



The Value of Graduates

An outline proposal from the CIHE

Background

Many initiatives have been funded in higher education (HE) on improving the employability and work-relevant skills of graduates so as to increase the value that they can bring to business and society. At the same time, the Government needs to demonstrate that their funding of HE produces economic and social impact, even more so today as we enter an economic downturn and possibilities of growing graduate unemployment and 'under-employment'. As the recession bites, many businesses will be taking a hard look at the value of their graduate recruitment programmes.

The benefits of being a graduate have been amply demonstrated. There is a lot of global evidence suggesting employers increasingly demand higher skills and qualifications, and in the UK there has been a growth in the number of jobs requiring graduates. The UK's economic position is seen as depending on increased investment in skills in order to secure competitive advantage on the basis of high value goods and service (see Leitch Review of Skills, 2006). Measures of economic return show that graduates can expect to earn higher average salaries in early careers and/or over their lifetime than people with lower qualifications, the widely quoted 'graduate premium'. However, recent work suggests that graduates entering the labour market in the last few years have seen a slight fall in their relative earnings (Zhu and Walker, 2005) and the graduate premium is known to vary considerably, according to degree subject, qualification (first degree/masters, PhD) and institution, also other personal variables, and affected by the sectors that graduates join, career paths followed and how they are developed by their employers (see for example Chevalier and Linley, 2007; Purcell and Elias, 2004) and most recently in the November 2008 research report from the 1994 Group on Graduate employment and earnings.

But the salaries that graduates receive are only a general reflection of the value that employers assume such staff will add in their early careers and their future added value. It can seriously undervalue what some graduates bring to an organisation - for example, arts graduates in the creative industries where wages are considerably lower in many places. The value to a business of employing a graduate can depend on many things - the work that they undertake and how they utilise the skills and subject knowledge they have gained, during degree study and subsequently, and the type of business they are in. For example, some employers actively seek out masters or PhD graduates to bring specialist analytical skills or subject knowledge or experience, especially at times of change where they may be wanting to develop new business opportunities. In many businesses, graduates are also an important part of their HR strategy - a key part of the 'talent pipeline' of future management and leadership or seen as a good way of developing staff quickly to cope with organisational change. Graduate recruits can add value through being a source of new talent brought into an organisation, to help stimulate thinking and creativity more widely or improve staff diversity, or maintain an organisation's 'brand' or reputation (Connor and Hirsh, 2008). In some cases, they can be many of these, and so assessing graduate 'value' can be complex. Research has shown that it can have different meanings to employers and be measured in different ways (Connor, Hirsh and Barber, 2003 (IES); Hesketh, 2004 (AGR)). Measuring returns on investment (ROI) in graduate recruitment can vary from employers' use of hard and soft measures to not attempting to measure ROI at all but having a strong belief that 'having talented people is good for us'.

One of the difficulties in assessing value is that businesses are generally poor at tracking their graduate or postgraduate recruits after an initial induction phase, especially as graduates can enter firms nowadays in different ways, with more formal corporate graduate programmes being less of the norm. Hence there is little, or only partial, good feedback within organisations into graduate selection and development practices or evaluation of recruitment processes or criteria. Thus it can be difficult to assess how and where a particular type of recruit with a particular qualification from a particular institution or background or with a particular type of skill adds most value. Patterns may emerge about graduates from particular disciplines or types of course or institutions adding greater value than others but not seen in the salaries offered and so less visible. Several studies on the demand for graduates and postgraduates in different disciplines have shown a diverse understanding by employers of the benefits of employing a PhD or postdoc researcher (see for example UKGrad reports, 2005-07). While a higher degree may be seen as useful at recruitment for certain jobs, it is often not a central requirement and the postgraduate salary premium can vary (see AGR surveys and Doctoral Futures by CIHE), leaving it unclear how much added value a postgraduate is expected to bring. Also, there are few studies that have seriously focused on how the value to a business of employing graduates is added, and in particular little evidence from previous research of how the employability skills developed in HE (eg in work placements, work-based projects in the curriculum) are effectively transferred to employment (see Mason and Williams, 2003).

