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The political economy of employability

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NICCOLO DURAZZI

The political economy of employability: Institutional change in British and German higher education

1. Introduction

Since the 1990s, higher education policy has taken centre stage in the political debate in many advanced capitalist countries. The rise of interest in higher education is hardly surprising. In the 1990s and early 2000s several countries hit the mark of 50% participation rate in higher education of any given cohort of secondary school leavers, and «late comers» are on their way, suggesting that the expansion of higher education is a secular trend that cuts across national borders (see e.g. OECD 2018). It is also in the 1990s that the rise of knowledge economies has heightened the need for highly skilled and flexible workers, which universities are expected to provide (cf. Autor, Levy, & Murnane 2003; Durazzi 2018; 2019; Durazzi & Benassi 2020; Keep 2014; Mayer & Solga 2008; Oesch 2013; Warhurst 2008). Taken together, these two trends amount to a significant socio-economic shift. Higher education is no longer educating (only) the elites and providing a narrow contribution to the labour market (e.g. in terms of highly specialised professionals or state bureaucracy) but it has rather become the primary locus of skill formation in most, if not all, advanced capitalist countries. As eloquently put by Marino Regini (2011), the development of knowledge-based economies has led to a situation in which «universities and companies can [...] no longer ignore each other as they have done in the past, but are now forced to work together and cooperate» (Regini 2011, p. 81). Indeed, in contrast to the traditional role of universities pursuing education and research *in separation* from labour market demands, international institutions, national governments and employers have increasingly demanded that universities *embed* their education and research functions into broader economic aims (Slaughter & Rhoades 2004; Vallas & Kleinman 2008).

Yet, we still lack a theorisation of the mechanisms by which universities and employers come close to each other (or fail to do so), despite this being an area of intense policy activity at European and national level (see for example De Weert 2011 for a review of recent policy developments). The concept of employability, broadly defined here as the need to align universities' educational offer to labour market needs, is a case in point: the concept hardly existed in the early 1990s and it is now part and parcel of debates over the reform of higher education across advanced capitalist countries and beyond. Universities are being asked when setting out their educational offer to ensure that programmes provide graduates with transferable skills, to consult with businesses, and to involve businesses in the delivery of programmes (BDA 2003; BMBF 1999; CBI 2009; Dearing 1997a; European Commission 2013). But how far should we expect higher education systems to adjust to the needs of the labour market and to embrace the employability agenda? The article investigates this question by explaining the divergent responses of British and German universities to the employability agenda. The case studies illustrate in detail how universities' responses differed between the two countries, but a succinct overview of the policy context and of the outcome is in order to clarify at the outset what exactly the article seeks to explain. In the British case, the notion of

employability became central in the discourse surrounding higher education in the late 1990s. It was particularly strongly endorsed by the 1997 Dearing Report, whose recommendations – not least those concerning the introduction of student fees – became a critical juncture in recent British higher education policy (Shattock 2012). The Dearing Report placed great emphasis on the need to link tightly higher education and the labour market. It suggested for instance that the traditional separation between vocational education and higher education was breaking down and that the higher education sector was expected to play a crucial role in terms of national competitiveness by forming highly-skilled workers through «high quality, relevant higher education provision» (Dearing 1997a, p. 55). The notion of employability gained traction in the second half of the 1990s in Germany too in correspondence with the start of the Bologna Process that – similarly to the Dearing Report for Britain – represented a strong punctuation in recent German higher education policy (Welsh 2010). In 1999, the Ministry for Education and Research articulated their vision for the modernisation of higher education and identified lack of practical orientation of degree programmes as a key factor that was curtailing the potential of the German higher education system to support the country's transition into the knowledge economy (BMBF 1999). Even more explicitly, the *Wissenschaftsrat*, the advisory body to the federal government and the *Länder* on higher education policy – stated in 2000 that higher education «must be far more connected to actual practice» to create highly skilled workers «with academically sound, practice-oriented training» (Wissenschaftsrat 2000, pp. 6-7). Thus, in the late 1990s, policy-makers in both countries strongly committed to the idea that universities should better align their educational offer with labour market needs. Yet, the responses of the universities differed significantly between the two countries: in Britain, the employability agenda triggered – by and large – cooperative relationships between universities and business. In the first decade of the 2000s, business associations increasingly praised the efforts made by universities to step up the cooperation with employers (see e.g. CBI 2009; 2013; CBI & NUS 2011) and associations representing the higher education sector showcased their strong links with business (University Alliance 2015a; 2015b; UUK 2002), highlighting how universities went even beyond what policy-makers hoped for at the time of the Dearing Report (UUK 2002). In Germany, on the other hand, the employability agenda sparked primarily conflict between universities and policymakers as well as the business sector. Universities opposed what they perceived a downgrading of higher education to short-term training (Pechar 2012) and both policy-makers and employers voiced through the 2000s their discontent for the lack of engagement with the employability agenda that sizeable quarters of the higher education sector had manifested (BDA, BDI, Stifterverband, & HRK 2009; BMBF 2007).

When we come across divergent responses to similar pressures of the kind described in the previous paragraph, we find ourselves in an ideal setting to conduct a fruitful comparative analysis as famously described by Peter Gourevitch: «for social scientists who enjoy comparisons, happiness is finding a force or event that affects a number of societies at the same time. Like test-tube solutions that respond differently to the same reagent, these societies reveal their characters in divergent responses to the same stimulus» (Gourevitch 1986, p. 281). What makes the cases at hand particularly interesting is not only that indeed the solutions responded differently to the same reagent but also that the different responses did not go in the direction that – theoretically – we would have expected for at least two reasons. Firstly, the political economy literature has famously identified Germany as a «coordinated» market economy, characterised by tight cooperative relationships among actors across policy areas. Traditionally, this has been particularly the case in the realm of training, which – on the other hand – proved notoriously conflict-ridden in the British context (Finegold & Soskice 1988; Soskice 1994). Thus, ex-ante, it might have been plausible to expect that the German cooperative dynamics that have been shown to exist in the realm of vocational training might have extended to the higher education sector and that – conversely – British higher education would have been

characterised by the same conflictual relationship of its vocational training system. And yet, in higher education, we find cooperation to be prevalent in Britain and conflict to be particularly stark in Germany. Secondly, one might expect that the employability agenda affected the British higher education system to a greater extent than the German one because the government deployed stronger and more prescriptive policies to that end in Britain than in Germany. Yet, if anything, the reverse holds true. The British government unequivocally subscribed to the employability agenda in the aftermath of the Dearing Report, but it did not put in place any specific policy that *directly* aimed at fostering the cooperation between universities and employers (cf. Durazzi 2020). The German government, on the other hand, not only signalled its commitment to the employability agenda much like its British counterpart, but it also put in place specific instruments to serve this purpose, such as formal changes in universities' curricular governance that enabled stronger voice to employer representatives in the design of university degree (cf. Toens 2009).

