

## CHAPTER ONE: INTRODUCTION

### 1.1. AIMS OF THE STUDY

In the private higher education markets in Malaysia today, education programs are marketed like any other commercial products. The programs are designed, packaged, priced and sold to the consumers – the students. The private higher education institutes (PHEIs) aggressively compete with each other for students. Various marketing strategies are used to increase the number of recruitment. Due to the fact that in these markets, the students are mostly self-funded (without scholarship) pricing strategy is one of the most important marketing tools used by the PHEIs.

Using a hedonic model, this study aims to answer the following questions:

- a) What are the factors responsible for the differences in tuition fees of degree programs in the private higher education institute in Malaysia?
- b) What are the differences in the determinants of tuition fees in the different markets in the industry of higher education in Malaysia? The different markets are the private colleges and the private universities.

### 1.2. BACKGROUND TO THE STUDY: THE PRIVATE HIGHER EDUCATION IN MALAYSIA TODAY

Five pieces of revolutionary legislation in the Parliament in 1995-6 had changed the structure of the private higher education in Malaysia. One of the acts, namely Private Higher Education Institutions Act has finally make privatization and liberalization of higher education legitimate and

PHEIs were given a place in the legislation for the first time. Since then, the private higher education in Malaysia has experienced rapid growth in terms of number of PHEIs, the size of the PHEIs, the student enrollment and also the diversity of programs.

The private higher education today is showing the signs of a mass education sector and the characteristics of a full-fledged market driven industry. Below are some of these characteristics:

### *1.2.1. MASS PRIVATE EDUCATION SECTOR*

Where public higher education is restricted in size and somewhat selective in intake, private sectors become the agency for meeting the general social demand for higher education. The result is “mass private sector” that usually contains the majority of a country’s enrollments (Geiger 1986).

The student enrollment in local, private and overseas higher education institutions over the years are given in Table 1. The number of students studying in the private institutions for higher learning increased after 1900. In 2000 the enrollment in the PHEIs finally exceeds the enrollment in the public institutions. As at 31 May 2001 the total number of enrollment at 666 PHEIs in Malaysia stood at 232,069 (Department of Private Education, Ministry Of Education). The number of foreign student studying in the PHEIs also has increased, even though not as much, from 10,283 in 1999 to 15,003 as at 31 May 2001 (Education Guide 7<sup>th</sup> Edition).

The private higher education in Malaysia evolved into becoming a mass private sector as defined by Geiger because of its unique historical development that will be discussed later in this chapter.

The mass private higher education in Malaysia is also the result of government's policy and vision. The policy makers have indicated that the higher education reform in the form of five legislations in 1995-6, is vital to help realize Vision 2020, the national goal to be a developed and industrialized country by the year 2020. At the same time, the government also aim to be a hub in education and information technology in the region (Malaysia 1996).

### 1.2.2. FULL-FLEDGED MARKET DRIVEN INDUSTRY

As provided in the Private Higher Educational Institutions Act, PHEIs are to be managed by a locally incorporated company and run by a chief executive officer (CEO). This gave the green light to the participation of private corporations in higher education. With the presence of these corporate players, the private education in Malaysia is also showing signs of a full-fledged market driven industry.

Table 1  
Malaysian Student enrollment in local public and private and overseas higher education institutions (1985-2000)

| TYPE OF INSTITUTIONS  | 1985           | 1990           | 1995            | 2000             |
|-----------------------|----------------|----------------|-----------------|------------------|
| PUBLIC INSTITUTIONS   | 86,330 (51%)   | 122,340 (53%)  | 189,020 (51.5%) | 167,507          |
| PRIVATE INSTITUTIONS  | 15,000 (8.9%)  | 35,600 (15.4%) | 127,594 (34.%)  | 203,391          |
| OVERSEAS INSTITUTIONS | 68,000 (40%)   | 73,000 (31.6%) | 50,600 (13.8%)  | More than 12,794 |
| TOTAL                 | 169,330 (100%) | 230,940 (100%) | 367,214 (100%)  | N/A              |

Source: Tan, 2002, p. 126.