It is likely that our current knowledge might seriously understate the value that graduates and postgraduates add to an organisation and overall to the economy. Also, there is a gap in our understanding of how employers measure graduate value and whether practices are changing in the light of changing economic circumstances. There may also be a disconnect between the criteria used for recruitment and that for promotion. If employers had a better basis for evaluating the value added by graduates from different institutions and different subjects, they might adopt different and maybe more cost effective recruitment practices. Hence the need for and value of this study for a wide range of stakeholders.

Proposal

The Council for Industry and Higher Education (CIHE) proposes to work with other partner organisations (such as the RCUK, UKCES, HECSU) together with a range of its member businesses to explore employers' perspectives on the value of the graduates which they employ. Its overall aims will be to explore:

- the benefits that graduates offer business
- the contribution that skill development in HE (eg in placements or other employability activities) makes to adding value
- the added value from their subsequent development in the employing organisation
- how graduate value is articulated by employers (hard and soft measures used to assess value)
- the effectiveness of these measures and the measurement tools used by employers
- and how the assessment of value is fed back into graduate and development programmes and into HE.

In doing so, it will aim to distinguish between the value of first degree, masters and doctoral graduates.

The research will provide insights to HEIs to help in developing employability policy, to employers in improving the effectiveness of their policies on graduate selection and development and to Government and agencies to help provide better measures of graduate economic value than simply relying on the evidence on graduate wage premiums. It may also cast light on the issue of diversity and the value that graduates from less traditional backgrounds to an organisation; this could persuade more employers to fish in a wider pool for their graduate talent.

It is recognised that there is likely to be considerable diversity in views and behaviour of employers according to sector, size, degree discipline and qualification sought, graduate programme, and so on. It is also recognised that 'value' is a complex issue to unpick and there is relatively little systematic research that has been undertaken on graduate value to businesses; much of the existing evidence is anecdotal. In particular, it is unclear how effective some of the HR tools used to measure employee performance and added-value generally (eg productivity, speed of promotion, contribution to financial results, development of ideas, accommodating change) are in this area, nor how criteria set to measure graduate performance link with graduate recruitment criteria.

Methodology

It is suggested therefore that an initial pilot study be undertaken in order to explore these key issues further and help inform a more substantial study, including a longitudinal study of graduate/postgraduate development and progression within organisations. The pilot would help to develop its scope and objectives, take account of other work being done, and test out the feasibility of undertaking the fuller study. This pilot would include:

- a review of research literature and current development work
- a small number of interviews with employers (around 10-12), with HR directors and graduate recruitment/development staff; we will involve the CIPD in this
- consultation with organisations engaged in similar studies or other graduate longitudinal work (such as FutureTrack where there is the potential for matched samples of graduate employees and their employers)
- gauge interest from possible sponsors for a fuller study

The pilot might usefully focus on a number of disciplines to provide contrasting experiences say – a science subject, one from arts and design, a humanities, a social sciences and an engineering discipline. We will seek the support of a limited number of institutions.

We will establish an Advisory Group with the key funders, as well as a few senior HR businesspeople who can guide the project. We will consult with others such as AGR, CIPD and Professor Kate Purcell (IER at Warwick University). The project will be led by Helen Connor with the involvement of others from the CIHE team as appropriate (such as Hugh Smith and Peter Forbes) who have worked on the issues of employability and graduate progression.

Funding

At this stage, we expect to start this pilot study in February 2009 and report in June. A budget for the pilot study of approx £20,000 is suggested with contributions from Graduate Prospects, RCUK and HEFCE. The CIHE will inject additional in-kind support from Richard Brown, the senior HR business people plus secretarial and administrative support.

Views are sought on this draft outline proposal.

**HC/ CIHE
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