

UNDP

**INCOME GENERATION MODEL
FOR
VOCATIONAL EDUCATION & TRAINING COLLEGES
IN ARMENIA**

DRAFT REPORT

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1. Introduction

The VET system in Armenia is in a process of modernization, and the modernization is supported by more projects funded by and coordinated between more international donors.

One major on-going project is funded by a grant from the EC equal to 16 million EUR under the PRSP Priority Area in the Armenian National Indicative Programme (NIP) for the 2007-2010 period. The beneficiaries are a fraction of 12 out of in total 92 public VET colleges in Armenia, which have been selected for pilot development support, and hence the experiences of the pilot expected to be later on also the benefit of the other VET colleges in Armenia. The EC project support to the pilot VET colleges includes various capacity building, in particular of the physical infrastructures.

Though the EC project support does include also extended technical assistance to the financial capacity development of the pilot VET colleges, there is in general in the VET colleges of Armenia a lack of a comprehensive Income Generation Model highlighting key “start up” considerations for VET colleges wishing to generate additional sources of fund; explaining the frameworks and principles, which guide the process of income generation, setting common challenges and how they can be dealt with; identifying important management and governance considerations associated with income generation activities; providing overview of good practices that can be replicated on the national level. Consequently, the UNDP has funded a project to support the development of such Income Generation Model.

The UNDP supported project was supposed to be based on examples of Income Generation practice in the 12 pilot VET colleges. Hence, in accordance with the pilot development methods, the Income Generation practice of the 12 pilot colleges should represent “good practice cases” to the benefit of the Armenian VET colleges at large.

The UNDP project has been carried out by an international expert over the July-October, 2009 period with an input of 50 work-days, including desk research on international experiences and on the Armenian legal framework; review and data collection on location in Armenia on the pilot college practice and potentials; and model development. The review and data collection on location was supported by two local experts.

During the review on location, the Income Generation practice at the pilot colleges was found more preliminary than assumed in the project Terms of Reference, and that is why the weight in the project was more on the scoping of potentials in the pilot case and modelling by use of international experiences. Hence, the model is reflecting more good practice in general, than actual “good practice cases” found in the pilot VET colleges.

Scholars are noticing, that Income Generation by marketing is not all on figures, and that is why it is recommended to use more comprehensive mapping techniques, when the college staff are engaged in the various stages of Income Generation development, e.g. a SWOT analysis. Consequently, the model has been developed purposely with extensive weight on presentations by the use of diagrams and easy-reading tables. These diagrams and tables are hopefully not only more comprehensive than endless text, however they are also at hand to be picked out of the model context as supporting tools for mapping at the black-board, the white-screen or the flip-over.

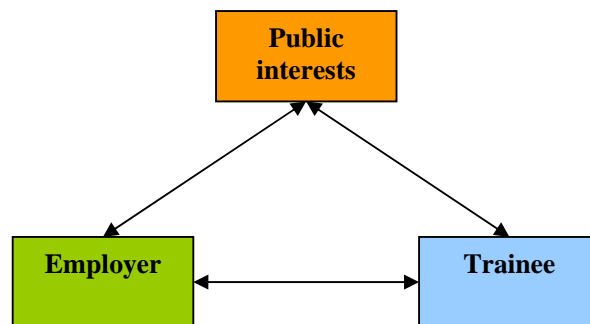
2. Theoretical framework

The theory on Income Generation in VET systems are like economic theory in general either presented in a macro or micro perspective, that means either from the nationwide consolidate point or the point of view each VET college.

2.1. Macro IG-framework

The macro-theory on VET system is focusing on how best to balance the interest between the three main parties of interest in the VET system, namely the employers, the trainees and the public as outlined in Diagram 2-a.

Diagram 2-a. The Employer-Trainee-Public Interest triad



Traditional the systems was argued to be and actual setup either in favour of the public interest (e.g. the system in Armenia during the CCCP regime) or in favour of the private interests, that means the employers and trainee (e.g. the system in more all liberalized countries). However, during the recent two decades the experience is, that

- Systems all in favour of public interest are not flexible to changing demands, and moreover miss the opportunity for supplement funding by the private interest parties.
- Systems in favour of the private parties are biased, because these parties are found to make investment in training more to needs on shorter than on longer terms, and that is why the more structural fluctuating demand are not responded to by the system in due time.

Hence, during the 1990'ties the theory was increasing arguing for a balanced 3-party system based on "quasi-market" conditions only approaching the all liberalized market, and this is the setup now found in most developed countries.

Due to funding problems, the VET system in Armenia was in the mid 1990-ties adjusted to utilise the opportunity for funding by the Trainee party, and actual in the secondary VET system to a dominant extent. Only recently was also the interest of the employer party accounted for be the establishment of VET College Board including representation also by the employers in the local community. However, on the funding side the employer party is still not accounted for to any significant extent, because,

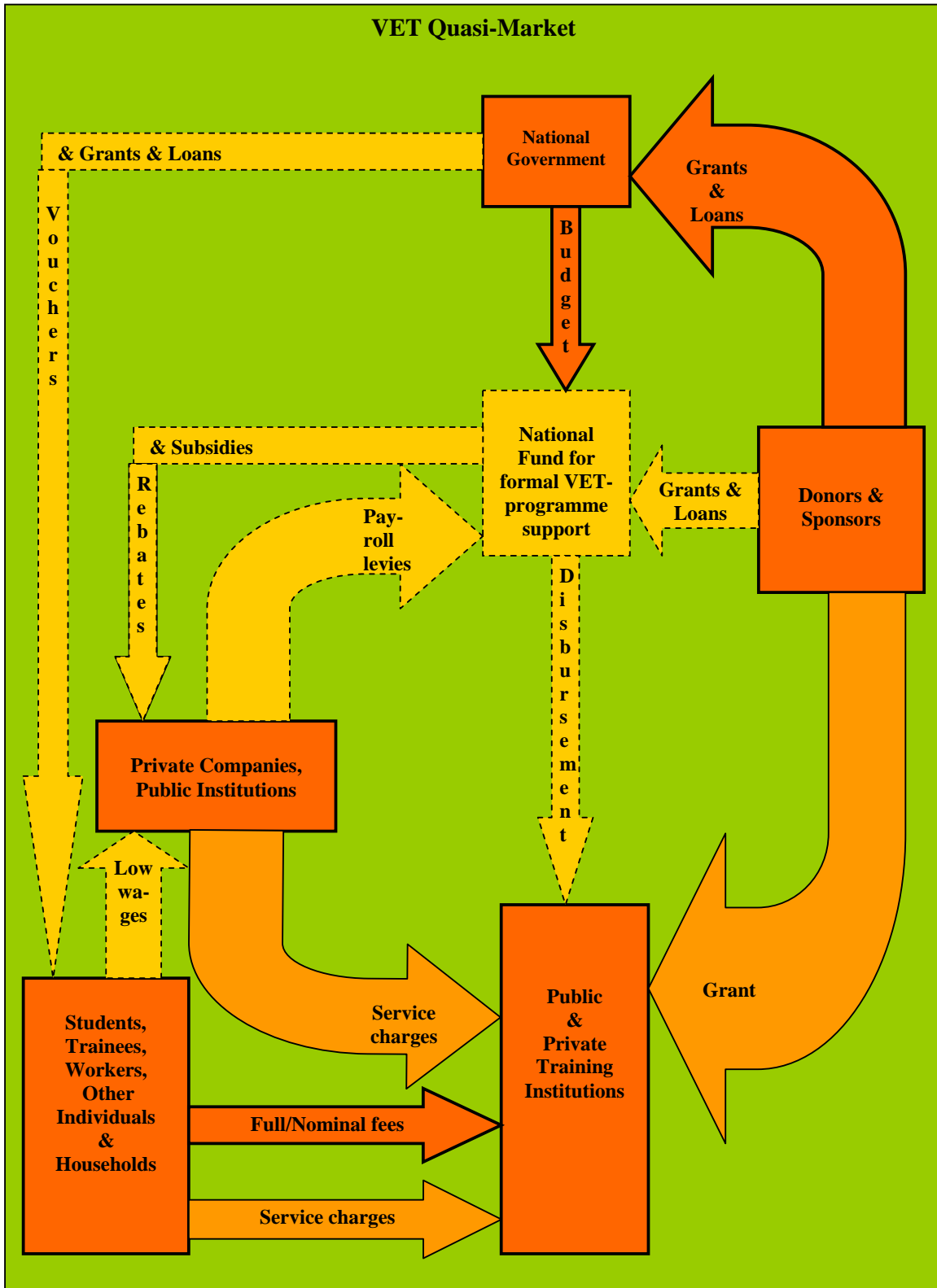
- There is no modality established for neither general nor conditional budget support by the employer party
- In practise the employers are meeting themselves their own shorter term training needs, because the VET system due to no update training capacity has failed to meet these needs

As part of the on-going modernization of the VET system in Armenia it is expected, that the component of a National VET Fund for joint public and employer and temporary also for international donor co-funding will be added to the system, and moreover the employer co-funding made obligatory by the introduction of a Pay-Roll Levy modality. To be noticed, that the actual system is all disaggregated in five public sectors and three government levels, and that is why the National Fund is expected also to account more in a more coordinated way for the public interests.

Finally, it is the expectation, that the combination of the now direct employer representation in the College Board, will influence the VET system programme more in favour of the shorter term employer needs, and consequently attract more direct employer funding. This is however only possible to the extent that the VET system can release funds by rationalization for investment in more update capacities and/or attract additional funds to significant extent also from the international donors.

The expected VET system setup in Armenia is outlined in Diagram 2-b, including with the actual components marked orange and the expected add components marked yellow.

Diagram 2-b. Armenian VET in macro IG-framework



2.2. Micro IG-framework

The micro-theory on the VET system is reflecting the overall trends in Organization Theory, and hence various scholars using the VET colleges either for studies to elaborate their theory or as a case to illustrate their theory.

There are more “schools” within the Organization Theory, however one basic theory approach during the recent decades is the Open System Approach in which the organization is considered a subject, which do act in response to external demands and by means of external supply to produce some services or material products.

By accounting for the various general and special Armenian components, the Armenian VET college can from such micro Open Theory Approach be illustrated as outlined in Diagram 2-c.

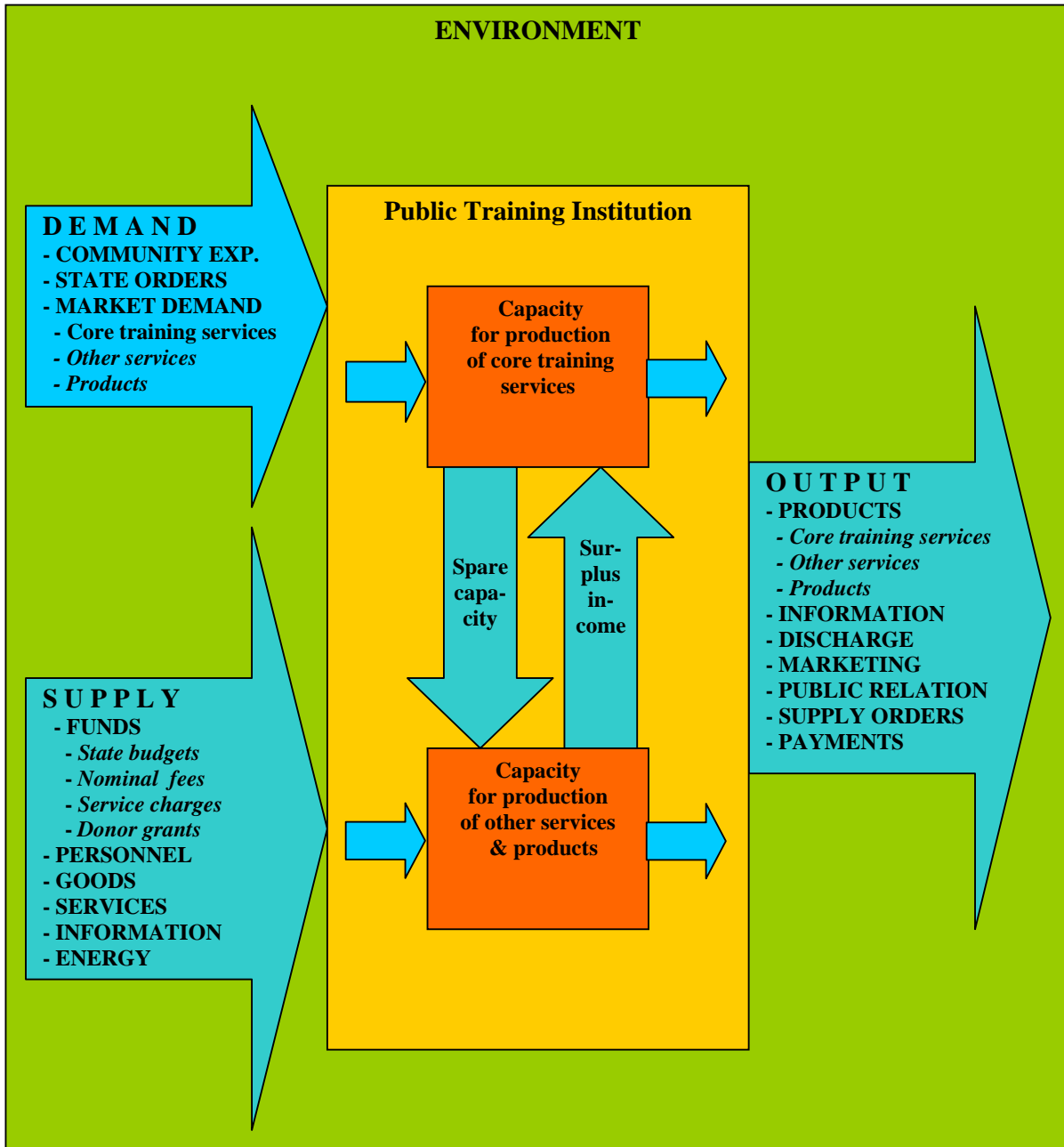
To prepare for the discussion of the income generation by the college itself, the process in the system component has been separated in a core and non-core training product sub-system, which are assumed to be interrelated.

The assumed interrelation is also found in practise, including in the Armenian VET system, since,

- The opportunity for the provision of non-core products are highly dependent on the kind of given capacities (physical training facilities and teachers competences) in the core sub-system. E.g. core training specialty capacities are facilitating re/extra training by short-courses in same field of specialty, which are facilitating consultant services as a follow-up to training courses by use of the same specialty competence, etc. Exceptional capacities of course may be found (e.g. a teacher in possession of other competences than required for his engagement in the core sub-system)
- The opportunity for provision of more profitable non-core products is highly dependent on the opportunity to release surplus capacity in the core sub-system, since else most income will be spend on the external supply required for the sub-system, in particular the cost of supplementary staff.
- In public subsidized part of the VET system, the non-core sub-system is only legal to the extent it’s activity is in accordance with the purpose of the core sub-system, since such purposes are conditioning the subsidies. In practise the subsidies of course could be insignificant, however in Armenia they are not, and hence also the legal conditioned interrelation between the two sub-systems are there.