In this industry, not only corporations are acquiring colleges but colleges too are taking over colleges. Examples of college taking over other colleges include Inti College's acquisition of International College, Penang. Corporation such as the EMAS Group took over and controls not only one college but a group of educational institutions known as Systematic Education Group of Colleges, under which there are Prime College, MSC international College and Summit Montessori Edu-Care. This grouping of education provider seems to be the latest trend in the industry, that is the building of "supermarket" in education. In this "supermarket" the corporation offer a one-stop service center that caters for education at all level: pre-school, primary, secondary and finally college. Sedaya International started their own primary and secondary, Sri Sedaya and this was followed by College Damansara Utama who set up Sri KDU.

Stiff competition among the PHEIs has resulted in many of them moving to bigger premises with better facility to attract more students. Under competitive pricing, PHEIs with more capital, bigger premise and better facilities can force the smaller colleges out of the industry. The bigger colleges showcase not only their facilities they provide but also the awards they had obtained such MSC status and ISO awards.

There are three associations representing the PHEIs in Malaysia today. They are Malaysian Association Of Private Colleges (MAPCO), National Association Of Private And Independent Educational Institutions (NAPIEI), and Union Of Malay Private Higher Education Institutions (GIPTSB). NAPIEI being the oldest (founded 20 years ago) represents private colleges of small and medium size. MAPCO (founded in 1997) represents bigger private colleges (the member need

to have minimum capital of RM500 000). GIPTB (Founded in 1999) represents the Malay colleges who are mainly the franchisees of public universities' degree franchise.

### 1.3. HISTORICAL BACKGROUND OF PRIVATE HIGHER EDUCATION IN MALAYSIA

Since independence in 1957, Malaysian education system has been given two major tasks: to promote unity and to produce skilled workforce for economic growth. In order to promote unity among the different races, education policy is designed with regard to racial equality and distribution of access to higher education. Especially after 1969, the year when there was a serious outbreak of racial riots, education policy has been engineered to favor the bumiputras (Lee, 1999). The bumiputras at that time were dominant in politics but left behind in business and profession. Stringent quota of 55:45 for places in higher education between bumiputras and non-bumiputras was imposed. Malay language was used to replace English. Since then there has been an increase in number of Malay students in the public universities and an increase of ethnic Chinese in both local private colleges and foreign universities. This situation has therefore given birth to many private colleges in Malaysia.

The private colleges can be grouped into three generations (Tan, 2002). The first generation includes those established during and before 1980s. The second generation represents those set up in the early 1990s. The third generation of private colleges represent those born after the 1995-6 legislations.

### *1.3.1. IN THE 70S AND 80S*

In the 1970s private higher education in Malaysia concentrated mainly in preparing students for professional examination that would lead to the award of degrees or professional credential. The stringent quota also gave opportunity to the private colleges to meet the unmet demand by the public higher learning institutes. This also gave rise to the development of pre-university courses to prepare students for overseas universities.

The 1980s saw the emergence of twinning programs when the overseas education became too expensive due to the global recession and also the imposition of full-fee policies on overseas students by universities in the United Kingdom.

Private colleges, established during or this time, are grouped into the first generation colleges. Examples of colleges in this group are Stamford college, Kolej Damansara Utama, HELP Institute, Taylor's College and Metropolitan College.

### *1.3.2. IN THE EARLY 1990S*

During this time, the private colleges increased in number and the courses they offered. This is partly due to the economic boom in the early 1990s. Malaysia experienced continuous economic growth of around 8% per annum from late 1980s to the mid 1990s (Malaysia 1996). The economic growth enabled Malaysian to afford private higher education and at the same time created demand for more skillful human resource. The colleges established during this era placed an emphasis on vocational courses. Examples of colleges established during this time are Twintech College, Asia Pacific Institute of Information Technology and International Medical University.