At this point, the puzzle should have become apparent: why did the employability agenda run deeper into the British higher education system than it did into the German one? In answering this question, the article proposes an institutionalist argument, blending concepts from the higher education and comparative political economy (CPE) literatures, namely the concepts of *differentiation* and *coordination* (cf. Clark 1983; Hall & Soskice 2001). In particular, I argue that the different types of institutional differentiation in the two higher education systems have triggered two distinct modes of coordination within the sector that mediates the pressures for employability and labour market relevance that universities are subject to. The vertical differentiation of the UK system – enhanced by fierce competition among universities – triggered a primarily market-coordinated relationships among higher education institutions, which provided the incentives for universities to seek cooperation with employers and align their offer to labour market needs. The horizontally differentiated German sector – in a context of low competitive pressures – reinforced mechanisms of intra-university coordination which have resulted in, by and large, opposition to the employability agenda by research universities who argued that it is responsibility of universities of applied sciences to take care of employability and skills. The rest of the article is organised as follows: the next section provides a literature review and theoretical framework; I subsequently introduce the research design and data collection methods before moving on to the case studies of Britain and Germany; the concluding section provides general insights and implications that can be derived from the article.

2. Complementing structures and ideas: institutional incentives and the mediating role of universities

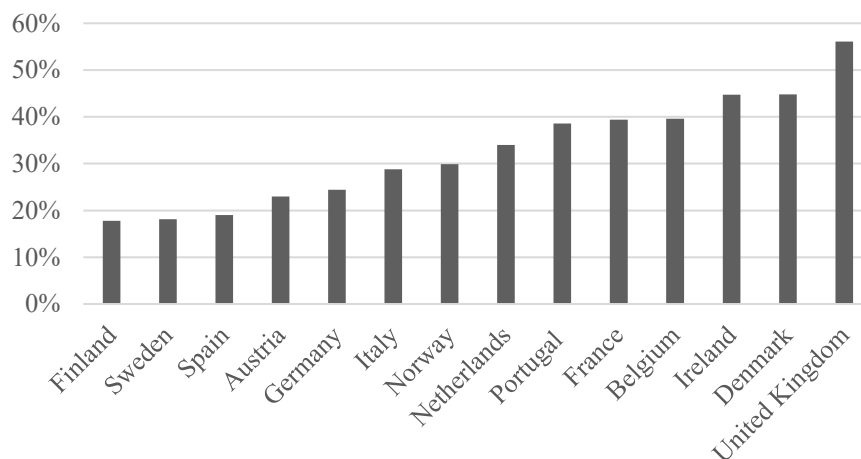
Structural and ideational frameworks have been commonly employed to understand the relationship between higher education and employers. The establishment of vocationally-oriented institutions across different countries in Europe represented a first wave of «vocalisation» of the higher education sector which brought higher education institutions closer to the labour market across very different countries (cf. Trow, 1972; Grubb, 1985). The establishment of polytechnics in the UK, *Fachhochschulen* in Germany, community colleges in the US and other similar institutions across countries was seen as consequence of a structural development, namely higher education expansion, which put functional pressures on the higher education system to (horizontally) differentiate (Grubb & Lazerson, 2006). The basic tenet of this stream of literature is that, as higher education expands and an increasingly diverse student body enrolls, governments seek to diversify the higher education system by providing more study options, which typically include vocationally-oriented institutions and study programmes (Teichler, 1998, p. 477). This model of expansion and differentiation provided powerful

insights to understand the changing nature of higher education systems across the Western world in the 1960s and 1970s but it does not travel well across time and space. Indeed, whilst the establishment of a tier of vocationally-oriented higher education institutions appeared as the chief policy response to a first wave of higher education expansion, this trend has not been corroborated as higher education expanded further, i.e. from the 1990s onwards, where higher education systems took radically different trajectories in this respect. In the UK the binary system was ended in 1992 (Shattock, 2012); in Austria it was introduced around the same time; in Germany and the Netherlands it was maintained; and in Italy it was never established (Kyvik, 2004). Reviewing this stream of literature, one of its major contributors argued that contemporary higher education sectors are subject to multiple and complex underlying forces that put pressures for various pathways of institutional change and differentiation (Teichler, 2006). A linear relationship between expansion and differentiation leading to an increased vocationalisation of a subset of the higher education system cannot be assumed (Sarah et al., 2007; Teichler, 2006) and as such this approach does not offer sufficient analytical leverage. Ideational frameworks have in turn focussed on the role that international organisations first and European institutions then had in promoting an idea of higher education that is primarily aimed at economic competitiveness. The OECD has been an important player in this respect since the 1980s. The 1987 publication «Universities under scrutiny», for example, prompted policy-makers to ensure that universities provide career-oriented courses of study (OECD 1987, p. 99). The OECD's stance on higher education's relevance to the labour market has been stressed in subsequent years, including most recent publications (cf. OECD 2012) and it has been tightly linked with the attempt to approximate the university itself to a private firm, according to new public management theories that have increasingly gained prominence in the higher education sector over the last three decades (Marginson, 2009). Building strong links with enterprise has been identified as one of the most visible manifestations of neoliberal ideologies in universities (Olssen & Peters 2005). The idea of universities serving economic competitiveness has become even more prominent over the last 20 years in Europe through the Bologna process, which has been identified as a major trigger towards the restructuring of higher education around a pragmatic university (Prokou 2008). Employing discursive institutionalism, Capano and Piattoni (2011) provide a compelling analysis of how European processes have changed the framing of higher education policy at the national level (see also Cino Pagliarello 2020). These analyses show how the discourse across countries has been shaped by similar concepts and priorities and how these have translated into institutional change. However, they also acknowledge that differences across countries do exist as far as the extent to which higher education has changed, and ideational frameworks do not seem to offer solid ground to come to terms with national variation. In other words, ideational frameworks provide a compelling explanation for the similar policy context that we find in both countries and that was outlined in the introductory section, i.e. the common pressures towards employability. However, they cannot explain why similar policy pressures bore different consequences in the two countries.