The purpose of the UNDP-supported development of an Income Generation Model (IGM) is to support each VET college itself to generate more income ahead. Hence, the outlined micro theory framework is the more convenient framework for the IGM.

Diagram 2-c. Armenian VET in micro IG-framework



2.3. Definition of IG

In the micro theory literature “income generation” by VET colleges is defined,

- in a narrow sense in which only income from non-core businesses (also named “entrepreneur business”) are included (e.g. short-courses, facility leasing, non-education services, and fund-raising), and
- in a broader sense in which all income generated by the college from other sources than the state budget is included, which means income from non-core business and from student tuition fees generated by the core business.

Since, the non-core business is in theory and practise found highly dependent on the core business, in particular for public subsidised colleges, the broader definition is more convenient, and hence recommended as more useful by leading scholars in UK with extensive experience in the income generation in question.

In the Armenian pilot case it is moreover the only useful definition in case income of any importance is to be generated in the near future. In countries with all developed VET capacities and more than a decade experience with the marketing of non-core businesses, only around 5 % of total income is generate by non-core businesses. Hence, in the pilot Armenian case even such modest income generation is not realistic until after a couple of years of implementation, and even then only a minor part of the income is not to cover expenses implied by the income generating business itself.

Also to be noticed, that successful implementation of non-core business is conditioned by update capacities of staff and physical infrastructures, and that is why for more pilot VET colleges even a 5 % income is not realistic until basic capacity conditions are in place.

The broader definition is also more useful in the Armenian case, because there is a urgent requirement and significant potential for rationalizing of the core business by establishment of cooperation between groups of colleges, and hence a more convenient economy of scale.

Consequently, the Income Generating Model has to cover both definitions of Income Generation.

3. IG in practise

3.1. IG-practise in general

In particular in the Anglo-Saxian countries there is a long tradition for IG activity, and since the new VET legislation in UK in 1992 also more extensive activity also in the field of non-core business. As a combined part of the overall New Public Management reform, the UK was the European pilot with a roll-out to e.g. other European and the Commonwealth countries during the mid 1990-ties. In Tabel 3-a the various kind of experienced activities at large are outlined. The list is not meant to be exhaustive in specific, however to indicate and exemplify all the types of IG-activity so far practised. To be noticed, that the donor supported activities are added to the list also to cover all types of activities in transitional and developing countries.

Table 3-a. IG activity practise at large

Type of Activity	Activity
Sale of educational services	<p>Full-time formal education programmes with nominal fees depending on,</p> <ul style="list-style-type: none"> • the extent of the financing gap (Actual cost less state budget allocation) • number of students to recover the financing gap (cost sharing) • the affordability of student/parents • the willingness to pay by students/parents • Fee levels in competing colleges • the income opportunity impacts of education (e.g. higher for students in tertiary than primary education) • unit cost of education (classroom based education less expensive than lab-based education) • Social responsibility (number of not accounted for students, students with fee discounts (e.g. siblings), and students provided with supplementary support (e.g. physical disabled students))
	<p>Part-time formal education programmes with nominal fees varying like the full-time education fess, however due a higher willingness to pay usual at somewhat higher fee level</p>
	<p>Full-cost informal short courses, including,</p> <ul style="list-style-type: none"> • tailor made or open courses • non or award-bearing courses • separate or module-combined courses • daytime or evening or weekends courses
	<p>Market-based fees for overseas students joining the formal education programmes for home students (e.g. children of wealthy African families and European expatriate families on long-term engagement in Africa)</p>
	<p>Market-based fees for formal education programme provided on distance only direct to individual students (e.g. by the internet)</p>
	<p>Nominal fees usual at restricted level for open education programmes provided on distance to the public in general (e.g. adult education on “the history of my city” by the internet)</p>

Sale of non-educational services	Consultancies (e.g. separate or as a follow-up to a tailor made short-course)
	Professional services (e.g. design, legal or accounting)
	Testing/Certification (e.g. testing of materials or processes)
	Bureau services (e.g. photo-copying or typing of letters in foreign language)
	Access to information (e.g. community access to library)
	Access to computing (e.g. web hotel, internet, hot-line service)
	Audio-visual services (e.g. assist on production of videos)
	Technical skills (e.g. craft services like maintenance or hair-cut)
External exploitation & sale of products	Patents/License to manufacture (e.g. royalties)
	Prototype building (e.g. use of lab to build prototype on request)
	Publishing (e.g. publishing of textbooks)
	Computer software (e.g. marketing of software designed for education support)
Use of physical facilities	Education facilities (e.g. hire out training area for events)
	Car parks (e.g. parking charges from staff and local community)
	Sports facilities (e.g. entrance fee to sport area at evenings for students and local community)
	Cultural facilities (e.g. hire out of assembly hall for events by local community associations)
	Small business leases/rentals (hire out building area for private bookshop)
	Market place (e.g. license for permission for private photographer to sell class photos)
Residences, catering and conferences	Residence rentals (e.g. rentals by students on e.g. semester basis)
	Supporting residence facilities (e.g. launderette user charges)
	Leased private sector accommodation (e.g. rentals by students of rooms in a private house leased and operated by the college)
	Catering for students & staff (manual and by vending machines)
	Out-of-house catering (e.g. occasional in relation to community events or permanent in agreement with another institution/company)
	Residential conferences (e.g. conferences in assembly hall during holiday periods with in-house catering and accommodation for participants in the vacant students residence rentals)
	Non-residential conferences (e.g. one-day conferences in assembly hall with in-house catering)
Advertising	Fees for advertising in college publications.
	License for private business for access to contact information in person databases (e.g. name & address of students for direct marketing purposes)
	Lease out of physical sites for display of advertising (posters on the walls of the college isles)
	Sponsor agreement for permission to add business/product names on e.g. uniforms/T-shirts/sport dress
Internal services	Sales and purchase with discounts for staff and students
	Employment agency for students
	Internal charity arrangement
	Card-operated copy machine for students
	Sale of examination papers from earlier year
	Production & sales of printed articles relating to institution

	Additional administrative services (e.g. multiple copies)
Recycling	Waste paper, old furniture, etc.
	Product outcome of training practise (e.g. dress, vegetables, jewellery)
Award ceremony	Party/accommodation, photo/video, dress/caps, souvenirs, etc.
Brokerage	Franchise of short-courses
	Operations out-sourced by other organizations
	Collaboration with other organizations in order to reduce cost
New delivery modes	Production and sales of training materials for support of training on distance (e.g. literature and videos for download)
	Mobil training facilities for support of training on distance
Finance investment	Interest bearing deposit of surplus cash (e.g. acquisition of bonds)
Sponsorships	Staff sponsorships (e.g. the salary of one teacher with special tasks financed partly/all by a private company)
	Student sponsorships (e.g. scholarships for selected well performing however poor postgraduates funded by private companies or public institutions in demand for top qualified/motivated candidates like the armed forces).
	Facility sponsorships (e.g. sponsoring of the entire college or of one separate classroom by private companies in general, or the sponsoring of equipment of a certain brand like kitchen inventory by the manufacturer)
	Event sponsorships (e.g. sponsoring by a private company of a cultural event arranged by the college)
	Objective oriented sponsorships (e.g. religious associations sponsoring a religious focused library)
	Literature sponsorships (e.g. private company sponsoring for one year of all college publications)
Donor Aide	Grants in kind (e.g. TA-support of capacity-building project, and handover of standardized supply like computers and software packages)
	Grants in cash (e.g. conditional grants earmarked for a specific building rehabilitation projects)
	Scholarships for one or more students funded by a donor
Partnerships	Twin arrangements with similar, however more progressive institution in a developed country in order to benefit from exchange of know-how (e.g. Partnership between a college in an African country one in UK)
	Adoption of another institution in demand for social relations in order to exchange social correspondence by the students with donations in kind or cash by the adoptive (e.g. the adoption of an overseas merchant ship or an overseas UN battalion by the college)
Donations by private citizens	Donations in kind or cash from citizens (e.g. a legacy from a previous teacher or a VIP former student donating a valuable piece of signed inventory to the memory of himself)

3.2. State and potential of IG in Armenian VET colleges

In Armenia the legal framework has been prepared for extended income generation by the public Vet colleges. Hence, the Exemplary Charter for non-commercial state VET colleges defines the legal sources of income, including also a list of legal non-core business activities. The defined sources are outlined in Table 3-b. To be noticed, that the list of non-core activities from which resources can be relieved is restricted only by the purpose of the use of such resources. Hence, the list is not exhaustive, and it the assessment, that all types of IG-activities found at large in other countries, can also be legally introduced by the public VET colleges in Armenia.

Table 3-b. Legitimate sources of income in state non-commercial VET colleges

State budget income		
Extra budget income, incl.:	Paid educational service, incl.:	Middle vocational education
		Initial vocational (crafts) education
		General education (basic and additional/extra)
		Preparatory courses
		Vocational training courses
		In-service training, re-training and upgrading for specialist
	Benevolences and donations of the organizations and citizens of the Republic of Armenia and foreign countries	
	Resources relieved from activities which are not contradictory to the objectives of the Institution's Charter, incl.:	Realization of scientific and research work
		Delivery of training-productive, productive activities and services
		Completion of publications
		Provide catering for students
		Service for hospice students
		Rest for students and staff
	Cultural activities	

With the type of IG-activities found at large in other countries as a base-line, the state and potential for introduction of similar types of IG-activity has been review and assessed in the pilot VET colleges. Due to the given pilot method it is the assumption, that the 12 VET colleges are representative for the VET colleges in Armenia, including also in regards of their IG practise. The review and assessment is outlined in Table 3-c. Activities of some potential are marked green, and more or less significant potentials indicated with darker and lighter green colours, respectively. More core business activities of significant potential are already in operation for long, and that is why such activities should be consolidated and not put at any risk in effort to introduce non-core activities of less potential. The capacities of the VET colleges can only be used once, and hence only allocated to the various activities in proportion to their expected income implications.

Table 3-c. State & potential of IG in Armenian pilot case

Type of Activity	Actual & Potential Activities
Sale of educational services	Full-time formal education programmes: Is now and ahead the all dominant IG-activity, however under much pressure, in particular from combined demographic and competition factors. Hence, various measures are required simply to sustain the level of income from this main source.
	Part-time formal education programmes: Existent, however at a level far beyond its potential due no apprenticeship arrangements, not yet established life-long education with module programmes, and no offer of formal education in evenings/weekends.
	Full-cost informal short courses: Existent, however at a level far beyond its potential due to inadequate response to actual labour market demands (e.g. no update infrastructure/equipment/teacher capacity, restricted labour market relations and marketing, slow adjustment to recognized demands, and restricted opening hours/locations)
	Overseas students: Non at present, and much restricted potential
	Individual distant learning: Well established tradition in general for education by correspondence, however only provided at any significant extent by three of the colleges. Moreover, not yet supported by internet-based programmes. Good potential in itself, and in particular in combination with part-time education programmes for adults
	Open education on distance: Non at present, and due to required investments, more general education orientation, and usual much restricted fee levels, this is no relevant activity. A minor potential however in the full-cost production of “open education like TV” in cooperation with a television enterprise (e.g. TV-broadcasts with craft advise on household do-it-yourself activities).
Sale of non-educational services	Consultancies: Has been tested temporary with project support by one agricultural college, however turned out not sustainable due to restricted affordability among farmers. Some potential for provision of consultancies as a combined follow-up to the full-cost short courses, however in such case dependent on the state of the latter.
	Professional services: Non at present, however minor potential (e.g. current accounting and minor design tasks for small private businesses)
	Testing/Certification: Non at present, and probably an activity to be provided only by a tertiary educational institution. Moreover, the state of labs does not yet facilitate any such service.
	Bureau services: Non at present, however minor potential for colleges located in local community centres (e.g. copying services for the community)
	Access to information: Non, and due to state of libraries/databases hardly relevant
	Access to computing: Non at present, however due to now update state of IT in most of the colleges, there is a minor potential for colleges located in local community centres (e.g. internet access the community) and for web-hotel service for minor private companies in the

	community. Much depending on to what extent the college staff can support such services in practise, and that is why initial staff training is most probable required.
	Audio-visual services: Non, however minor potential for provision of video production for community households and minor private businesses.
	Technical skills: Non at present, however minor potential for provision of various routine craft services (e.g. repair of electronic devices and vehicles) for the local community all dependent on update equipment/skills of the staff. Actual no operating repair-shops found at the colleges.
External exploitation & sale of products	Patents/License to manufacture: Non at present, and probably an activity to be provided only by a tertiary educational institution
	Prototype building: Non at present, however minor potential for provision of various routine craft services (e.g. repair of electronic devices and vehicles) for the local community all dependent on update equipment/skills of the staff. Actual no operating repair-shops found at the colleges.
	Publishing: Non at present, and probably an activity to be provided only by a tertiary educational institution
	Computer software: Non at present, and probably an activity to be provided only by a tertiary educational institution. Moreover, the IT is only recently established in the pilot colleges, and that is why more professional IT competences even in exceptional cases among staff are probably not yet generated.
Use of physical facilities	Classroom facilities: Non at present, however for the rehabilitated part of the colleges there is a minor potential for renting out of such facilities to other public institutions (e.g. rental on long-terms for education in the evening by a adult education institution) or minor private business (e.g. rental for a weekend of classroom with projector to carry out an internal organizational development event).
	Car parks: Non at present, however minor potential for colleges located in local community centres
	Sports facilities: For colleges with rehabilitated in-door facilities (e.g. gym and fit-ness training equipment) cases of such service is already found, and there is a good potential for long-term arrangement with other institutions and private companies (e.g. a company renting the gym one evening per week for the benefit of its staff). Current service for individual citizens to be avoided due to the cost of operations.
	Cultural facilities: The colleges are no more the cultural centres of local communities (e.g. the lamp industry collective), and besides competition from private cultural businesses has emerged with more update facilities (e.g. hotels and cinemas). Finally, the new digital audio-visual technology has individualized more cultural consumption. What is left is only occasional demand from associations like the community amateur theatre.
	Small business leases/rentals: Non at present, however in particular for larger colleges with rehabilitated facilities there is a minor potential for

