary, special rights, and an informal promise to extend the contract as long as the professor wants. However, HSE failed to introduce clear criteria, based on research productivity, for awarding this status. For many professors, their status became a comfortable retirement niche.

A quantitative expansion of HSE could not be ensured without an adequate supply of professors. The possibilities for an external search of candidates were almost exhausted. Gradually, HSE has begun to offer jobs to its own graduates rather than to mobilize talent from outside. This practice creates a risk of inbreeding and stagnation as well as low staff mobility. Despite the absence of a formal open-ended contract, there were almost no cases of the rejection of the contract extension initiated by the university.

To respond to these risks, HSE developed new staffing initiatives: inviting outstanding scholars as guest researchers or lecturers, reducing the teaching load for professors with the most remarkable achievements in research, and hiring specialists from the international labor market. During the past few years, HSE has been hiring three to five young PhD graduates annually from the leading universities. Still, the

ratio of professors active in research and modern teaching methods is not high enough (about 40 percent).

### ***Resource Conditions for Development***

Since the day of its establishment, HSE has looked for any resources to secure the mobilization of talented academics and the conditions for their efficient work. As previously discussed, HSE used an entrepreneurial approach to diversify the sources of funding. Today, it has four sources of funding in addition to the federal budget: the basic higher education market, a continuous education market, research, and consulting.

During the past few years, on average, the federal budget allocation for the education of non-fee-paying students and capital investments compose about 33 percent of the university revenue, whereas 16 percent is generated from the fees of students attending on a cost-recovery basis. Continuing education programs contribute 19 percent, the research project portfolio gives 15 percent, grants and sponsor support compose about 13 percent, and other sources amount to about 2 percent.

The ratio between budgetary and nonbudgetary funding was 60 to 40. Most of HSE's income from educational activity has been invested in research. As a result, HSE has become a leader among Russian universities in its own investment into research. This situation led to a higher visibility of HSE and allowed the university management to argue for better budget funding.

In recent years, budget funding has increased. In 2006, HSE lobbied for additional funding from the government to support its basic research program. The government approved this additional annual funding, which reached US\$15 million in 2009 and boosted research activity. It also had a reverse effect: some researchers who received funding for basic research from the university scaled down their efforts to get external grants. Despite a significant increase in funding (from 1993 through 2008, the funding per student increased by 15 times in comparable prices), HSE's resource provision (even in terms of purchasing power parity) has been well behind that of Western universities.

### ***Organizational and Management Structure***

Organizational and management issues cover a number of aspects of HSE's development: autonomy, organizational structure, hierarchy, and management culture. All public universities in Russia have similar management systems formally providing conditions for broad academic democracy and autonomy. However, the practical functioning of the

management structures at various universities is different. Since the beginning, HSE has enjoyed much more autonomy than other universities because it reported to the Ministry of Economy rather than to the Ministry of Education. A high share of nonbudgetary income has also contributed to the culture of independence in the use of financial resources.

The internal governance and management culture combines high transparency and rigid vertical management under a rector. However, this system lacks checks and balances. The rector is elected by a senate (and approved by the government afterward). But the rector has strong influence on the senate composition and is not subordinated to any external body like a governing board. This centralization was crucial at the initial stage of the university's history. It helped in setting and keeping priorities and in focusing resources for a limited number of objectives. HSE leadership has been and continues to be a driving force of the innovative development, pushing changes into all university units. New ideas rarely come from the bottom of the institutional hierarchy. Because HSE founders, to a large extent, remain managers, the basic ideas of the institution's development strategy have been developed not by the senate (academic board) but by the rector's office. At the same time, transparency has secured the feedback from the staff and staff's engagement into policy discussions.

One of the critical functions of the centralized management system has been the efficient distribution of scarce resources for financing different types of contracts. The centralized system of incentives based on the experts' opinions has been noted as perhaps the most effective way of grading the researchers and professors in an uncertain academic environment (Diamond 1993).

Another critical function of the centralized management is to secure the patronage of the government, which forms an important condition for HSE's success. The government prefers to speak with the executive (the rector) rather than with an independent body like a governing board.

An interesting detail of the governance structure of HSE is the position of the academic leader of the university, who plays a major advisory role and carries out representation duties. This position is occupied by one of HSE's founders and a former minister of economy, Evgeny Yasin. The independent position assures the importance of research for the university. The academic leader reports to the senate directly.