The article puts forward the following argument to account for the observed divergence between the two countries: it is argued that the responses of universities to governments' employability quest is crucial to understand the divergence between the two countries and that such responses are shaped by the institutional framework within which universities are embedded. By institutional framework, I refer to distinct features of the two higher education systems that structure universities' behaviour in how they respond to the demands of stakeholders external to the higher education system (in this case, the demands of governments and employers to engage with the employability agenda). The two higher education systems under scrutiny differ along several dimensions, but for reasons that will soon become clearer, I submit that the chief institutional difference underpinning the divergent behaviour of universities can be usefully captured through the distinction between vertical and horizontal

differentiation (Goglio & Regini 2017). The British system is the archetypical *vertically* differentiated system, where universities differ from each other by virtue of their individual reputation (Pratt 1992; 2008). Vertical differentiation has been a traditional feature of the British higher education system even prior to 1992, when a formal distinction between universities and polytechnics existed and therefore vertical differentiation coexisted with horizontal differentiation. Indeed, observers argue that the demarcation line between the two types of institution was significantly blurred even before it was formally abolished by 1992. The German system, on the contrary, is *horizontally* differentiated, i.e. it is primarily characterised by the distinction between (research) universities and universities of applied sciences (or *Fachhochschulen*): the former have traditionally focussed primarily on research, while the latter have been traditionally more teaching-oriented and closer to the labour market. Horizontal differentiation delineates two sub-systems of the higher education system that are equal but different», i.e. that differ by virtue of the distinct functions that they perform, rather than by their prestige (Teichler 1996). Although recent policy developments in Germany have introduced elements that have blurred such boundaries (Teichler 1998; Witte, Van der Wende, & Huisman 2008), first and foremost the introduction of Bachelor and Master degrees which apply to both types of institutions, the two types of institutions still present important differences: for example, universities have the exclusive rights to award doctorates and the entry qualifications in terms of secondary-school leaving certificate also differ. Headline data suggests that this distinction is not just a theoretical exercise, but it also has real-world implications: British students are the ones in Europe that most keenly rely on institutional reputation when making decisions about higher education, while their German fellow students gravitate toward the opposite end of the spectrum.

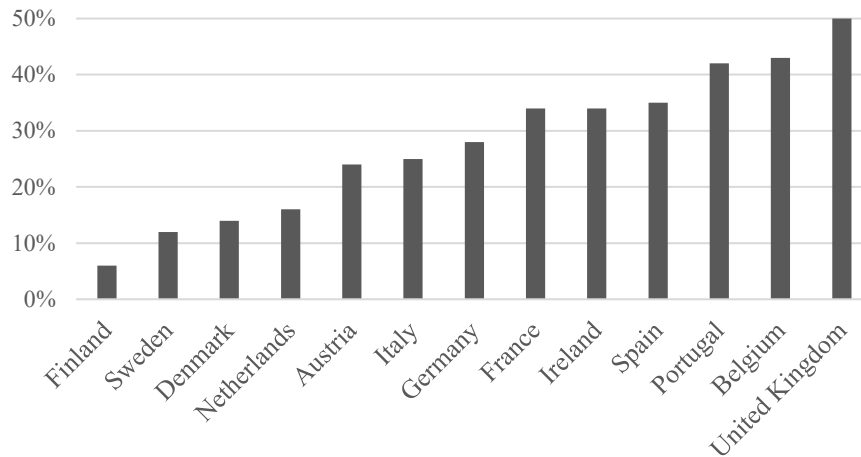
Figure 1: Percentage of students who «strongly agree» with the statement: students choose where to study on the basis of the quality/reputation of the institution and its study programmes



Source: own elaboration based on Gallup (2009)

Developments in the two higher education systems in the late 1990s and early 2000s further compounded the vertically- and horizontally- differentiated nature that has traditionally characterised the two higher education systems. Three elements stand out in this respect. Firstly, the use of universities' rankings is significantly more widespread in Britain than Germany (Hazelkorn 2007; 2015). The vertical differentiation of the system is therefore particularly visible in Britain through the proliferation of rankings and league tables. Moreover, as reported in figure 2, rankings and league tables are nearly twice as important for students' choices in Britain as in Germany. Again, this has implications: British universities need to be much more attentive to rankings if they are to be attractive to students.

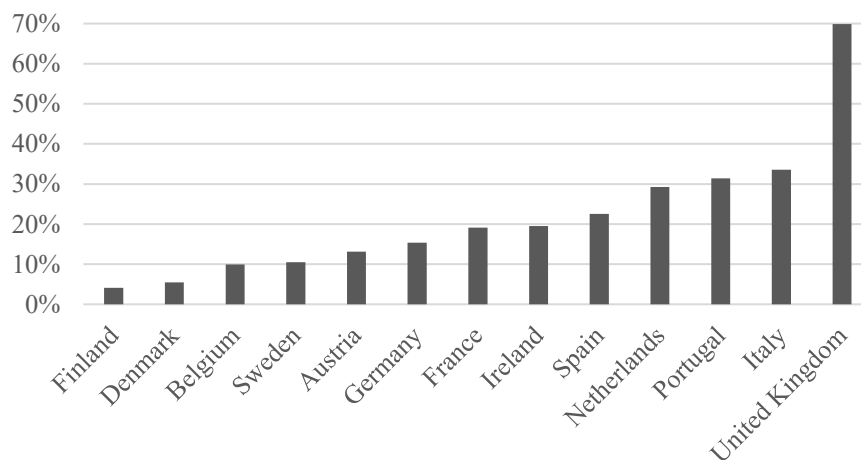
Figure 2. Percentage of students who «strongly agree» with the statement: performance rankings of universities and programmes would help students to choose where to study