	<p>long-term rentals by small private businesses, which want to establish minor shops in the colleges targeting in particular the staff and students and nearby local community (e.g. book store, office utility store, candy store, casual dress store, fitness centre operator, net café operator, printing house, canteen operator).</p>
	<p>Market place: Non, however minor potential to charge private vendors visiting occasional the college to sell e.g. books, photos, music discs, and candy)</p>
<p>Residences, catering and conferences</p>	<p>Residence rentals: Non at present, however definite a significant potential for establishment of residence rentals/dormitories for students. The main benefit is not the rental, however the tuition fee from students, the enrolment of which is all dependent on the existence of such rentals/dormitories.</p>
	<p>Supporting residence facilities: Non at present, however definite a significant potential for introducing of profitable automates for e.g. coffee, soft drinks and candy.</p>
	<p>Leased private sector accommodation: Non at present, and only a potential in case such accommodations can be leased at least cost on long-terms, and with a size and location which make it convenient to operate by the college.</p>
	<p>Catering for students & staff: Already found, however in particular for larger colleges there is a significant potential for operation of more professional canteens.</p>
	<p>Out-of-house catering: Non at present, however there is a minor potential for such catering by colleges either with a professional canteen or with specialties in the field of cooking. To be noticed that such service is more private market like than educational related business, and that is why by experience VAT has to be added to the prices for such catering. Accounting for the usual intensive competition in the private catering market (e.g. take-away shops in the main street) the out-of-house catering should be restricted to institutional day-time clients (e.g. tendering for a contract with the city council for catering of e.g. an elderly home or kinder garden).</p>
	<p>Residential conferences: Non at present, and even with residence facilities the usual conference standards can never be met, and anyhow the student residences only vacant in between semesters. The exception is least cost conferences for e.g. national youth associations in the summertime.</p>
	<p>Non-residential conferences: Non at present, and even with residence facilities the usual conference standards can never be met, and anyhow the facilities only vacant in weekends and between semesters. The exception is least cost conferences for e.g. local youth associations.</p>
<p>Advertising</p>	<p>Advertising in college publications: Non at present, however for larger colleges a minor potential for advertising by my private businesses (e.g. the city sport wear shop) and other institutions targeting the students (e.g. private universities).</p>
	<p>Access to contact information in person databases: Non at present, and due to low affordability of students and restricted number of teachers,</p>

	the use of the databases for support of direct marketing by a private business is hardly existent. The exception would be merging of the databases of more colleges in order to approach a more nationwide volume.
	Lease out of physical sites for display of advertising: Non at present, however for larger colleges a minor potential for advertising by my private businesses (e.g. the city sport wear shop) and other institutions targeting the students (e.g. private universities). Exceptional, colleges located at main streets could attract advertising on e.g. posters on the roof/wall/fence/pillar targeting community citizens in general.
	Sponsor agreement for permission to add business/product names on e.g. uniforms/T-shirts/sport dress: Non, and only a minor potential in cases when e.g. a team from a colleges are nationwide recognized (e.g. have a popular basketball or volleyball team in the top league)
Internal services	Sales and purchase with discounts for staff and students: Non at present, and even though of minor potential for larger colleges, the beneficiaries would be the staff and students. In exceptional cases of course good discounts would add to the overall image of the college.
	Employment agency for students: Such service is found only in a much preliminary stage in one college, and in this case to be operated by the students themselves. However, it could be operated also by the college.
	Internal charity arrangement: Non at present, and potential much restricted since students/parents are already charged for tuition fees. The exception is fund collection for extraordinary purposes (e.g. a sculpture for the 50-year anniversary of the college or a social fund to support poor students)
	Card-operated copy machine for students: Non at present, however definite a potential source of income for larger colleges
	Sale of examination papers from earlier year: Non at present, however though no significant income implications, this is a much least-cost production and demands are definite recurring each year.
	Production & sales of printed articles relating to institution:
	Additional administrative services: Non at present, however in case a card-operated copy machine is not available, then of course the college administration can offer to make multiple copies on student request.
Recycling	Waste paper, old furniture, etc.: In more of the colleges storages of worn-out inventory equipment are found, and that is why there are minor potentials for public auctions at “local garage sale level”, however no potential for more regular business, unless the college can establish itself as e.g. a Solid Waste Deposit Terminal in the local community in agreement with the city council or a private recycling business.
	Product outcome of training practise: Found in exceptional case on insignificant economy of scale (e.g. sales of cakes, handmade post cards, and dresses), however one agricultural college is considering to establish facilities for fruit storage/processing, including also fruit collected in local community. Probably to be considered a strictly private market business by the tax authoritiexs, since the internal fruit

	production by the said college is insignificant, and hence the addition of VAT on prices hardly avoidable.
Award ceremony	Party/accommodation, photo/video, dress/caps, souvenirs, etc.: Award ceremonies are there already, however also the potential for more commercialising. By experience students/parents are much willing to invest in such services/articles, however the frequency is only once in a year and the customer group only the graduates and there relatives.
Brokerage	Franchise of short-courses: Non at present, however by experience from e.g.UK, this is definite a potential business, whatever the college is franchising short courses “produced” by other educational institutions (e.g. from another VET college or a university) or charging for one of its own course-products to be franchised by another college. In particular for the one or two colleges managing to establish a short-course franchise business of scale, this business can be rather profitable.
	Operations out-sourced by other organizations: Non at present, and no potential
	Collaboration with other organizations in order to reduce cost: Non at present, however potential for significant reduction in the cost of staff and infrastructures, in particular by collaboration with other VET colleges.
New delivery modes	Production and sales of training materials for support of training on distance
	Mobil training facilities for support of training on distance: Non at present, however conditioned by the required equipment and training programmes of relevance, the employer demands are most probably there.
Finance investment	Interest bearing deposit of surplus cash: Non at present, and due to the liquidity situation and much extensive demand for infrastructure investments, no potential in a foreseeable horizon.
Sponsorships	Staff sponsorships: Non at present, and most probably only specialized research staff at tertiary educational institution of any relevance for sponsorships
	Student sponsorships: Non at present, and most probably only much promising students at tertiary educational institution of any relevance for sponsorships
	Facility sponsorships: Non at present, however though no significant income potential, such sponsorship might be of interest for local private businesses or nationwide companies with local branches (e.g. a bank sponsoring a commercial VET college or one separate classroom)
	Event sponsorships: Non at present, however though no significant income potential, such sponsorship might be of interest for local private businesses or nationwide companies with local branches (e.g. a life insurance company sponsoring an open city-run arranged by the college for the local and neighbour communities).
	Objective oriented sponsorships: Non at present, and due to probable conflicting objectives with the core education of the college and consequential risk of losses in regards of state budget and student applications, this is not a recommendable activity.

	Literature sponsorships: Non at present, and most probably only of relevance for large tertiary educational institutions with an internal publication activity of scale.
Donor Aide	Grants in kind: Due to support from e.g. EC and UNDP, the VET colleges are actual to significant extent receiving rehabilitations works, lab equipment and TA support. However, such grants in kind are the impact of sector support, and hence not generated by the VET colleges themselves. Since, the colleges are not prevented by government to engage themselves in direct aide from donors, and since support of private market development (incl. VET) is of priority for more donors, there is a significant potential for generation of such aide by the colleges themselves, in particular from bilateral donors and NGO's, which accept to collaborate direct with decentralized institutions, however to minimize risk only to provide aide in kind.
	Grants in cash: Non at present, however collaboration at preliminary stage between more colleges to attract direct donor aide is found. Since, the colleges are not prevented by government to engage themselves in direct aide from donors, and since support of private market development (incl. VET) is of priority for more donors, there is a significant potential for generation of such aide by the colleges themselves, in particular from bilateral donors and NGO's, which accept to collaborate direct with decentralized institutions, and after a proper grant management setup also do accept to provide grants in cash for withdrawal in a recognized Armenian bank.
	Scholarships for one or more students funded by a donor: Non at present, and if provided then probably for studies only at university level in the home country of the donor agency (e.g. a scholarship by Danida for a BA-study at the University of Copenhagen).
Partnerships	Twin arrangements: Non at present, however in the framework of a donor aide programme, there is definite a potential for a twin arrangement between two VET colleges in Armenia and in the home country of the donor. The benefit by such twin arrangement is not cashable on short-time, however the exchange of know-how is much supportive for cashable benefits to significant extent ahead.
	Adoption of another institution: Non at present, and only exceptional potential at much restricted income level.
Donations by private citizens	Donations in kind or cash from citizens: Non at present, however to minor extent some potential ahead, when the traditional socialist attitude to public assets are changed by younger generations more liberal attitudes. Due to the large proportion of expatriate Armenians, donations from expatriates (e.g. from former students or student relatives or Armenian associations of expatriates in other countries like France) is probably realistic.

4. Objectives for IG in Armenian pilot case

Estimates of the actual fractions of income from the various income sources of the VET colleges are outlined in Table 4-a. Moreover, assessments are included on what fraction per source of income can be the reasonable objectives on short, mid, and long-terms, including also from the local IG-activities by the colleges themselves. To be noticed, that the assessment is made conservative for the college at average, and accounting only for sustainable income. This way of course one more college can find themselves in a more prosperous position, in which more ambitious objectives can be set for the local IG activities, however it is recommendable to await 1-2 more year of extended IG practise before getting more ambitious, since the now experience of the pilot VET colleges at present is still much restricted.

Table 4-a. Objectives for IG in Armenian pilot case

Funding Source		Estimate of actual situation	Short-Term objective	Mid-Term objective	Long-Term objective
Central IG	State budget allocation for preliminary VET (Direct and later through National Fund)	19.2%	19%	19%	19%
	State budget allocation for secondary VET (Direct and later through National Fund)	29.6%	30%	30%	30%
	Payroll levies from employers for allocation through National Fund	-	-	3%	5%
	Donor sector budget support allocated through State and later through National Fund	2.5%	1.5%	1%	1 %
	Total Central IG:	51.3%	50.5%	53%	55%
Local IG	Nominal tuition fees charged by the colleges for secondary VET	48%	46%	42%	40%
	Full-cost charges by colleges for short courses	0.7%	1.5%	2%	3%
	Full-cost charges by colleges for other services	0%	0.5%	1%	1%
	Donor support & sponsorships generated direct by the colleges themselves	1%	1.5%	2%	1%
	Total Local IG:	49.7%	49.5%	47%	45%
Total IG:		100%	100%	100%	100%

The **State budget allocations** in 2009 for the overall VET sector are 5035 million DRAM, including 1984 million Dram for the preliminary professional education programme and 3051 for

the secondary. Neither consolidate nor separate accounts for the pilot VET colleges are found in English version, however based on the accounts from one probably representative college it seems that around 50% of the annual income of the colleges are generated from the State budget, including 19% and 30% from the allocations to the preliminary and secondary professional education programme, respectively. In absolute terms the State budget allocations are fluctuating with the size of the basic youth population and implied number of students, however education is in general of government priority, and the unit allocations per student seat rather constant over time. Since, the college expenses are also dependent on student numbers, the fraction of State budget income is consequently expected to remain also constant ahead.

The expected introduction of a National Fund to receive also **pay-roll levies** from the employers is most probably not to change such trend, because for political reason, the levies can't be "eaten" from start by the State budget, and hence only to be introduced as addition central income generation. Even in France with long tradition for VET funding partly from pay-roll levies, such is only equal to 5% of the total income generated at central and local level for the VET programmes, and moreover in Armenia such levy has for political and affordability reasons to be introduced in more stages, probably initiated at a level of no more than 3%. Due to the financial crisis and implied unemployment, the introduction of any more taxes on the employers would be sensitive these years.

Actual and on short-terms the main **central generated donor support** for the pilot VET colleges is a grant by the EC equal to 16 million EUR under the PRSP Priority Area in the Armenian National Indicative Programme (NIP) for the 2007-2010 period. The average grant per year is 4 million EUR equal to 32.6 million Dram, which is equal to 0.65% of the total State budget allocation for the entire VET programmes. However, the beneficiaries are only 12 colleges ("the pilots") of in total 92 public VET colleges, and that is why for each of these pilots, the EC grant per year is equal to 5.0% of the State budget allocation, and hence 2.5% of the total pilot college income. A NIP is under preparation also for 2011-2013, including also priorities for primary and secondary education. However, to what extent grants are allocated for such priority, in particular for professional education is not yet known. Probably, an allocation around the same level as actual, however most probably no more for activities restricted to the 12 pilot colleges. Hence, accounting also for other donors in the market (e.g. UNDP and WB), the combined donor allocations will probably be no more than around 1% on mid to long-terms for the VET colleges, including the 12 pilot colleges.

The **nominal tuition fees** are a gap filling fees, which are calculated "top-down" to cover expenses neither covered by other income nor the benefits of rationalization of existing capacities. The application for enrolment is most probable somewhat price elastic, and that is why it is recommendable to use part of the additional generated income and benefits from rationalization on succeeding reductions in the nominal tuition fee level. By accounting for the outlined rather conservative assessment of potential income from the various other sources of income, and the obvious potential for rationalization of the VET colleges in general, it is not unrealistic to expect the tuition fee fraction of the pilot VET college income to decline from actual 48% to around 40% on long-terms, and including a significant decline to around 42% even on mid-term.

The provision of **short courses** are actual generating no more than 0.7% of the total college income, however the short course business is by experience from other more developed countries definite an activity with growth potential. However, the growth in income from this activity can only be modest on short to mid-term, since the capacities of labs, teachers and management are not geared

for sudden growth, and even on long-terms the experiences from more developed countries do not indicate more than a significant, however modest income fraction.

Moreover to be noticed, that the income is only equal to the net surplus from such activity, since most gross income are eaten by the expenses of the undertaking itself, and hence the required capacity to achieve even a modest income actual rather extensive.

Finally to be noticed, that exceptional cases with a more extensive income fraction are found e.g. in the UK, however in these cases the colleges have ended up in conflict with their core business objectives, which is the provision of formal VET education programmes. Hence, also for strategic reasons, only a modest income objective is recommendable.

Income from **other services** than education area actual insignificant, and though there is definite a potential for income from a broad port foil of such activities, such income can expand only to a modest level. The arguments are the same as in the short-course business case, however more so, since insufficiency of capacities is even more critical for non-educational businesses of which the colleges has no experiences from start at all. Moreover, even with risk of losses in case the college engage itself in not recoverable capital investments. Hence, the assumption in the outlined assessment of objectives is, that the colleges are trying for many, however only least cost services.

The actual income from **local generate donor support & sponsorships** are only around 1%, however definite with a potential for some growth on short to mid-terms, in the period of which donors still have the opportunity to “show the flag” on some spectacular capital investment. When the capacity of the pilot colleges are getting more update, they are at the same time becoming less attractive in the donor market. It is the assumption by the assessment of objectives, that the pilot colleges do collaborate more intensive to market themselves direct in the international donor market.

5. Model for development of IG in the Armenian case

The Model for Development of Income Generation in the pilot Vet colleges of Armenia is outlined in summary by the in Diagram 5.a and 5-b.

The diagrams outline the required development components of the model, including the stages of development. However, any development is an iterative process, and that is why backward arrows are indicating, that it may turn out convenient to return for elaboration of one or more previous component stage.

The model is split in two sub-models, because it is convenient develop at first the basic capacities for the businesses at large, and next to develop in more specific the non-core business.

Referring to discussions in previous sections, the opportunities for non-core business is highly dependent on the core business capacity, and since much effort is required in particular at management level to develop the basic capacities for improved businesses at large, it will hardly be possible and probably even risky to engage management too much in a parallel development of specific non-core businesses. The actual situation for the core business is critical for more colleges, and getting even much worse throughout the next decade unless actions are taken. Leaving maybe the wrong impression that extended non-core business is one its own one way out of the crisis is only to risk postponement of urgent required interventions to consolidate the core business.

The components in the two sub-models are outlined in more detail in Section 5.1 and 5.2, respectively.