Another important feature of HSE's governance system is the stability of the university leadership, which is still led mostly by the same leaders who founded the university. Professor Yaroslav Kuzminov has been the rector since the establishment of HSE and is still the major driving force

and an ideologue of university strategic development. Theoretically, the stability of the university leadership team facilitates an institutional inertia. In reality, the opportunistic character of HSE's early development and the dynamic external environment did not allow its leaders to stop worrying.

The leadership team understands the risk of stability and therefore seeks external challenges. In early 2000, it lobbied for such a challenge—the government push for international competitiveness. In response to this challenge, the university leadership team accepted a new set of main performance indicators: (a) research performance and (b) the university's involvement in socioeconomic reforms. These indicators include primarily university publications in peer-reviewed journals, the scope of contractual research, and the influence of HSE's analytical materials on policy making. However, the centralized character of management and the lack of external accountability do not require systematic use and in-depth analysis of such data.

The transformation of HSE into a research-intensive university required a particular organizational structure. The separation between teaching (training) units and research and analytical institutes (centers) was adequate for aggressively and opportunistically entering the markets. However, this structure does not allow integrating teaching with research and innovation activity. It also hampers the transformation of HSE into a modern research university. In recent years, this problem has been recognized, and HSE stimulated the creation of new structures in which such integration happens naturally. These structures are called student research laboratories and student project groups, and they allow undergraduate students, postgraduate students, and professors to join teams under common themes or projects. The aim is to improve internal flexibility and provide opportunities for interdisciplinary research. However, barriers remain between the teaching and the research and development units.

### ***Priorities of the Research University***

The selection of the priorities is critical for any university positioning itself in the global educational market. A new university can follow well-established universities by importing researchers and participating in existing projects and networks. This type of strategy definitely creates results, and HSE followed it by joining a number of international comparative study projects and inviting Western scholars to introduce young Russian researchers into cutting-edge research areas. However, such an approach rarely leads to creating a unique research profile and to competing with international research universities.

So in addition to this approach, HSE is identifying specific niches where its capacity and expertise could be unique and internationally competitive. One of these multidisciplinary areas is the study of social and economic transition. By focusing on the transition, many HSE researchers have become widely known experts in the field. HSE has hosted a number of conferences of the international networks of researchers in this area. Such an orientation helped the young university to become a center of knowledge creation and exchange. At the same time, such a focus creates a risk of missing critically important cutting-edge areas.

Another approach to enter global research networks is based on appreciating the importance of empirical data. HSE invested its own resources and convinced the government to support large-scale empirical studies—including household surveys, monitoring of enterprises and innovative activities, empirical studies of civil society development, and so forth. This rich body of knowledge was expected to attract foreign scholars to work in cooperation with Russian researchers. However, huge investments in these studies did not fully pay off because the methodology of these studies was not always up to date. This situation confirmed that setting priorities could be a very difficult and risky task.

### **Happy Ending or New Challenges?**

In August 2008, the Russian government decided to place HSE under the direct supervision of the Cabinet of Ministers (together with five leading universities) to ensure their important role in providing knowledge support for policy development. This decision required HSE to develop a strategy, up to 2020, to secure its competitive position compared to the major international research and educational centers in the areas of social sciences and economics. This external push became a strong factor for the transition to a new stage of HSE development, requiring a strict approach as opposed to an opportunistic one. This effort presents a choice between quantitative expansion and qualitative transformation.

The policy developed by HSE was approved by the government commission in October 2009. HSE was awarded a large grant to support the implementation of this strategy. It was also awarded a special status—National Research University. This status connotes more academic autonomy, higher responsibility for the results of research activities, recruitment of international students, and high-quality training. The challenge for HSE is not to obtain another award, but to become an international research university in reality.

## Conclusion

This chapter has examined the roots of HSE's success as a national flagship university and a strong candidate to become a global research university.

The factors that contributed to this success are as follows:

- An initial orientation toward a research-intensive university model that focuses on human resources and quality of research
- Deliberate implementation of an entrepreneurial university model and aggressive competition in emerging and elite markets
- Close ties with international universities and research networks, resulting in active adaptation of the best international curricula and modern research methodology in the specific environment of Russian education
- Use of issues of national significance (including major social and economic reforms) as subjects for research and analytical work
- Investments in the public image of HSE as a center of excellence in the area of social sciences and economics

This analysis confirms a conclusion that was based on the history of the London School of Economics and Political Science—the role of institutional entrepreneurs in university development is very important if they happen to be in the right place at the right time (Czarniawska 2009).

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