Source: own elaboration based on Gallup (2009)

Secondly, successive governments through the late 1990s and the 2000s made British universities progressively more reliant on private sources of funding (by and large student fees) than their German counterparts (see figure 3).¹ This development made British universities even more susceptible to issues around student recruitment. Indeed, even if in Germany performance-based budget allocations have been expanded, this was the result of a compromise by which performance is measured through a wide-array of criteria including student recruitment, but also a number of other criteria, such as gender balance, average time to graduation or graduation rates (Burgard & Grave 2013, p. 8). The availability of a large number of criteria upon which budget is allocated provides German universities with more room for manoeuvre compared to their British counterparts. In the latter, if student recruitment drops, universities' finances are directly at risk, while in the former, if student numbers drop, universities can focus on improving other indicators and keep their finances essentially stable.²

Figure 3: Private sources as a share of total universities' budget (2011)



Source: own elaboration based on OECD (2014)

¹ Some *Länder* in Germany also introduced fees (at much lower levels than in Britain). This experiment, however, was rather short-lived and student fees did not become an institutionalised element of German higher education.

² I am thankful to Ulrich Schreiterer for pointing this out to me.

Third, managerial governance of British universities – promoted since the 1980s by the Thatcher governments (Capano 2011) – further compounds inter-university competition: essentially, university managers emerged in the British higher education labour market as a distinct category from that of academics and the specific objectives that managers (e.g. Vice-Chancellors) are tasked with are precisely those of growing universities financially and increasing their prestige (Deem 1998; Deem, Hillyard, & Reed 2007; Whitchurch 2008). This stands in contrast – again – with the German context in which managerialism took place to a much more limited extent than in Britain. And the «academic oligarchy» in Germany (Clark 1983) still retains considerable power in how universities should be run (at least by comparative standards) (Schimank & Lange 2009, p. 65). Proliferation of rankings, reliance on student fees and pronounced managerialism have therefore further strengthened and institutionalised vertical differentiation and high competition in British higher education. On the other hand, the absence of these developments in Germany – or their rather tenuous presence – is such that the dominant cleavage within the system has remained its traditional horizontal differentiation. For these reasons, while I acknowledge that there are several dimensions along which the two systems differ, there are solid analytical reasons to think of these dimensions as bundled together in each of the two systems and to refer synthetically to vertical and horizontal differentiation as the crucial source of institutional variation between the two systems.

But how is this variation expected to shape universities' response to the employability agenda? I argue that the steep vertical differentiation of the British system – further compounded by the fierce competition for position in rankings, students, and fees – created the conditions for market-like behaviour among universities: individual higher education institutions perceived each other as competitors and the provision of employability skills emerged as a strategic choice for universities to seize market-shares (i.e. students) against competing institutions. In the German case, lack of competitive pressures meant that horizontal differentiation was sustained and upheld by individual universities. Rather than competing against each other, universities have primarily sought to *collectively* differentiate themselves from universities of applied sciences, where in their view practice-oriented higher education should exclusively be located. Universities have therefore been less prone to include employability skills in their curricula and pushed back on the demands of policy-makers and businesses.

The proposed institutionalist framework has therefore a distinct feature compared to the dominant structuralist and ideational approaches in the study of higher education: the latter essentially depict universities rather passively at the receiving end of policies, which are in turn dictated by structural developments or ideational shifts. The proposed approach does *not* seek to negate the crucial role of structures and ideas. Quite the contrary, the simultaneous diffusion of the notion of employability in systems as different as the British and German ones is strong testament to the importance of ideas in shaping policy-makers' agendas in the context of structural developments – such as the rise of knowledge economies – that provided the functional underpinning for the increased importance of highly skilled workers. Yet, I argue that the extent to which these exogenous forces actually shape higher education systems depends at least in part on the responses of universities. And I further submit that this in turn depends on the institutional environment within which they are embedded.

3. Research design and data collection

The study is structured as a comparison of Britain and Germany. In the British case, the focus is primarily on England. The two cases have been selected to capture variation along the crucial variables that have been hypothesised to matter in the previous section. I have – in other words – selected two higher education systems that were subject to common pressures (as discussed in the introduction) but that display radically different forms of institutional differentiation and

relevant correlates (such as use of rankings, importance of fees and strength of managerialism). By comparing the response of universities in these two countries, I aim to shed light on how specific constellations of institutional characteristics shaped universities' responses. The implication is that university systems whose institutional features are close to the British (German) one are likely to push universities to adopt a behaviour similar to that of British (German) universities. However, I do not wish to make any claim around typological theorising as the article pursues a more modest aim, namely that of demonstrating how the institutional setting within which universities are embedded shapes universities' response to the demands that they receive from stakeholders located outside of the higher education sector. The empirical analysis refers primarily to the period that spans from the late 1990s, when the employability agenda became an important element of higher education policy in the two countries, through the first decade of the 2000s, when universities' responses unfolded.

The data has been collected through 40 semi-structured interviews conducted by the author in 2015 and 2016. Interviewees belonged to two broad groups of stakeholders: the first group of stakeholders included representatives of governments and relevant organised groups that are involved in higher education policy-making at the national level (e.g. relevant ministries; university associations; business associations); the second group of stakeholders included senior representatives of individual universities, targeting where possible individuals who had been responsible at university- or department- level in setting out curricular offer in the late 1990s and/or through the 2000s. Universities have been selected in the UK to include both pre- and post- 1992 universities as well as to capture variation in rankings. In Germany, interviewees were drawn by both research universities and universities of applied sciences. A list of interviewees is provided in appendix A. The interviews were conducted in a semi-structured form and examples of interview topic guides are provided in appendix B. Interview data were transcribed by making use of thematic memos. Additional sources of data include policy publications by the same stakeholder groups that were interviewed. Systematic data triangulation between different sources of data has been carried out to ensure that the main findings reported in this article build on two or more sources of data independent from each other.