Diagram 5-a. Development of basic capacities for IG-activity at large

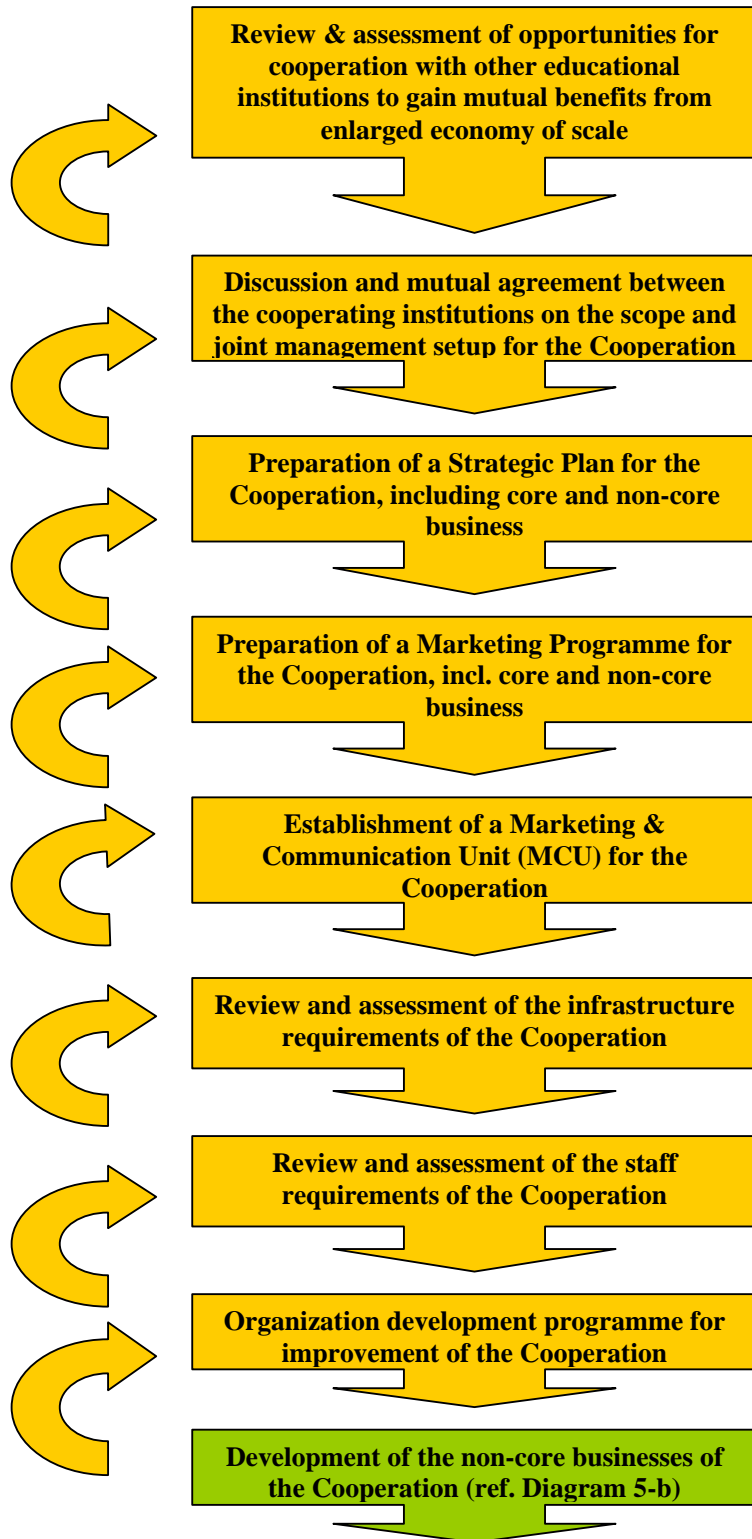
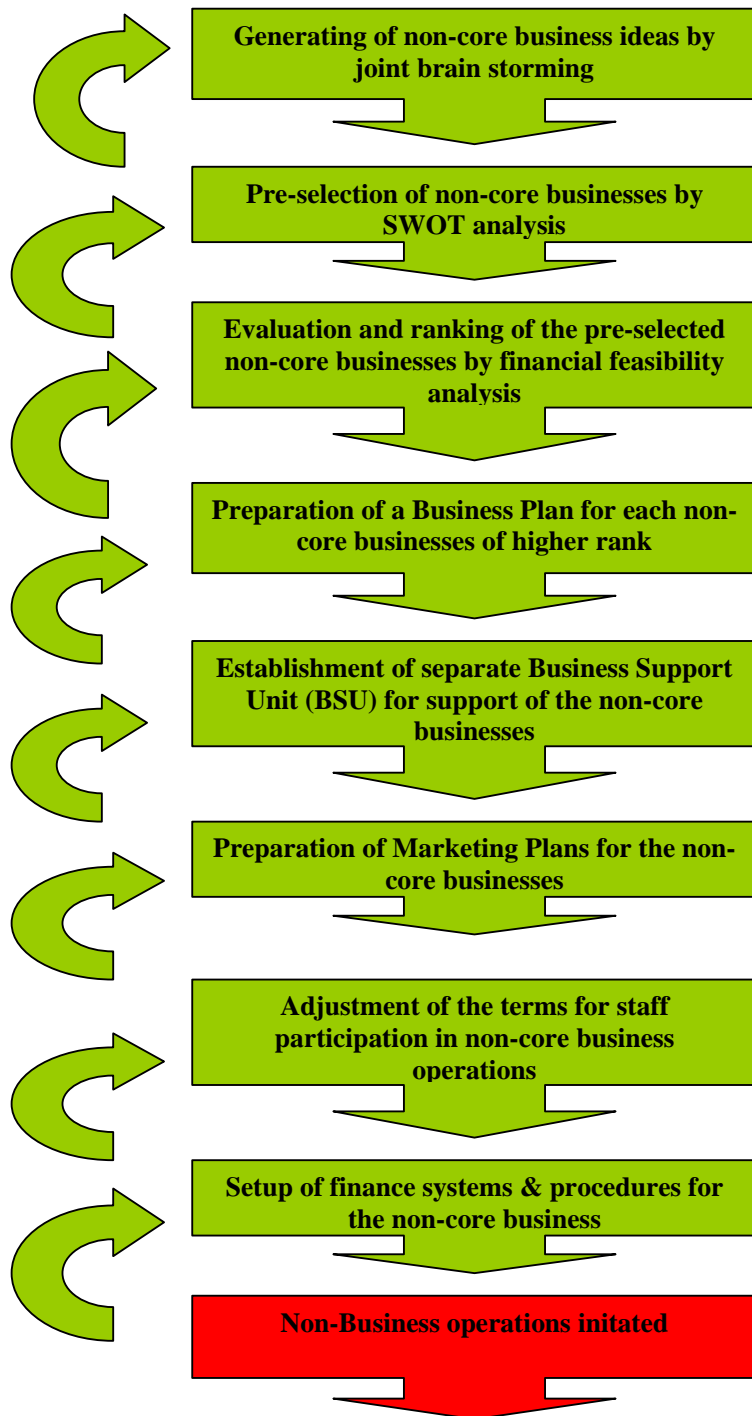


Diagram 5-b. Development of non-core businesses

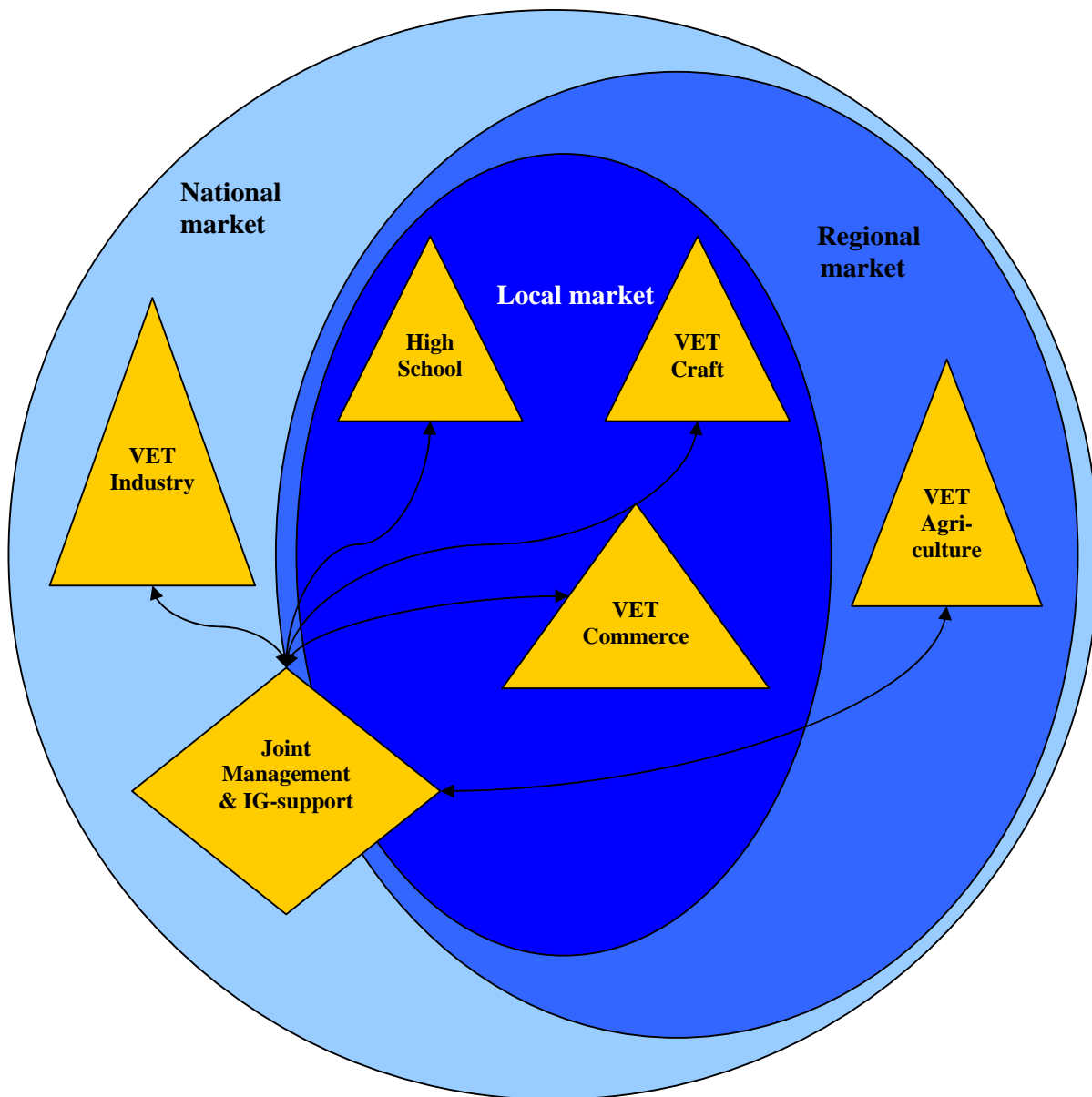


5.1. Development of Basic Capacities for IG

5.1.1. Review & assessment of opportunities for cooperation

The economy of scale of each VET colleges are in general too small, and the total capacity in the VET sector getting more and more out of proportion with the declining youth population, and hence with the number of students. A combined process of more cooperation and downsizing is required. The establishment of one Cooperation of VET colleges is illustrated in Diagram 5-c.

Diagram 5-c. Cooperation of more VET colleges



At present the VET colleges are found,

- much varying in size and state of capacity
- much disaggregated in terms of government sector and government levels
- much disaggregated in terms of group of specialties
- with staff per student ratios on the high side, including a large fraction of staff approaching the age of retirement, including probably a significant fraction no longer utilized efficient for business purposes
- with rather extensive building areas, including a significant fraction no longer utilized efficient for business purposes

Moreover, Armenia,

- is a small country with only minor distances and reasonable state of roads
- has a rather homogeneous population in regards to ethnicity and language, and even with a widespread fluency also in Russian
- has a much significant demographic decline in the youth population and consequential in number of student equal to the average capacity of around 25 VET colleges over the next decade

Hence, the potential and requirements of cooperation and downsizing is much evident. The cooperation outlined in Diagram 5-c indicate a cooperation including a small group of VET colleges with varying groups of specialty; more VET colleges with primary and/or secondary vocational education; one local high school for combined general secondary education for craft students; and finally VET colleges targeting students local, regional and nationwide. Such clusters of cooperating colleges would support larger economies of scale per specialty and moreover leave the opportunity for downsizing by rationalization of overhead functions and elimination of too small specialty units and more appropriate scaling of infrastructure. Besides, only with larger economy of scale there is an opportunity to release adequate capacity for the establishment of new units for joint support of extended IG activity.

5.1.2. Mutual Agreement on cooperation

Due to the disaggregated VET colleges in terms of government sectors (five sector ministries in charge) and also regional and local governed colleges, it is more convenient to establish the Cooperation at decentralized level by mutual agreement direct between the respective Boards of the colleges, who decide to join a cooperation. However, the various governments/ministries of course have to approve the final agreement.

The setup of a cooperation is hardly possible with an all equal distribution of benefits and losses, however for the colleges facing less benefits/more losses, the alternative is probably to be out of business on mid-terms, and in some case probably even on short-terms. Students are in these cases already much hard to attract and with the demographic decline these colleges are no longer sustainable on their own, however only as downsized parts of a Cooperation.

The mutual agreement has to regulate the objective, scope, management setup, the criteria for split of implied cost and income, and how to handle joint assets in case of a closing down of the Cooperation.

In professional businesses like the VET business, horizontal networking is a much convenient way of organizing, and hence no purpose in itself to establish more formal merges of colleges. The business requirement is the establishment of a flexible capacity response to ever changing demand, and hence no empire building.

In principle the Cooperation does not have from start to include clusters of entire colleges, however selected businesses with which the respective colleges are willing to “buy-in” to the Cooperation (e.g. core and non-core businesses related to selected specialties or a selected group of non-core businesses, which are not bound to certain locations). However, the more restricted “buy-in”, the less benefits from the economy of scale of the Cooperation.

5.1.3. Strategic planning for the Cooperation

Whatever the mutual agreed scope of the Cooperation, the Cooperation has to develop a strategy for the joint businesses.