This period of time also witnessed the evolution of twinning programs from 1+2 to 2+1. These development is a proof of innovativeness of the PHEIs in course design. The colleges are showing signs of being able to run a full degree program. In fact some of the colleges were doing just that but conferred only graduate diplomas because they were not allowed to confer degrees.

During this period, due to the economic boom, there was already presence of corporation in the market. Some corporations buy over colleges while others set up their own colleges.

### *1.3.3. POST-LEGISLATION PERIOD*

The provision of Private Higher Education Institute Act was fully manifested after the 1997-8 currency downturn. In their efforts to reduce outflow of students to universities overseas, the local higher institute were pressed to expand places to accommodate more students. Students in the twinning programs, planning to go overseas to complete their study, were asked to stay back. Eventually on 30<sup>th</sup> June 1998 the first ten colleges were approved to conduct the full three years of a foreign degree entirely in Malaysia. More colleges were given the right to run the 3+0 program subsequently and currently there are 32 colleges approved to run the programs. These programs became instantly popular with the students as they allow them to save a lot and be able to obtain a foreign degree.

To recover from the crisis and earn export income, road shows were led by the Ministry of Education to countries in the region to attract foreign students to Malaysia. This recruitment drive was successful. Some bigger colleges even have their own international offices in the bigger market, such as Jakarta, Beijing and Shanghai. With the financial crisis affecting many students in

In the Asia Pacific region, the western higher education became too expensive, the 3+0 programs in Malaysia became the best alternative. There is currently 15000 foreign students studying in Malaysia( Education Guide 8<sup>th</sup> Edition).

The private higher education after the legislation, especially after the financial crisis, is showing signs of mass private education sector and a full-fledge market driven industry.

#### **1.4. THE HEDONIC PRICING MODEL**

To investigate the factors responsible for the differences in tuition fees of degree programs in the different markets in the private higher education industry, this study uses the hedonic pricing model.

According to the hedonic pricing model, products have utility bearing attributes or characteristics and the values of those attributes contribute to the price of the product. The price-attributes relationship can be analyzed by using regression analysis in which transaction prices are regressed on a number of explanatory variables, each measuring an important quality characteristics of the product (Berndt, 1991).

The degree programs are marketed as commercial products in the private higher education industry in Malaysia with their prices being their tuition fees. The programs are highly differentiated in terms of its characteristics such as field of study, credential and the attributes of the college offering the program. This study aims to use a hedonic pricing model to relate the



various characteristics with the tuition fee of a program. The regression results will show which are the characteristics of a program that are important in determining its tuition fee.

## 1.5. CHAPTER OUTLINE

Chapter two discusses the literature relevant to this study. As there is no previous study on private higher education pricing in Malaysia, this chapter focuses on literatures on the different trends of development of private higher education, the development of private higher education in Malaysia and the literatures concerning the hedonic pricing model.

Chapter three presents the research methodology used in this study. First the data is classified where the PHEIs are classified into different categories according to the setup of the institutions. Then the programs are classified according to the type of program and the field of study. A brief description is given to each category. In this chapter a hedonic model is developed based on firm's behavior of profit maximizing and consumer's behavior of utility maximizing subject to a budget constraint. Following that the econometric specifications are being discussed. The sources of data and the estimation techniques employed in this study are also presented in this chapter.

Chapter four analyses the empirical findings of this study. In this chapter the general characteristics of the data are reported. These characteristics form the background to the analysis of the determinants of tuition fees. Then the regression results and the analysis of the determinants of tuition fees are reported.

Finally the last chapter concludes the findings of this study by answering the two questions raised at the beginning of this chapter:

- a) What are the factors responsible for the differences in tuition fees of degree programs in the private higher education institute in Malaysia?
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