4. United Kingdom: enhancing the institutional brand, embracing employability

The emergence of the employability agenda in Britain dates back to the late 1980s and it has been promoted more consistently since the late 1990s. Selective financial incentives were initially established to steer greater cooperation between higher education institutions and employers and enhance graduates' employability skills. The programme Enterprise in Higher Education (EHE) stands out as the first example of selective financial incentives provided to higher education institutions to align their offer with labour market demands. Responding to the perceived failure of higher education «to provide graduates who were employment or enterprise oriented» (Burniston, Rodger, & Brass 1999, p. 1), this policy initiative had its central aim in ensuring that students were «better prepared for working life» (Whiteley 1995, p. 4) and provided funds to promote the involvement of employers in curriculum design and development and, more broadly, partnerships between universities and employers (Whiteley 1995). Despite having been described as the largest ever intervention of government in universities' curricula, and although the evaluations portrayed an overall positive picture of the initiative (Burniston et al. 1999, p. 1), its impact was confined to a limited number of universities, mostly «post-1992» institutions (i.e. by and large former polytechnics). Research-intensive universities, on the other hand, participated to a much more limited extent, and curricular changes did not appear to extend beyond the funded-institutions and the duration of their projects (Burniston et al. 1999). Gradually, the EHE model was therefore abandoned and the selective incentives provided by

the government became a smaller part of higher education funding in the context of decreasing public commitments and increasing private financing (primarily in the form of student fees) of the British higher education sector. Yet, despite phasing out dedicated policies and corresponding funds, successive governments reiterated their commitment to strengthening the link between universities and labour market needs. This idea was articulated most prominently in the 1997 Dearing Report, which discussed at length the contributions that universities were expected to make to the labour market, pointing out, among other things, that universities should «give students the opportunities and skills to work across disciplines and to develop generic or transferable skills which are valuable to many contexts» (Dearing 1997a, p. 59) and that «learning should be increasingly responsive to employment needs and include the development of general skills, widely valued in employment» (Dearing 1997b, p. 5). It is worth noting that the demands set out by the Dearing Report did not come with any specific policy (or – for that matter – funds) to directly incentivise universities to develop their curricula in that particular direction. And yet, we note a striking correspondence between what government policy demanded and how universities restructured and redesigned their programmes (see Durazzi 2020 for details of employability-oriented changes across a sample of universities). The following excerpt from a policy document by Universities UK (the association representing all British universities) illustrates the commitment of the higher education sector to the pursuit of an agenda that closely matched the auspices of the Dearing report and, as argued by Universities UK, that even went beyond what Dearing asked:

higher education institutions have been creative in developing a range of opportunities for their students that go beyond the proposals in the Dearing Report. There have been three broad areas of development. First, they have developed a more sophisticated understanding of the complexity of the modern workplace and of the needs of employers and of graduates in a variety of different work settings [...]. Institutions have developed a new appreciation of the diversity of attributes that contribute to employability [...]. This process has been aided by increased employer–higher education dialogue, co-operation in curricular developments, [and] the articulation of workforce needs beyond lists of key skills [...]. Second, there has been a wider debate on the nature of employability, informed by long-term studies of graduate employment and career paths [...]. Third, there is growing awareness of the diversity of activities within universities and of changes in approaches [...]. Increasingly, institutions are aware of the need to develop a long-term integrating strategy for employability that maximises links with employers, [and] embeds employability in the curriculum (UUK 2002, pp. 5-6).

Why, then, did British universities *strengthened* their engagement with the employability agenda in the late 1990s and early 2000s, at the very same time in which public funding specifically allocated for these initiatives were phased out? The engagement of British universities in employability initiatives was explained by interviewees across the sample of universities as a response to pressures to perform well in rankings and league tables and – therefore – maximise the likelihood of a stable inflow of students – whose fees are critical for organisational survival. Importantly, successive governments since the late 1990s have increased the array of tools by which students can make an informed choice. The National Student Survey (NSS) and the Destinations of Leavers from Higher Education (DLHE) Survey are two tools that pushed universities to be more aware of the importance of their contribution towards students' employability. The widespread use of rankings triggered pressures for institutions to maintain or improve their positions. These pressures have been felt sector-wide. Despite research-intensive universities being often considered in the literature as immune from competitive pressures due to their «high status» (cf. Marginson 2006), the evidence collected suggests that, quite the opposite, research-intensive universities are also very much aware of

and influenced by competitive pressures as illustrated by one interviewee drawn from a research university who enjoys a high position in university rankings:

Rankings 20 years ago didn't really exist...with the introduction of the NSS and others, there is much more benchmarking [...] so we need to maintain our position of excellence in the rankings (interview UK_9).

Similar references to the importance of rankings were made consistently by interviewees – *regardless* of the position in rankings of their universities (e.g. interviews UK_9, UK_12, UK_13, UK_16, UK_18, UK_19). Drawing a clear connection between the vertical competition embodied by rankings and the provision of employability skills, two interviewees drawn from universities at opposite ends of rankings used almost the same words to explain their universities' behaviour toward employability skills:

Whether you like it or not, the students getting graduate level jobs is one very important outcome from the DLHE survey and therefore important in the league tables (interview UK_16).

The university is very sensitive to student's feedback, department audits, [...] league tables. These factor in employability. It is more visible whether we are delivering or not (interview UK_12).

If universities – to paraphrase the interviewee just quoted – do not deliver and, therefore, do not attract students, consequences are harsh, as neatly explained by another interviewee:

To get that [graduate-level] job they need a certain set of skills [...] If we don't provide that, that means that not enough students apply and if we don't have enough students, then we don't have our funding. That means we go bust (interview UK_19)