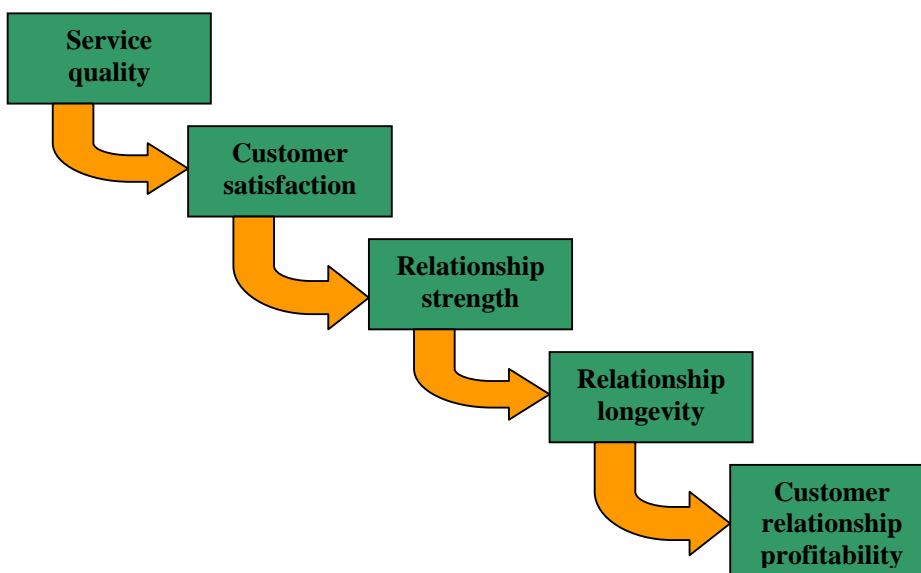
Basically two conflicting strategic approaches and one variant of the former are recommended by leading scholars for VET colleges, including:

- The “customer relationship” approach, incl. the “responsiveness to employer” variant
- The “generic strategy” approach

The relationship building approach

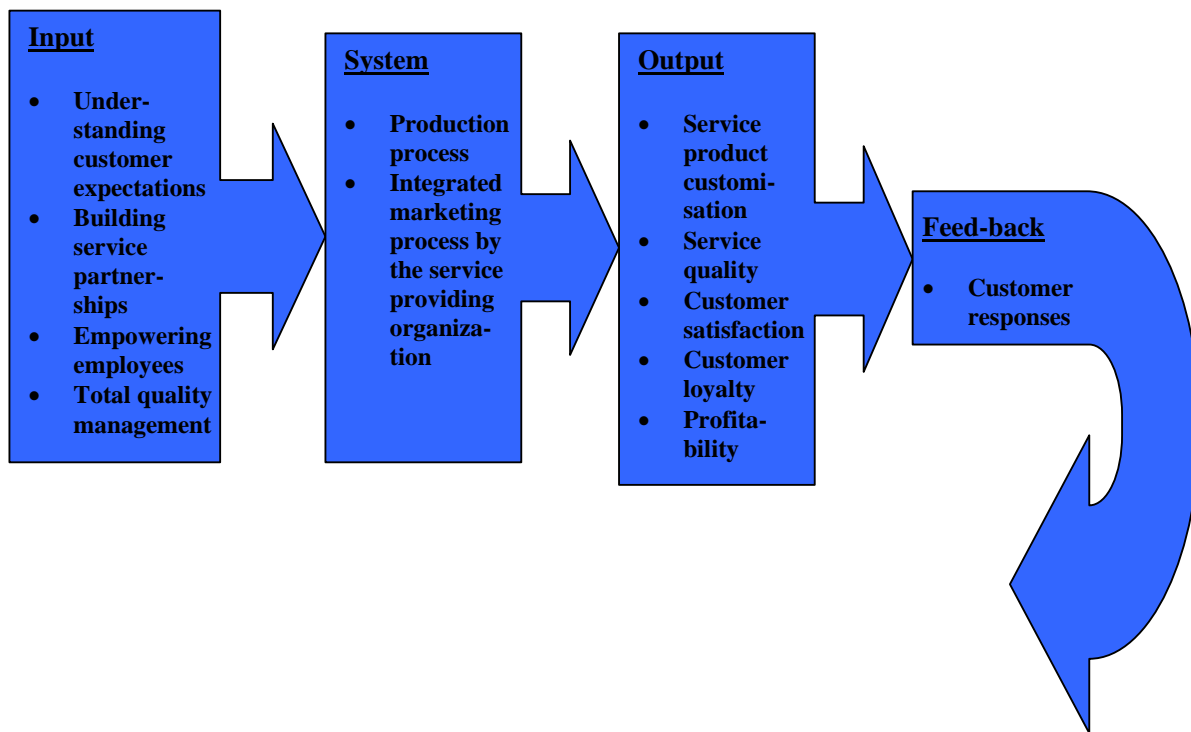
For relationship building strategies, what matters is “customer loyalty”. Hence, as illustrated in Diagram 5-d, the basic assumption is a causal relation between the provision of quality service in line with the customer’s needs, and a sustainable and hence profitable demand by the customer.

Diagram 5-d. The causal relationship model



The said causal relationship is in Diagram 5-e illustrated in an organizational context in more detail by the use of a system model. To be noticed, that in such strategy, marketing by direct communication with the customer is together with a quality products much critical for the relationship building, including monitoring and support of feed-back from the customer in order to be aware of the customer expectations.

Diagram 5-e. System model of marketing relationships

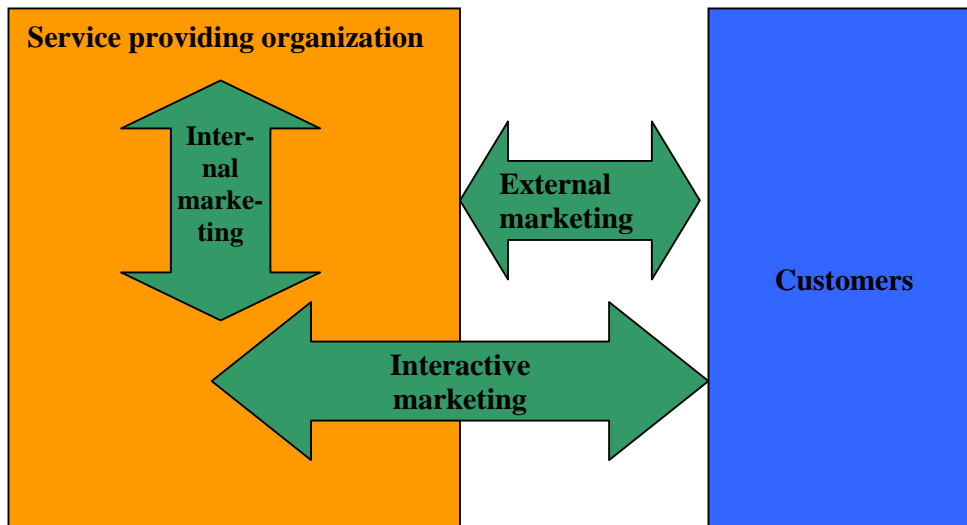


Service products are varying from material products, because the implication of the former is a direct contact and hence the opportunity for communication with and observation of the customer. More services are carried out person-to-person, and in such cases the customer relationships are not only an organizational matter, however also a matter for each member of staff in contact with the customer. Hence, it is much critical for the service providing organization how the staff member behaves in contact with the customer, and hence a critical task for the organization to manage so far possible such staff member behaviour. Consequently also internal relationship building between the organization/management and the individual staff member is much convenient. The complex of organizational-individual and external-internal relationships are illustrated in Diagram 5-f, and the combined building of relationships on all three dimensions conceptualized as “integrated marketing”.

Education and training is carried out in “confrontation” with the student/trainee, and hence definite a service with much communication potential. From the integrated marketing point of view, it is consequently much critical, how the management of the college is capable and has the means to manage the personal teacher/trainer behaviour in his direct contacts with the student/trainee. The teacher/trainer is not only carrying out education/training, however in the same situation also marketing activity. Hence, like he is well prepared for his teaching session, he should also be prepared for marketing, in particular for observation and documentation in a systematic way the expectations of the student/trainee, and even manipulate over time such expectation typical by increasing expectations at early stage and decreasing expectations over time, if required.

Customer satisfaction is depending partly on the expected consumption and partly on the actual consumption of the service. Hence, it is not only the quality of the service product itself which is critical, however also that the expectations are in level at the time of consumption. With too ambitions expectations, even an excellent product quality may turn out to the dissatisfaction of the customer. Opposite, the customer may be satisfied with a less excellent product quality if expectations are downsized before the time of consumption. E.g. downsizing over time the initial “promise of a job” after graduation, which might be much convenient in the period of student enrolment, however probably less convenient as the period of graduation is approached.

Diagram 5-f. Integrated marketing relationships



The responsiveness to employer strategy variant

One variant to the relationship building approach is the “responsiveness to employers need approach”. This is not a general strategy approach, however dedicated for the VET system.

What matter by this approach is to follow close the expectations of the indirect employer customer, instead of the direct student/trainee customer, since the expectations of the latter is in the end highly dependent on the expectations of the former.

Due to the more indirect customer, this approach is much research oriented, including e.g. research on trends in the labour market and employer surveys by interview and questionnaire techniques. Moreover, by this approach the labour market expertise of the employer representatives in the College Board are one critical source of information and channel of communication.

The theoretical critic of this approach arguing, that employers don't have any clear expectations, in particular not mid and long-term expectations, and that is why the development of this more research oriented strategy will be much time consuming, however the implied strategy probably not that reliable.

The generic strategy approach

The relationship building approach is the more convenient approach for the VET colleges in the actual situation, however as the colleges are moving into the more competitive non-ore businesses, and even the core businesses become more competitive in the quasi market ahead, it will be convenient also to see things in a different perspective by the use of an approach more geared to a pure competitive situation, namely the "generic strategy approach", or more convenient to introduce such approach for the pure competitive businesses of the Cooperation.

Strategic planning by this approach is initiated by an analysis of the business market in question, including assessment of five main parameters, including:

- Buyers power
- Suppliers power
- Barriers to entry to the market
- Threat of getting substituted by the buyer
- Degree of rivalry with other suppliers

The parameters are outlined in more detail in Diagram 5.g, which do include lists of more comprehensive sub-parameters per main parameter.

The analysis is supposed to support the answering on the strategic questions:

- What is the more convenient basis of offer in the market? (the uniqueness of the product, it's price or the extent to which the marketing of the uniqueness or price is focused on certain segments of the market)
- What is the more convenient direction to be taken on the market? (offensive versus defensive; product versus market development; product development versus/ diversification of existing products)
- What is the more convenient method of entry? (provide a product by development, acquisition or joint development with alliance partner)

The strategic questions and the various parameters on which to answer, and this way make a strategic choice, is outlined in Diagram 5-h.

Diagram 5.g. Model for strategic analysis of a pure market

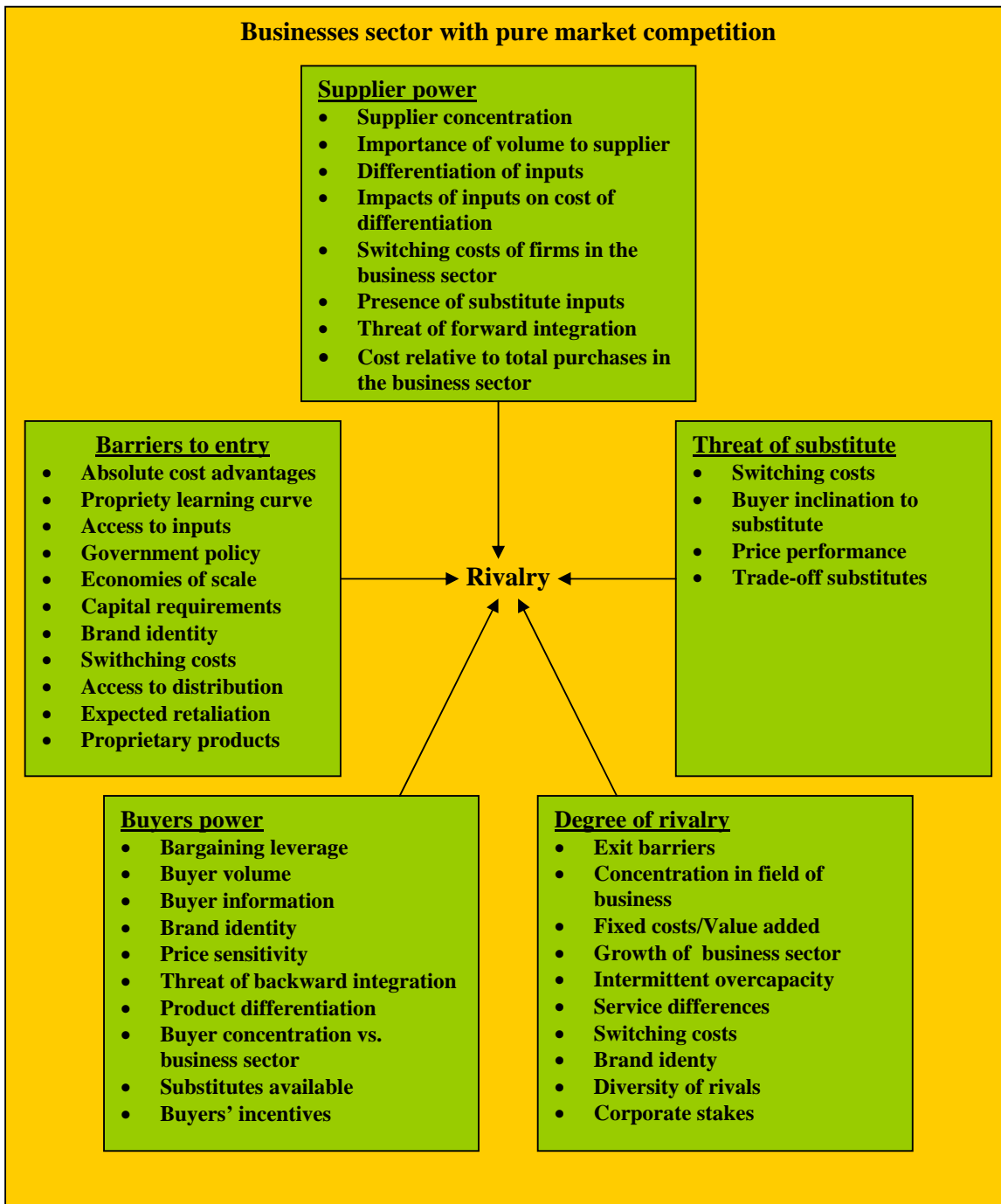
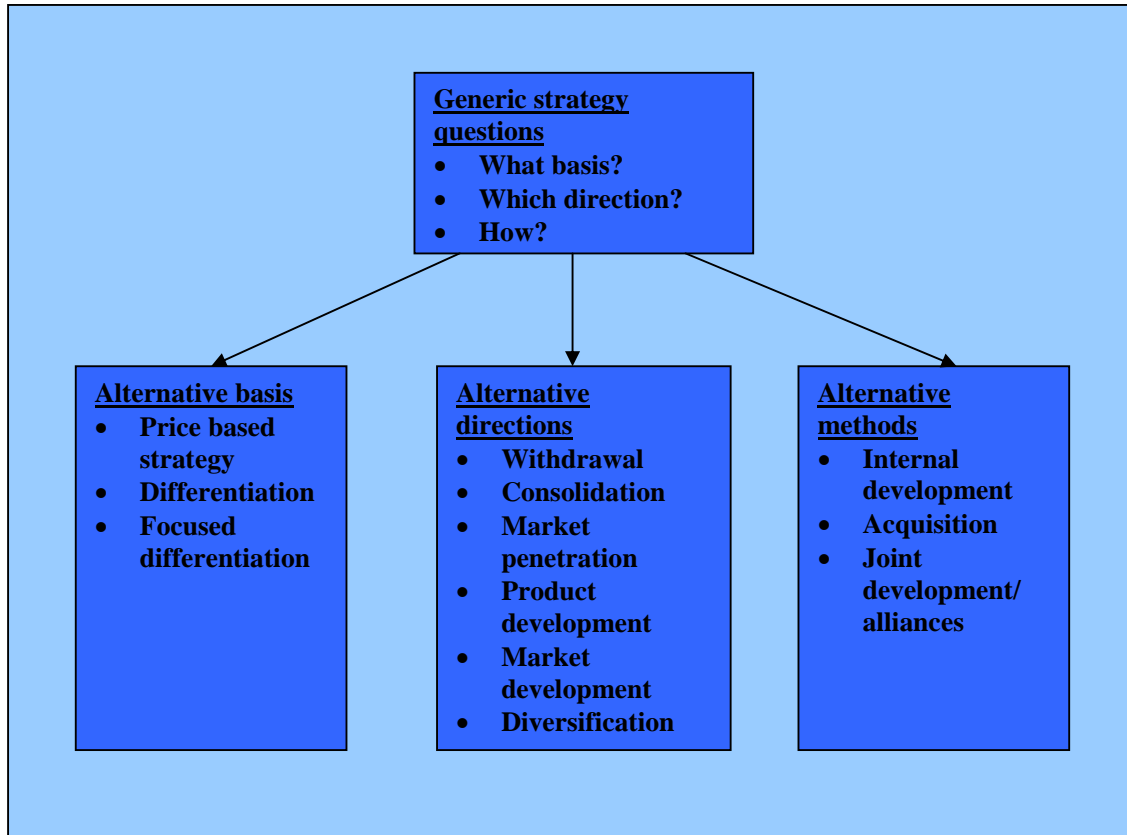


Diagram 5-h. Model for support of strategic choice



5.1.4. Marketing Programmes for the products of the Cooperation

Depending on the resulting Strategic Plan, a Market Program has to be prepared for guidance on, what kind of marketing is more convenient in practise.

Hence, the market programme is to specify how/what to market in regards to four parameters, including the **P**roduct characteristics/brand, it's **P**rice, it's **P**lace of delivery, or it's **P**romotion. The four market program parameters (usual named the "4 P's") are defined in more detail in Table 5-a.

To exemplify the use in practise of the 4 P- model, an example found in the literature for the "on-line distance learning" product is outlined in Table 5-b.

Table 5-a. The "4 P" marketing programme model

<u>Product</u>	<u>Place</u>
<p>Consumers needs of physical goods, Services and Ideas which can be differentiated from others by certain characteristics/brand (e.g.. name, logo, colour, physical attribute)</p>	<p>Means of getting the product into the customers hand (e.g. direct personal exchange, on-line in cyber, ordinary mail distribution, broadcasting)</p>
<u>Price</u>	<u>Promotion</u>
<p>Pricing policies (e.g. differentiation per product or consumer group, discounts, billing & collection practise)</p>	<p>Means of communication between the seller and buyer (e.g. advertising, PR, personal selling, promotion events)</p>

Table 5-b. Example of "4 P" model use for an "on-line distant learning" product

<u>Product</u>	<u>Place</u>
<ul style="list-style-type: none"> • Learning at distance • Quality • Instruction with convenience 	<ul style="list-style-type: none"> • Anywhere • Convenience of cyberspace
<u>Price</u>	<u>Promotion</u>
<ul style="list-style-type: none"> • Can't exceed the value of the convenience 	<ul style="list-style-type: none"> • Website • Direct mail • Print media • Radio/TV-spot

5.1.5. Establishment of joint Marketing & Communication Unit (MCU)

From discussion in previous sections of strategic considerations, it is obvious that marketing and communication is much critical for service businesses like the VET business, however fortunately also with good opportunities to build prosperous customer relationships. Hence, for support of such marketing and communication it is much convenient to establish a joint unit for the Cooperation.

Since, marketing of the core businesses is of priority and rather extensive at Cooperation level, probably around 3 persons are required for the unit, including with combined competences/flair in particular on,

- The core VET programme specialties
- Enrolment procedures
- Research, database setup and analysis
- Routine in use of entire MS-Office
- Website operations (e.g. updating of information in website)
- Communication (spoken and written)
- Design (e.g. presentations in writing)
- Organization of promotion events

The MCU has to be update on any information on Cooperation, and hence to be located close to the Coordinator of the Cooperation (probably one of the Principals of the collaborating colleges).

5.1.6. Review & assessment of infrastructure requirements of the cooperation

The Cooperation will probably find it convenient to re-allocate some education and training activity across the collaborating colleges in order to enlarge the economy of scale per group of specialty (e.g. by centralizing of one type of specialty on only one location), and this is why the combined infrastructure capacity has to be reviewed and assessed. Not only in regards to quantity, however also in regards to the physical state in order so far possible to re-allocate activities from bad to better off sites. E.g. if one college has a chemistry lab of reasonable size and state, the capital cost of extension/rehabilitation at large in the Cooperation can be reduced. Finally a more combined perspective on the infrastructure may uncover physical space for new specialties or traditional specialties combined in new way or for non-core businesses.

Hence, the overall purpose of the review is to optimize the utilization of the combined infrastructure components, which actual are in a reasonable state. Cases of additional acquisition/rehabilitation requirements may be required e.g. to fit in an enlarged/centralized specialty on the more appropriate location, however such cases should be considered only marginal, to avoid more capital investment in infrastructures, which are in general in excess.

In case marginal capital investments are required, a joint investment plan on mid-term (3-5 year) should be prepared for joint financing by mutual agreed criteria.

5.1.7. Review & assessment of staff requirements of the cooperation

A review and assessment of the combined staff capacity is required in order to,

- Clarify the requirements for up/down-sizing of teacher positions in each of the collaborating colleges
- Clarify the potential for downsizing by rationalization of administrative and supplementary functions

Like the capacity of infrastructure, the capacity of teachers has to be review and assessed to fit to the probably re-allocation of specialty groups and non-core training across the collaborating colleges in the Cooperation. By such fit also the state of the teacher capacity has to be accounted for (e.g. some are approaching retirement, some are not willing to move to another location, and some is no more in possession of required skills). Marginal extensions may be required on certain location for the fit (e.g. add capacity on the site of an enlarge/centralized specialty group in case internal capacity is not available/movable or in possession of required competences). However, by accounting for a rather high “teachers ratio” in general, such extensions should be balanced by down-sizing in other location, and in total an overall down-sizing of the teacher capacity should be expected due to the enlarged economy of scale.

Each Vet college has most probable a potential for downsizing by rationalization of the administrative and supplementary functions, and with the establishment of a Cooperation such potential is even more probable. A couple of minor functions are recommended in the IG Model for support of marketing and non-core businesses, however such extensions should be balanced by down-sizing in other location, and in total an overall down-sizing of the administrative and supplementary staff capacity should be expected due to the enlarged economy of scale.

A combined staffing plan has to be prepared on mid-terms short-terms as a basis for joint financing of the eventual marginal extensions by mutual agreed criteria.

5.1.8. Organizational development programme for the cooperation

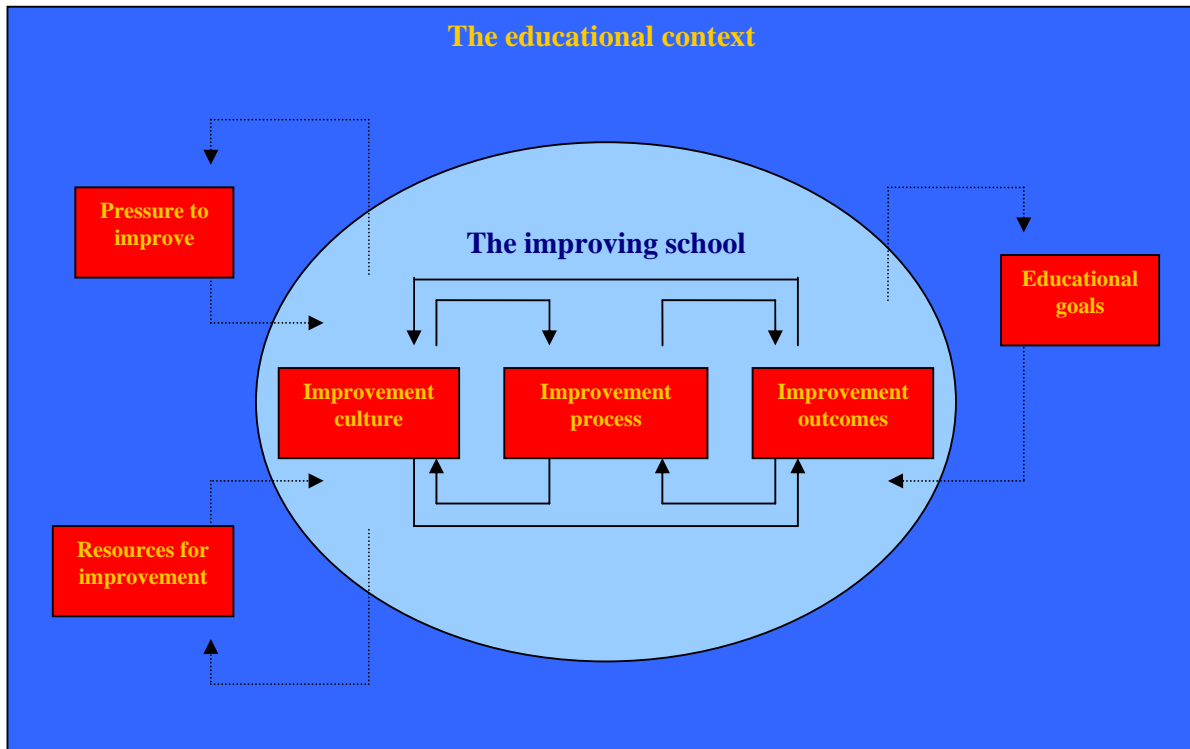
Whether the colleges have potential to participate and benefit from extended collaboration and business activity is not only depending on infrastructure and staff capacities, however also on the state of the organizational capacity of the colleges. However, the organizational capacity of the VET colleges is not in an actual state to support any significant changes, and this is why also the organization of each college has to be improved, separate and as part of a Cooperation .

Intensive studies have been carried out recent decade to develop conceptual framework models and studies in practise on, what factors is in play, when schools is in situation of change in order to improve there undertakings. Though most such studies focus on general education institutions, the resulting framework models are of relevance for “schools” in general, whatever these provide general or specialist education and on whatever level. Hence, though the framework model selected for this assessment was developed with a focus on general education, examples from vocational education are also included in the discussion of the various factors, since the researchers did comprehend their model not only of relevance for general education institutions.

The selected framework model does not provide in itself answers to what combination of factor are more critical, however a list of factors all of relevance and much suitable as a check list for any assessment of the potential for improvement, including for assessments by the college itself.

The model is theoretical based on contributions from more part of Organization Theory, in particular Open System Theory, Contingency Theory, and Theory on Learning Organizations. The main factors and their interrelations are presented in Diagram 5-i.

Diagrame 5-i. Framework model on School Improvement



The main framework factors and their various sub-factors are outlined in Table 5-c, including explanatory notes in order to customize the model for assessment of VET colleges.

Table 5-c. Main and sub-factors of framework model customized for VET colleges

Factors in Theory			
Code	Name	Explanation	
1	Context factors	In principle the college can improve on its own, however in practise improvements are responses to external pressure, and can not be implemented without external supply of resources	
1	Pressure to improve	Pressure can be direct by identifiable parties, however also more indirect constraints by changes in society at large	
	1	Market mechanism	Pressure due to competition from other actors on the various markets in which the college is offering its services is not supportive for improvement in itself, however an impetus for improvement initiatives by the college
	2	External evaluation and accountability	Evaluations of student outcomes or institutional functions and procedures by superior educational authorities may be supportive in themselves if carried out for guidance, whereas if carried for control with a risk of sanctions, the evaluations will be an impetus for improvement initiatives, however not supportive.
	3	External agents	Pressure in the form of ideas for improvement by various educational experts may be both supportive and an impetus for improvement, however dependent on what status “external expertise” are given by the college
	4	Participation of society	The development of society at large is an impetus for improvement, in particular in periods of more significant growth or recession in the market economy of trade and industry. The extent to which such development it is also supportive for college improvement is dependent on the extent to which the educational requirement of such economies are clarified
2	Resources for improvement	Resources can be material in the form of physical infrastructure/equipments, human and credit/cash, however also non-material support from the college stakeholders	
	1	Autonomy granted to schools	Autonomy can be in one or more domains of educational goals/means, organisation/staff, management, administration, and finance. Autonomy is no sufficient factor in itself to support college improvement, however the absence of autonomy in any domain is a strong constraint on improvement.
	2	Financial resources and favourable daily working conditions	Sufficiency of budgets for educational means and number of available teachers are much supportive conditions for college improvement
	3	Local support	Support by the College Board and local community can be much supportive due to possible direct influence on the goal setting of the college
3	Educational goals	Goals defined by the college for the improvement has to fit with the wider educational goals defined by central government	
	1	Formal educational goals in terms of	Improvements by the college are dependent on whether the goals for student outcomes are defined by the superior educational authorities in

		student outcomes	either flexible or non-flexible way. Hence, flexible definition of legitimate IGA's is most probable also supportive for improvements by the college.
2		College factors	This is the college internal improvement factors. They are interrelated and constantly influence each other.
	1	Improvement culture	The improvement culture of the college is the set of factors which are experienced to be the foundation for improvement processes
	1	Internal pressure to improve	By their practise of education and related activities the college staff can recognize unsatisfactory outcomes, and hence be motivated for improvements
	2	Autonomy used by colleges	Though autonomy in one or more domain may be granted by superior external authorities, such grant is in practise not always utilized by the college. Hence, such utilization is important to avoid constraints on improvement.
	3	Shared vision	The existence of a shared vision among staff on what goals the college is trying to achieve is important, since else the recognition of deviation from goals is not possible, and consequently identification of purposive improvements not either.
	4	Willingness to become a learning organisation	The extent to which the college is/willing to become observant and reflective to changes in its context is a much important condition for improvement.
	5	Training and collegial collaboration	Training and other activities to establish/sustain a learning and collaborate capacity in the college is over time supportive for improvement
	6	Improvement history	Experiences from previous improvement activities by the college are supportive on how in practise to carry out improvements, and also motivating for improvements depending on the success of the previous case.
	7	Ownership of improvement	The feeling of ownership is a much important condition for improvement, and hence much important to what extent the staff is motivated and committed for the improvement in question
	8	Leadership	Without good personal leadership any improvement is hardly possible. Hence, it is much important that the leader is capable and supported by a culture that accepts leadership.
	9	Staff stability	Improvement is neither facilitated by a high staff turnover, nor by an all static staff capacity, whereas a balance of new and established members of staff is required.
	10	Time for improvement	Improvement is facilitated by the allocation of additional time to members of staff who participate in improvement processes.
	2	Improvement process	Depending on the college culture, improvement processes are either handled as discrete events or as on-going processes to be handled in parallel to ordinary daily work. Though stages in the processes are identifiable, the processes are iterative, and that is why more stages may be passed one or more time. Not moving in circles, however following a spiral cycle with the implication that each stage are passed again only on a higher level of knowledge.
	1	Assessment of improvement needs	The improvement process has to start at 1 st stage with a justification that improvement is required, that means an outline of the gap (if any) between what the college is actual achieving and what it is supposed to achieve (e.g. by Review and Gap Analysis).
	2	Diagnosis of improvement needs	In the 2 nd stage, the gap has to be analysed to outline problems and their probable interrelations and causes in order to identify the main

			problem(s) and more convenient point of intervention (e.g. by Problem Mapping and Point of Intervention Analysis by use of Likert's Change Model).	
		3	Phrasing of detailed improvement goals	In 3 rd stage goals has to be defined for the required improvement, that means what should be the output and outcome of the improvement process, and what kind of resources are required (e.g. by Logical Framework Analysis)
		4	Planning of improvement activities	In the 4 th stage, an Activity Plan has to be prepared, including definition of activities which is anticipated to meet the objectives, that means which activities has to be initiated in what period and by utilising of how many resources (e.g. by support of MS-Project)
		5	Implementation of improvement plans	In the 5 th stage, the planned activities has to be carried out, and the plan adjusted in case it turns out to have unanticipated consequences (e.g. by support of FMS and M&E system)
		6	Evaluation	In the 6 th evaluation has to be carried out in order to assess to what extent goals for improvement have been achieved or not (e.g. by support of the M&E system in such was established in implementation stage). In case of more significant under achievements, the stage 2 to 4 can be repeated for the remaining gap in order to plan for supplement gap-filling. For ownership and motivation reasons, self-evaluation by the college is more supportive for improvements ahead than evaluations by external experts. However, in case the college will utilize an evaluation as an argument in discussion with superior authorities, the method of evaluations has to meet also external requirements (e.g. use of performance indicators accepted upfront by the superior authority)
		7	Reflection	Since the evaluation does generate much valuable information on the college and its context, the evaluation reports is much convenient as an outset for a 7 th stage including reflections on the improvement process completed (can we do it better next time?) and also on ways forward for the college at large, that means a catalogue of possible improvements for more close consideration ahead. In case of self-evaluation, the reflection is more convenient part of the evaluation stage, however in case of external evaluation necessarily a succeeding and separate stage.
	3		Improvement outcomes	The level of goal specification is important for improvements, because more vague and unclear formulations of goals provides inadequate and in worse case even misguidance for the improvement efforts of the college.
		1	Goals specified in terms of client outcomes	For educational activities equal to the outcomes of students and listeners, and for other activities the outcomes for the clients in question.
		2	Goals specified in terms of change in means of activity	Changes in the means of educational and other activity, including the structure and technology and staff components of the college.