Hence, given the reliance of British universities on student fees (recall figure 3) and given the importance attached to reputation and rankings by British students when selecting a higher education degree (recall figures 1 and 2), universities face particularly strong incentives to strengthen (or uphold) their reputation. Thus, the vertical differentiation of the higher education system, exemplified by the high importance attached by students to institutional reputation of individual universities, triggered a system of *market coordination* whereby universities embraced the employability agenda as a way to enhance their reputation vis-à-vis their competitors, improve their position in rankings and – ultimately – attract fee-paying students. This strategic thinking was consistently reported by interviewees (e.g. interviews UK_12; UK_15; UK_17; UK_19; UK_20) and it also strongly emerged on a general level in policy publications of major professional associations in the higher education sector. University Alliance, an association that represents a number of post-1992 institutions, points out that universities' «motivation for engaging with employers is to improve student employability, to deepen their links with industry and *to enhance their reputation*» (University Alliance 2015b, p. 11), incentivising them to «proactively bridge the gap between the academic and the corporate worlds» (University Alliance 2015a, p. 8). A similar analysis is also offered by Universities UK (UUK), representing the *entire* higher education sector, who argued that the skills agenda offers universities an opportunity to «strengthen their curriculum offer, differentiating themselves from competitors, and offer new ways to raise positive student employability outcomes» in the context of «an increasingly competitive education market» (CFE Research 2014, pp. 7-14). The link between employability skills and competition over student recruitment is made equally clear by sector associations: «universities need to recruit students, many of whom, in a competitive recruitment landscape, are likely to select

programmes with relevant and up-to-date curricula that will increase their employability. Programmes developed with employers, and which offer opportunities for experience of the workplace, are highly attractive to potential students» (University Alliance 2015b, p. 9).

Thus, the rise of the employability agenda across British universities can be seen as a strategic response of universities embedded in a competitive and vertically differentiated higher education system. Somewhat ironically, a representative of the major British employer association stated that they did not expect cooperation between universities and employers necessarily to happen at the level of top research-intensive universities (interview UK_3). The fact that, however, top research-intensive universities do proactively engage with employers in the design of their curricula and in the provision of employability skills (cf. interviewees UK_9 and UK_12 are for instance drawn from universities in the top five of most national rankings) gives a strong indication of the type of incentive-set that British universities face.

5. Germany: enhancing the sectoral brand, dismissing employability

The debate around employability gained particular traction in Germany in the late 1990s and early 2000s largely due to the Bologna process, which among its aims featured a «stronger focus of [higher] education policy on the needs of companies and the labor market» (van Santen 2014, p. 130) and strengthening «the professional orientation of higher education» (Reichert 2010, p. 14). However, Bologna did not provide a template as to how universities were supposed to change their curricula as far as employability is concerned³ but it rather acted as a trigger to stimulate policy discussion in the country (interviews DE_3, DE_4). It was therefore left to actors at the national level to find a response. Government and employers univocally supported the employability turn: the Federal Ministry of Education and Research (BMBF) argued that the contribution of universities towards smoothing the transition to a knowledge-based economy was hampered by, amongst others, lengthy study periods, high drop-out rates and lack of practical orientation of the programmes (BMBF 1999, pp. 1 - 2). A 1998 paper by the Federation of German Industries (BDI) called for a shift towards a productive information society where «not only the organisation of work, but also its content will change. More and more employees will work on the generation, collection, processing, distribution, and commercialization of information. The pure production of goods will take a back-seat and highly qualified labor will dominate over low-skilled labor» (BDI, 1998, pp. 18 - 19 cited in van Santen 2014, pp. 136 - 137).

Along the same lines, a 2003 note on employability issued by the Confederation of German Employers' Associations (BDA) argues that the «relationship between specialisation-related and cross-disciplinary [higher education] goals' needs to be redrawn, that 'specialisation-related skills should be described in consultation with the relevant sectoral and professional associations», and that higher education courses «should promote an individual's mental organisation, capacity for work, ability to order his own work effectively, approach to team work and the capability to pass on knowledge in real social and business situations» (BDA 2003, p. 2). Importantly, the debate around employability in Germany went beyond declarations of intent by a number of important stakeholders – such as the BMBF, BDA, and HRK – but it also triggered formal policy changes. In the realm of curricular governance, for instance, changes in policies determined that representative of the private sector had greater voice since the late 1990s in universities' curricula (Toens 2009).

³ The issue of employability features prominently in the European education policy agenda, but discretion to national governments was left as to how to achieve this, differently from the creation of a credit transfer system and the introduction of bachelor and master degrees where European policies prescribed much more stringently what and how was to be achieved.

However, despite the shared view on the desirability of employability skills in higher education held by important stakeholders and despite the formal changes to institutionalise the «employability turn», the implementation of the employability agenda appeared rather patchy, as reported by the BMBF a decade after the kick-off of the Bologna process: «The paradigm shift that the increased integration of generic employability skills means has not yet been fully accepted by university staff i.e. there is still concern that academic studies might not be sufficiently science-based anymore» (BMBF 2007, pp. 1 - 2). The BDA also has been calling throughout the implementation of the Bologna process in Germany for an increased focus on transferable skills, signalling that – from the viewpoint of employers – this change in the curricular offer of universities had not yet been fully achieved (BDA 2012, p. 3). The new degrees were often thought of as «old wine in new bottles» (BDA et al. 2009). Indeed, the changes introduced from the late 1990s onwards, and in particular the introduction of the two-tiered degree structure that formally blurred the horizontal differentiation of the system, have been rejected «on the ground» by key actors in the higher education system, namely university professors and, by extension, universities, which still today account for two thirds of the student population. Given comparatively low competition for students and comparatively low reliance on reputation as a criterion for students to select their university (recall the position of Germany in figures 1 and 2), universities strived to uphold their horizontal differentiation, as made clear by several stakeholders:

We are trying to be comparable [...] to the other universities [...] because I also think it is good for the students to know that if I studied in [university A] I have a similar or same profile as I would in [university B]. I mean, at least on the national level there are standards set by the faculty association, Fakultätentag, and this is why we participate in it, in order to simply not fall out of our role. I mean you can fall upwards and downwards, but for the most students it is important to know that they are not worse nor better than if I had studied in [university B] or [university C] (interview DE_16).

Along the same lines the role of the faculty associations, which provide horizontal coordination for universities' professors along lines of discipline, was highlighted by another stakeholder who argued that:

In each subject [...] you have a meeting of all deans and representatives of all schools or faculties in [say] electrical engineering, and they talk to each other exactly about those things [how to develop curricula] and so you may have universities who are outstanding in some areas but due to these discussions it is rather disciplines that follow some joint track (interview DE_17).