5.2. Development of Non-Core Businesses

5.2.1. Generation of non-core business ideas

To get started with the development of new or extended non-core businesses it is convenient to establish a brain-storming for the entire college staff with the purpose to uncover ideas for such businesses. By experience members of staff may in some cases be in possession of more exceptional competences (e.g. some technical or creative capabilities) of which the management is not familiar with, because they were never required in the current college business. This is why it is important not to restrict the staff participation in brain-storming exercise. Moreover, a broad participation is in itself supportive for organizational improvement.

The more convenient technique is to map all generated ideas on a flip-over, and moreover to combine and exclude to the extent that ideas are linked or overlapping. The latter logical analysis can be elaborated after the joint session when more time is available, and this way resulting in a more concentrated list of specified business ideas.

5.2.2. Pre-selection of non-core businesses

However, the list of business ideas resulting from the brain-storming is listing all ideas without any indication of potential, and this is why analysis is required for pre-selection of the more potential non-core business ideas.

The more convenient technique is SWOT-analysis of each non-core business idea. By the SWOT analysis assessment is made in regards to whether the college is in possession of strong or weak internal attributes in regards to operation of the business idea in question, and whether the college environment includes attributes, which implicate either opportunities or threats to such operation.

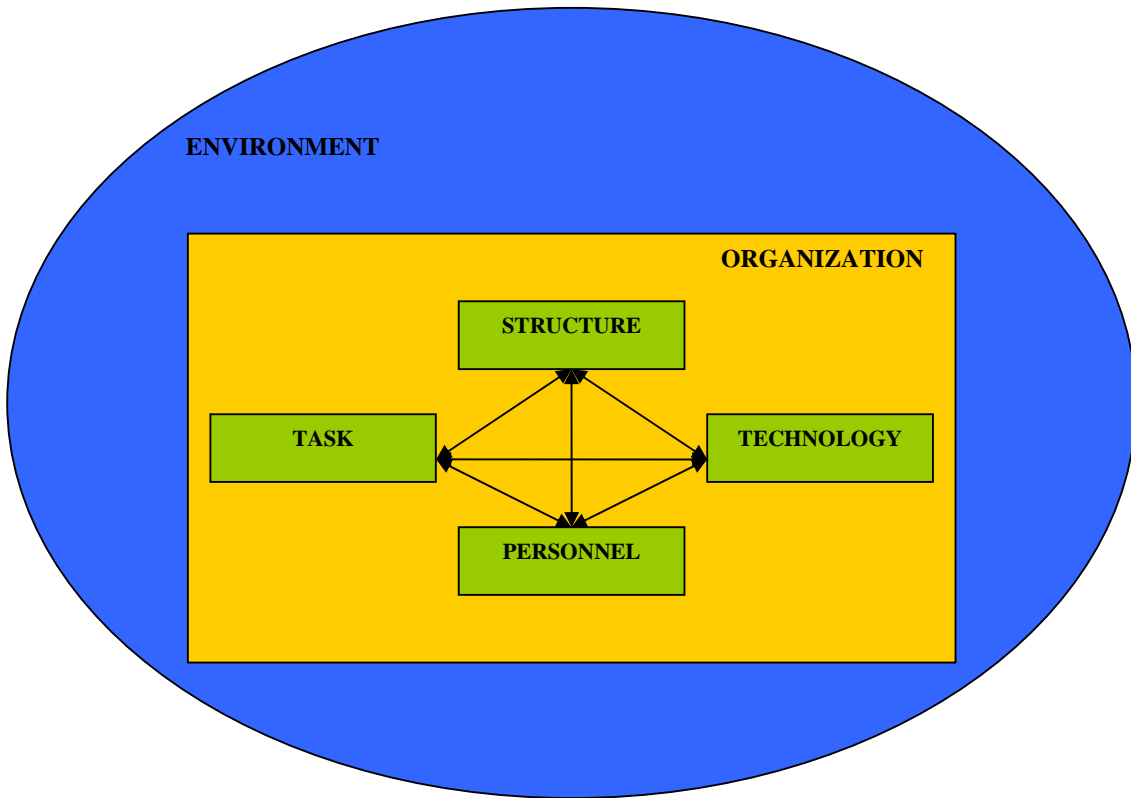
The said four main parameters in the SWOT model, including outline also of the various sub-parameters are outlined in Table 5-d.

The internal attributes in the outlined SWOT model is based on Leavitt's basic, however much recognized "organizational change model" presented by its main parameters in Diagram 5-j.

Table 5-d. The SWOT model with main and sub parameters

	<p style="text-align: center;">HELPFUL to achieving the objective</p>	<p style="text-align: center;">HARMFUL to achieving the objective</p>
<p style="text-align: center;">INTERNAL (attributes of the organization)</p>	<p style="text-align: center;">STRENGTHS</p> <p style="text-align: center;">Due to state of/change in:</p> <ul style="list-style-type: none"> • Tasks <ul style="list-style-type: none"> ○ Services & Products ○ Work loads • Structures <ul style="list-style-type: none"> ○ Goal statement ○ Plans & Budgets ○ Authority hierarchy ○ Division of labour ○ Lines of communication • Technologies <ul style="list-style-type: none"> ○ Buildings ○ Inventory ○ IT ○ Work methods ○ Work procedures • Personnel <ul style="list-style-type: none"> ○ Values & Attitudes ○ Work culture ○ Group behaviour ○ Knowledge ○ Skills ○ Motivation ○ Learning ability 	<p style="text-align: center;">WEAKNESSES</p> <p style="text-align: center;">Due to state of/change in:</p> <ul style="list-style-type: none"> • Tasks <ul style="list-style-type: none"> ○ Services & Products ○ Work loads • Structures <ul style="list-style-type: none"> ○ Goal statement ○ Plans & Budgets ○ Authority hierarchy ○ Division of labour ○ Lines of communication • Technologies <ul style="list-style-type: none"> ○ Buildings ○ Inventory ○ IT hard/software ○ Work methods ○ Work process • Personnel <ul style="list-style-type: none"> ○ Values & Attitudes ○ Work culture ○ Group behaviour ○ Knowledge ○ Skills ○ Motivation ○ Learning ability
<p style="text-align: center;">EXTERNAL (attributes of the environment)</p>	<p style="text-align: center;">OPPORTUNITIES</p> <p style="text-align: center;">due to state of/change in:</p> <ul style="list-style-type: none"> • Demographics • Socio-culture • Economy • Ecology • Technology • Government • Labour market • Financial market • Supplies • Competition 	<p style="text-align: center;">THREATS</p> <p style="text-align: center;">due to state of/change in:</p> <ul style="list-style-type: none"> • Demographics • Socio-culture • Economy • Ecology • Technology • Government • Labour market • Financial market • Supplies • Competition

Diagram 5-j. The organization Components and Environment



In Table 5-e is moreover presented a format with an example (printing service) for guidance on how to use the SWO model in practise for assessment of each non-core business idea.

Table 5-e. Model for SWOT analysis of each non-core business

	HELPFUL to achieving the objective	HARMFUL to achieving the objective
INTERNAL (attributes of the organization)	<p>STRENGTHS</p> <p>List the characteristics, which strengthen the one service in question (e.g. printing service):</p>	<p>WEAKNESSES</p> <p>List the characteristics, which weaken the one service in question (e.g. printing service):</p>
EXTERNAL (attributes of the environment)	<p>OPPORTUNITIES</p> <p>List the characteristics, which increase the opportunities for the one service in question (e.g. printing service):</p>	<p>THREATS</p> <p>List the characteristics, which increase the threats for the one service in question (e.g. printing service):</p>

Finally, the Table 5-f outlines how the SWOT model can be used also for assessment of interdependencies between the main parameters, e.g. by the assessment on how the found attributes of strength for the business idea in question can be used to take advantage of the opportunities and reduce the threats.

Table 5-f. SWOT-model for assessment of interdependencies between the main parameters

	STRENGTH	WEAKNESSES
OPPORTUNITIES	How can these strengths be used by the college to take advantage of the non-core business opportunity?	How can the college overcome the weaknesses that prevent the college to take advantage of the non-core business opportunity?
THREATS	How can the strengths be used by the college to reduce the likelihood and impact of these threats?	How can the college address the weaknesses that will make these threats a reality?

5.2.3. Evaluation and ranking of the pre-selected non-core businesses

Some ranking of the various non-core business ideas is possible from the qualitative SWOT analysis, however a supplement quantitative evaluation and ranking is much convenient.

Hence, for each business idea the expected cash-flows of income and required operational cost and capital investment to be estimated.

A format for recording and analysis of the estimated flows are presented in Table 5-g.

The more convenient finance performance indicator for support of the final evaluation and ranking is the Financial Internal Rate of Return (FIRR). If the format and recorded figures are copied to an Excel spread-sheet, the FIRR can be calculated by the system. The mathematic definition of the FIRR indicator can be looked up in Excel under Finance indicators.

The FIRR is a percentage, and for viable businesses the FIRR should be no less than 0, or in other words always positive. The ranking of the viable business ideas are simply based on the relative size of the FIRR. Larger percentage implicates higher ranking than lower percentages.

Table 5-g. Cash-flow-model for quantified evaluation of each non-core business

	Year 0	Year 1	Year 2	Year 3	-----	-----	Year n	Total
Income from service sale		+	+	+			+	+
Subsidies & other income		+	+	+			+	+
Cash-in-flow :		+	+	+			+	+
Direct service cost		-	-	-			-	-
OH-cost on service		-	-	-			-	-
Capital investment	-							-
Interests & fees on loan		-	-	-			-	-
Maintenance & Repair		-	-	-			-	-
Cash-out-flow :	-	-	-	-			-	-
Total Cash-flow :	-	+	+	+			+	+
NPV of Cash-in-flow :		+	+	+			+	+
NPV of Cash-out-flow :	-	-	-	-			-	-
Total NPV of Cash-flows	-	+	+	+			+	+
Years of capital recovery								+
FIRR of Net Cash-flow (%)								+

5.2.4. Preparation of business plan

For more cost intensive business ideas, which requires external co-financing (e.g. a loan from a private bank or a guarantee by the government) it convenient also to prepare a Business Plan.. Moreover, Business Plans is supportive also for internal approval by the College Board, since it does include also information required for proper decision-making.

Outline on the preparation of a Business Plan for one business idea in question is presented in Table outlined in Table 5-h.

Table 5-h. Business Planning

1. The purpose of Business Planning
When a company or in this case the COOPERATION OF COLLEGES is applying for external financing of an investment (e.g. by private banks or international donors) a Business Plan is normally required to make the argument for such financing. Besides, it is comprehensive for internal management purposes in general to prepare/adjust a Business Plan regularly (e.g. per four-year period).
More parts of the Business Plan are probably prepared anyhow each year by ordinary procedures (e.g. budgets), however in the Business Plan they are presented in a more broad and longer perspective, and the edition of the plan to optimise the external party comprehension of the company in general and the plan investment in particular. Hence, by preparing the Business Plan it should always be assumed that the external party is not familiar with the company at all on

beforehand. Finally, combined budgets have to be prepared anyhow for the cooperative activities, and the Business Planning is a condition for proper budgeting.

2. Preparing the Business Plan

Though Business Planning is not a standardized procedure, the final content of Business Plans are found to be quite similar and hence all approaching the content the external financing parties will expect.

Business Planning is so far mostly practised in Private businesses and hence more planning concepts may be found to much private business like (e.g. the marketing sections) for the public institution or private association. However, they are useful for all businesses and by small adjustments also to be implemented in the public institutions and private associations.

In the sections below the content and preparation of a typical Business Plan (hereafter BP) are outlined, including recommendation in particular for the COOPERATION OF COLLEGES Business Planning.

3. Executive Summary

The summary to be presented in the first section of the BP is a short extract of the entire BP, however to be formulated in a way highlighting clearly the key arguments for the external party to approve the applied financing. Though restricted to no more than 2 to 3 pages the Summary should include sufficient extracts from the BP to make itself a stand alone document. It should be kept in mind that the Summary is the first impression of the COOPERATION OF COLLEGES business and maybe the only part of the BP ever to read by the top management of the external party, since the following BP sections in more detail are probably only to be studied at executive levels.

4. Table of Contents

The BP section numbers/titles and page numbers

5. Vision and Mission

Vision

Describe the ideal COOPERATION OF COLLEGES set of goals never totally to realised, however indicating the direction of the COOPERATION OF COLLEGES business development on long-terms. In other words the COOPERATION OF COLLEGES dreams for the future.

The set of goals should include all aspect of the COOPERATION OF COLLEGES business (e.g. services and technology and organisation and finance).

Mission

Describe the COOPERATION OF COLLEGES set of goals assumed actual to be achievable on long-terms. In other words how far the COOPERATION OF COLLEGES actually intend to develop itself within a time horizon of around 12-15 years. The mission should be described in relation to the vision, that means setting achievable goals on the same set of goal dimensions.