Thus, contrary to the UK case, where we have seen universities striving to strengthen their individual reputation, in the German higher education, we observe universities firmly «protecting» the horizontal differentiation of the system:

We have research universities, which are called universities, then we have these universities of applied sciences, Fachhochschulen, which are closer to the needs of the labour market and then we have these universities of cooperative education and they are really doing these dual programmes where students spend half of their time in a company and half of their time at these institutions. Everything is fine, everything serves a specific need of the industry as a whole but not every type of institution is appropriate to do everything else (interview DE_17).

The concern with horizontal differentiation was formalised by the TU9, the association of technical universities,⁴ who argued that the designation «TU» should be added to the degrees awarded by technical universities to differentiate their degrees from those of universities of applied sciences (TU9 2014). Along the same lines, the Deutscher Hochschulverband (DHV) argued forcefully that the horizontal differentiation between universities and universities of applied sciences should not be blurred (DHV 2015). The restructuring of the degrees towards professional skills and employability only occurred therefore to a limited extent:

We [...] did not change [the curriculum] in that way the politicians wanted us to go, that the science part had to move up to the master's degree and we should focus on skills and employability in the bachelor and leave everything the math and the more difficult parts to the masters because they thought this is something only people need who later do real science. And we did not do this. We stick to the old structure that the fundamentals of the discipline, which is math in many cases, should be taught right from the beginning (interview DE_16).

This view is in turn complementary with employers' complaints voiced by a BDA representative:

When you ask employers themselves, you ask if they are happy with the discipline content, they say we are more than content. But if you ask about generic skills like taking decisions, presenting, leading a small team, being responsible for a small budget, having rhetoric skills, communication. If you ask about key competences, they say that universities should do more, they are not content with the graduates. They say there is not enough training at universities. This is also why we are complaining that after the reforms, the diplomas were cut into two pieces, and one piece was labelled as bachelor, and the other one was labelled as master, without changing the content of the curricula (interview DE_3).

A recent publication issued by the Association of German Engineers (VDI) corroborates this view. Based on a survey of companies employing graduates from STEM subjects and engineers, one of the main findings of the VDI study is the lack of professional skills (strongly missing according to the respondents in 43% of Bachelor graduates) and of social skills (possessed according to the report by only 23% of bachelor graduates) (VDI 2016). Compared to the British case, therefore, we see coordination among universities to take precedence over cooperation between individual universities and employers as far as curriculum design and development is concerned. Moreover, upholding the difference between universities and universities of applied sciences appeared as a major reason for universities to keep employers' demands at bay. Commenting on the differences between the two types of institution, a professor and overall responsible for teaching and learning in a university argued that:

The type of education is also different. We are providing our students with knowledge that lasts long. So companies that are recruiting graduates from a research university should know that they have to invest, I don't know, another half a year, in order to teach them on specific tools they need to know. I remember that once the head of Microsoft Germany complained that our graduates are not able or are not familiar with the software development tools of Microsoft itself. And I said to him, that is not our task and obligation [...] if you Microsoft want them to be familiar, then you have to familiarise them. That's not our task (interview DE_17).

⁴ Technical universities are research universities with a particular focus on STEM subjects.

Universities made clear that employability was not a concern that firms should offload on to universities, in particular as far as bachelor graduates are concerned. Indeed, the TU9 argued that their bachelor degrees are not a professional qualification and that their «value on the labour market will depend on the preparedness of the enterprises to provide the necessary continued training» (TU9 2014). Despite pressures from politics and business, universities have therefore pushed back to a significant extent on the employability agenda. The institutional structure of the higher education sector is crucial in understanding the difference: as the case study showed, German universities faced much stronger incentives to coordinate amongst themselves, for instance through the *Fakultätentag* and other associations organised along horizontal sectoral lines; the incentives to seek institutional differentiation, on the other hand, have been minimised by the comparatively low pressure to pursue strategies aimed at enhancing the reputation of individual universities, due to comparatively low competition for students. Indeed, the reluctance of universities to engage with more practice-oriented higher education contributed, a decade into the implementation of the Bologna Process, to a change of direction in German higher education policy. Instead of trying to «force» research universities to step up the practical orientation of their programmes (Toens 2009), as of 2007 the government started to channel more students into universities of applied sciences, through a specific policy initiative, the Higher Education Pact, that features among its objectives that of increasing enrolments in *Fachhochschulen* (Durazzi 2019). The Higher Education Pact was motivated precisely on the basis that universities of applied sciences – with their traditional links with local employers – proved significantly more willing than research universities to satisfy policy-makers’ and business’ demands (interviews DE_2, DE_7) as far as the offer of a more practice-oriented higher education is concerned.

6. Conclusion

The comparative analysis of how the employability agenda has been translated into practice by British and German universities provides insights that are relevant to both the higher education and CPE literature. With respect to the higher education literature, the article suggested that theorising how universities’ behaviour is shaped by the relevant institutional context is a valuable entry point to understand the nuances of dynamics of continuity and change in higher education. We have seen through the case studies that the institutional structure was crucial in shaping distinct behaviour of universities, which in turn furthered (as in the UK) or limited (as in Germany) the development of the employability agenda. And yet, the role of universities – and their preference formation process across institutional contexts – has not been systematically scrutinised by political scientists interested in explaining institutional change in higher education. This article calls therefore for systematically embedding universities in the study of the comparative politics and political economy of higher education. Compared to dominant approaches in the literature – such as structural and ideational frameworks – this approach has the advantage of being able to account for change and to accommodate differences within common trends. Back to the cases at hand, this approach has been able to show why – despite common pressures – change went further in one country than the other. Indeed, whilst recent contributions, have conceptualised the blurring of boundaries between the academy and the corporate world as a secular development that is characteristic of the transition to the knowledge economy, this paper aimed to show that the extent to which boundaries blur is the outcome of actors’ agency within their respective institutional contexts. Turning to the CPE literature, the paper suggests that as skill formation is increasingly located in higher education (as opposed to vocational training), placing universities at the centre of the analysis might help us uncover the dynamics that are at play across countries as far as *high* skill formation is concerned. For example, the analysis of universities’ engagement in skill formation in the

British context uncovers a curious collective-action dynamics taking place in liberal higher education systems that goes in the opposite direction compared to the well-known problem of «free-riding» that has notoriously characterised training in liberal market economies. While in a deregulated labour market, firms refrain from training because of the risks of poaching associated with it (Finegold & Soskice 1988; Soskice 1993), in a deregulated higher education market, universities seem to engage in training as a way to boost their student recruitment prospects. In a way, we can characterise universities in a liberal higher education system as skills coordinators – triggered by the pressures of a highly competitive higher education market. On the other hand, conflict – not cooperation – characterised the German case. Here too, therefore, the relationship among actors in the field of higher education appears as the mirror image of those that traditionally take place in the field of vocational training. As skill formation has been progressively shifting out of vocational training and into higher education, this article therefore also prompts us to start rethinking the analytical categories through which we analyse contemporary patterns of skill formation across countries.

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The political economy of employability: Institutional change in British and German higher education

Summary: The article explains the different development of the employability and skills agenda in the British and German higher education systems from the late 1990s and throughout the 2000s. It shows that in the UK universities across the entire sector embraced the employability and skills agenda, while research universities in Germany firmly opposed it and argued that the employability and skills agenda should be exclusive concern of universities of applied sciences. Drawing on concepts from the higher education and comparative political economy literatures, such as differentiation and coordination, the article develops the argument that these distinct trajectories can be explained by the different incentive-sets faced by universities in their respective institutional settings. By highlighting the different behaviour that universities adopt depending on the higher education system within which they are embedded, the article advances broader theoretical points that are relevant for the higher education literature as well as the literature on the political economy of skill formation.

JEL Classification: [I23](#) - Higher Education, Research Institutions; [I25](#) - Education and Economic Development; [J24](#) - Human Capital, Skills, Occupational Choice, Labor Productivity.

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Appendix A: list of interviews

UK		Germany	
Interview affiliation	Code	Interview affiliation	Code
University Association	UK_1	University Association	DE_1
University Association	UK_2	University Association	DE_2
Employer Association	UK_3	Employer Association	DE_3
Employer Association	UK_4	Employer Association	DE_4
Employer Association	UK_5	Employer Association	DE_5
Think-tank	UK_6	Government	DE_6
Government	UK_7	Government	DE_7
University (pre-1992)	UK_8	Think-tank	DE_8
University (pre-1992)	UK_9	University of Applied Sciences	DE_9
University (pre-1992)	UK_10	University of Applied Sciences	DE_10
University (pre-1992)	UK_11	University of Applied Sciences	DE_11
University (pre-1992)	UK_12	University of Applied Sciences	DE_12
University (pre-1992)	UK_13	University of Applied Sciences	DE_13
University (pre-1992)	UK_14	University of Applied Sciences	DE_14
University (post-1992)	UK_15	University	DE_15
University (post-1992)	UK_16	University	DE_16
University (post-1992)	UK_17	University	DE_17
University (post-1992)	UK_18	University	DE_18
University (post-1992)	UK_19	University	DE_19
University (post-1992)	UK_20	University	DE_20

Appendix B: example of interview topic guide

Interview topic guide for representatives of universities

Setting the context of the institution

1. Could you say a few words on your role within the institution as well as previous roles in this or other (HE) institutions since, roughly, the early 1990s?
2. Over the last 20 years, what would you identify as the major changes or developments that took place within your institution [or department], in particular with respect to teaching/education?
3. Which stakeholders?
4. Has this always been the case or can you identify any recent change? And why?

Main elements of skills agenda within institution

5. How are professional/vocational skills taught in your institution?
6. What do you identify as the main driver for the rise of the skills agenda?
7. Why does your institution engage in the skills agenda?
8. What policy developments [at national or local level] have provided specific incentive for your institution to engage in skill formation?

Organisational and institutional elements of skills agenda

9. Could you describe the debate within your institution regarding the employability agenda and the provision of more vocational skills?
10. Which stakeholders influenced the decision making process and in what ways?
11. Can you identify any turning points in the management of the university?
12. How does the cooperation with employers in professional/vocational skills occur?
13. Do you mostly cooperate with large or small employers in professional / vocational skills formation? Why?
14. Do you cooperate with employers in particular economic sectors only?
15. Which financial arrangements underpin your cooperation?
16. If you were to make changes to the skills agenda, how would that impact your student recruitment?
17. If you were to operate under a different funding regime, how would you change your activities around skills?
18. Has fluctuating students' number been a concern for your university and, if so, how has this been dealt with?

Interview topic guide for national level policy stakeholders

Policy context

1. What have been the main initiatives since the 1990s to align higher education and the labour market?
2. Which ones do you think were most successful and why?
3. How have these initiatives changed the HE offer in your country?
4. Why have these initiatives developed?

Actors

5. Who was the main driver behind these initiatives? In particular, what was the role of governments, employers and universities?
6. Within the HE sector, who supported these initiatives and who opposed them?
7. Have different universities supported/opposed the initiatives in different ways?
8. Within the employers camp, who is interested in engaging with HEIs in terms of skill formation? E.g. services sector vs manufacturing/small vs large employers?
9. To what extent do employers cooperate in this respect? E.g. by forming consortia of companies or by having intermediary bodies arranging this?
10. How successfully do employers engage with HEIs?

11. What do you think is the impact of skill formation in HE within the broader skill formation system (e.g. vocational training)?
12. What do you think should change on the employers' side in order to step up cooperation?
13. And what on the HE side?

Academia – labour market relationships

14. How would you define the relationship between academia and labour market? Conflictual/cooperative?
15. How has this changed over the years?
16. How do HE policy (e.g. funding) and broader socio-economic trends (e.g. expansion of HE, knowledge economy) influence academia – labour market relationships?
17. Where would you locate the power in the HE system of your country? E.g. state/government, university management, professors?
18. How does this distribution of power facilitate or hinder cooperation between HE sector and labour market actors?
19. Do you think that HE – labour market relationship is generally well received within academia? By whom in particular?

Outcome and outlook compared with other countries

20. Are you generally satisfied with the way HEIs and industry cooperate in your country in terms of skill formation?
21. Are shortcomings due to employers, HEIs or government policies?
22. Do you think that this works better in other countries, and why?