6. Company Description

Describe in general terms

- Who the COOPERATION OF COLLEGES are (the institutional set-up)
- What do the COOPERATION OF COLLEGES do (products/services)
- Where do the COOPERATION OF COLLEGES come from (history, if any)
- Where do the COOPERATION OF COLLEGES intend to go in the future

Hence, in general terms the following aspects should be part of the description.

Legal Description

Describe the formal statute of the COOPERATION OF COLLEGES.

History of the Cooperation and it's members

In particular relevant if like in the actual case the COOPERATION OF COLLEGES is established including some components from previous institution (i.e. agreements on cooperation or eventually taking-over assets or institutions). Moreover, in the years to come of cause the COOPERATION OF COLLEGES will over time establish it's own unique history. The history is not to be told in detail, however concentrating on the milestones of the COOPERATION OF COLLEGES.

Current Status

- Describe briefly the actual status of the COOPERATION OF COLLEGES, i.e.
- Location of colleges/units included
- Institutional and technical capacity
- Number of customers
- Quantity of supply
- Key financial figures
- On-going development projects, if any

Besides describing this way the actual capability of the COOPERATION OF COLLEGES also the weaknesses and problems recognised should be described in order to demonstrate that the COOPERATION OF COLLEGES management are aware of key factors constraining the business, and hence the capability of the managers to act as such.

Future goals

Present in detail the COOPERATION OF COLLEGES business goals on short- and mid- and long-terms, that means respectively in a 1 and 3-5 and 12-15 years perspective. Describe in particular how the planned investment is expected to support the achievement of the goals presented.

7. Product and Service

Describe the services actual provided and/or implied by the planned investment, including

- What kind of services are (to be) supplied (i.e. short- courses)
- To whom
- In what quantities and qualities
- In how many hours per day
- Institution and technology required to ensure the service provision

Moreover, describe the process by which the services are (to be) provided.

Finally, describe how customer are/will benefit directly and indirectly from the service supply.

8. Business Analysis

The purpose of this section is to describe the growth trends in the business (i.e. the short course business) in which the COOPERATION OF COLLEGES is operating and to identify and make assessment of factors implying either growth or constraints in this business.

Consequently the COOPERATION OF COLLEGES in its analysis should focus in particular on,

- What is the actual size of the actual COOPERATION OF COLLEGES business (i.e. in billed revenue or course-day-seats)?
- What has been the previous growth trend in the business (only of relevance in future BP's)?
- What is the expected growth in the COOPERATION OF COLLEGES business (i.e. in billed revenue or course-day-seats)?
- What factors are influencing growth or decline in the business?
- What actual and expected government regulations influence the business growth?
- What role does technology play in the business now and ahead?

9. Target Market

Define the COOPERATION OF COLLEGES potential market and the COOPERATION OF COLLEGES target part of this market on short and middle and long-terms, in particular

- Number of actual and potential customers per category (i.e. households and businesses)
- Characteristics of each customer category (i.e. household income and business revenue)
- Geographical distribution of the actual and potential customers
- The customer service preferences and their alternative supply, if any

10. Marketing Plan

This section will deal with the preparation of a marketing program to reach the customers in the target market. Hence, the program should state the COOPERATION OF COLLEGES politics in particular on,

- Services (what service standards can be expected)
- Fees (on what principles and levels will the tariffs be set)
- Billing and Collection (what measures will be taken against bad debtors)
- Customer relations (how will the customers be informed and ensured influence on the COOPERATION OF COLLEGES decision-making)
- Finance (what return will be required on investments)

Moreover, the program should define the activities planned to communicate the politics (printing materials and meetings).

11. Competition

Assessments should be made on the kind and extent of competition, including:

- Who are the competitor(s)
- What are their key service products
- What part of the market segment have they each conquered
- Is competition stable or getting more tense/weak
- Are there any opportunity and benefit by cooperation with competitor(s)

12. Operations Plan

Describe the operations plan for the business of the COOPERATION OF COLLEGES, including the operation of actual capacities and planned extensions/rehabilitations.

Location

Describe where the main capacity components are/will be located (Illustrated by drawings on a map)

In cases of new or extended capacities make arguments why this location is found more convenient than alternative locations

Capacity

- Describe the capacity components and their combination in to one supply system (i.e. course development, marketing, customer order, logistical support, training, evaluation, billing & collection, accounting)
- How are the new system components (if any) to be established/rehabilitated (i.e. engagement of constructors and purchase from equipment suppliers)
- What will be the cost of the new or rehabilitated parts (if any) of the system
- What will be the supply capacity (quantity and quality) of the entire system before and after extension/rehabilitation (if any)

Capacity O&M requirements

Describe the various kind and quantities and cost of resources required to ensure current operation and maintenance (O&M) of the entire capacity per annum, including separate the actual and new/rehabilitated capacity parts.

For the labour resources required describe in more detail,

- Number of employees in total and per O&M function
- Number of employees per skill category required
- Salaries per category required
- Distribution of full-time and part-time employees
- By which method are employees recruited

If the requirement of resources for O&M are expected to vary over time a schedule presenting annual O&M cost estimates 3 to 4 years ahead should be added.

Capacity O&M process

- Describe the process of current service production (i.e. from customer order to execution of training course)
- Describe the process of preventive maintenance and faults repair (e.g. replacement of not available teacher or repair of training equipment)
- Describe the process of quality control (i.e. course evaluation)
- Describe the process of billing and collection

- Describe the process of budgeting, fee setting, and accounting
- Describe the process of store handling (i.e. training materials)

13. Financial Plan

The standard financial statements outlined below must be included.

Income statements

- Annual accounts (if any) for the last 3 years
- Quarterly budget for year 1
- Annual budgets for year 2 to 4

Balance sheet statement

- Annual accounts (if any) for the last 2 years
- Quarterly budget for year 1
- Annual budgets for year 2 to 4

Cash-flow statement

- Quarterly budget for year 1
- Annual budgets for year 2 to 4

The assumptions made to calculate the various budgets must be added to each statement.

When the COOPERATION OF COLLEGES has been into business for 3 to 4 years a few key standard financial ratios should be calculated to illustrate the actual performance development.

Sources and use of funds

Moreover the Financial Plan must include a schedule presenting the expected balance of sources and use of funds for year 1 to 4, including

- Sources of funds (i.e. COOPERATION OF COLLEGES constituency capital and net profit from operation and grants and loans)
- Use of funds (i.e. asset extensions and working capital improvement)

Investment plan

Finally, the Finance Plan must include the COOPERATION OF COLLEGES investment plan and objectives, in particular a plan in detail for the one investment which may be the primary purpose of the of the BP preparation in case external financing is to be applied for.

In that case a net cash-flow forecast in a 15 to 20 year perspective must be estimated and the financial internal rate of return (FIRR) on the investment calculated.

Assumptions made to prepare the net cash-flow forecast must be added.

12. Management

Describe in summary the overall background of the COOPERATION OF COLLEGES board members.

Describe in more detail (specification at normal CV level) the professional background of the general manager appointed by the COOPERATION OF COLLEGES.

Notice name of auditing and consulting (if any) businesses assisting the COOPERATION OF COLLEGES

14. Critical Risks

To show that the COOPERATION OF COLLEGES board and general manager are capable to recognise and respond in due time to changes in the COOPERATION OF COLLEGES business environment,

- Identify the factors most critical to the COOPERATION OF COLLEGES business
- Describe worse case situations in which these factors turns out badly and estimate roughly the risk of their occurrence
- Present plans in summary showing how the COOPERATION OF COLLEGES will respond to such cases

15. Exit Strategy

In the final section of the BP the strategy of the COOPERATION OF COLLEGES business must be presented in summary in a longer perspective than the BP's 3 to 4 year perspective. If the COOPERATION OF COLLEGES is preparing the BP to support an application for a loan the perspective of the strategy should not be less than the loan pay-back period in order further to convince the external investor that he will most certain get back his money. In the COOPERATION OF COLLEGES business strategies should be prepared in a long-term perspective since infrastructures are not changed over night and loans are often provided on long-terms. Hence, in general the COOPERATION OF COLLEGES is recommended to include strategies on long-terms (around 12 to 15 years).

In the strategy the COOPERATION OF COLLEGES should,

- State its long-term goals
- Make assessments on the probable development in the environment factors on which the COOPERATION OF COLLEGES business growth is dependent
- Present in summary a plan of activities over time (i.e. in periods of 4 to 5 years) which is expected to make the COOPERATION OF COLLEGES business to approach its long-term goals taking into consideration also the anticipated changes in the environments

16. Appendices

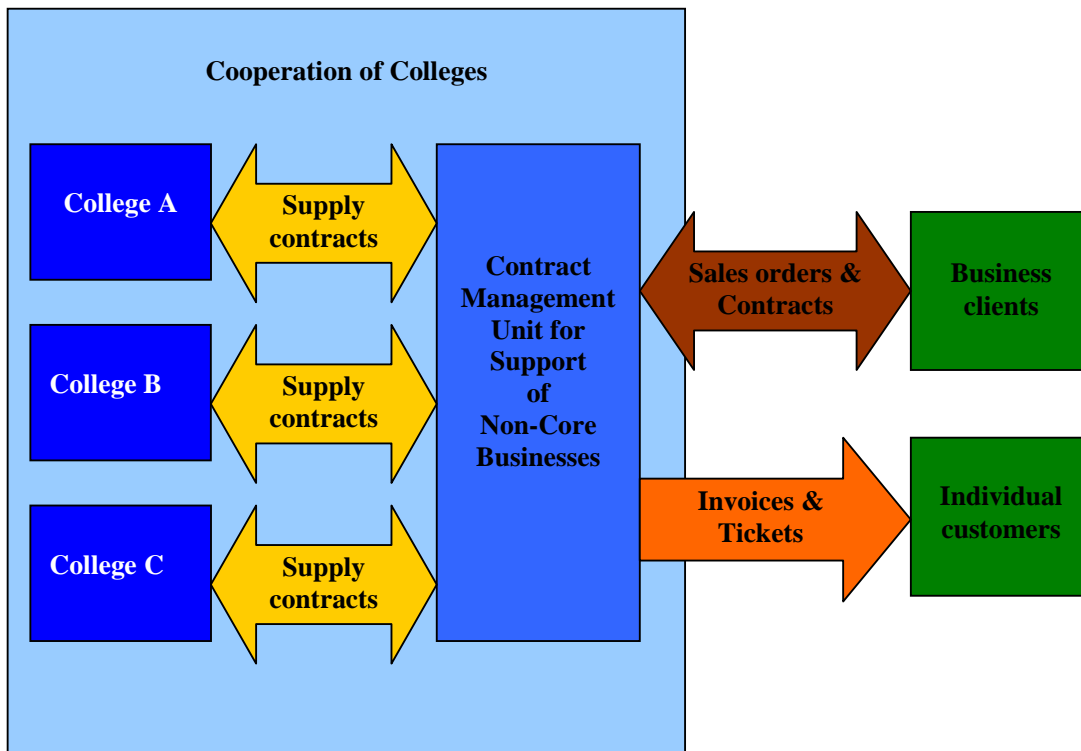
To ensure comprehensiveness the BP should not include too many details. Hence, when information in detail are only of relevance for documentation purposes, this should be included in the appendices to be referred to in the BP text.

5.2.5. Establishment of a Contract Management Unit for Non-Core Businesses

The Marketing & Communication unit (MCU) recommended in a previous section are to support in particular the marketing of the businesses of the Cooperation, however in case more extensive non-core business is initiated it will be much convenient also to establish a Contract Management Unit (CMU) for joint support of non-core businesses. Neither the marketing carried out by the MCU, nor the production of the service in question, however support on the management of production and delivery. Except for more process oriented internal business (e.g. the coffee machine) the management of production and delivery is more comprehensive based on contracts, including contracts of delivery with the customer and an internal contract with the Cooperation unit to produce the service (e.g. a consultancy task). The recommended contract management setup is outlined in Diagram

The CMU has to work close with the MCU, and hence also to be located at the site of the Coordinator of the Cooperation.

Diagram 5-k. Contract management of non-core businesses of the Cooperation



5.2.6. Preparation of marketing plan for non-core businesses

As a guidance for the marketing at operational level it is convenient to prepare a Market Plan for each non-core business, which do required more intensive marketing activity.

The preparation of a Market Plan is outlined in Table 5-i.

Table 5-i. Preparation of Market Plan

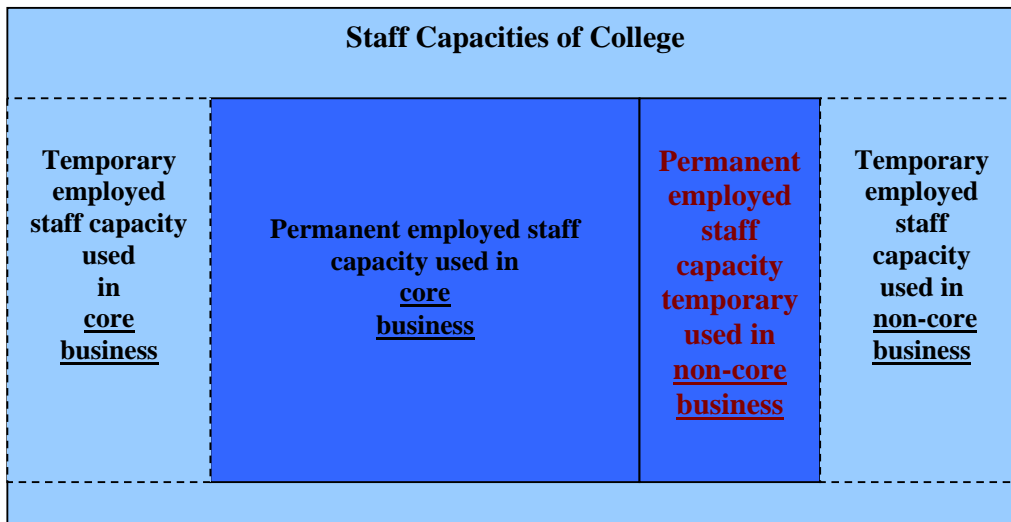
Planning activities	Explanation
Mission statement alignment	Expression of the “raison d’etre” of the college by set of visionary statements on the purposes, businesses and values of the college, to which the college management and staff can align themselves
Situation analysis	Review of the college’s environment, product, demand, competition, intermediates
Product	Specification of the product to be marketed
Marketing Program	“The 4 P” assessment (Product, Price, Place, Promotion)
Targeted segments	Defines the segments in the various business markets with needs/expectations, which the college is to target/fit. That means groups of customers with certain characteristics (e.g. location, age, sex, ethnicity, income, private companies, public institutions, major employers) and their identified needs/expectations
SWOT analysis	Analysis of the opportunities, threats, strengths, and weaknesses of the college
Objectives	Specifies the revenue that the college is trying to achieve accordingly to the business volume, market segment and profit
Implementation/communication strategy	Plan in operational terms per marketed programme service on what should be done, when, why, and by what means, and the given budget. E.g. define convenient/affordable communication channels like, <ul style="list-style-type: none"> • Website • Bulletin boards on the college premises • Newsletters • Public service announcements • School promotion meetings with potential customers (students/parents, local community and business representatives, etc.) • Promotion at and through the feeder schools • Direct mailing & telephone calls • Support of Mouth-to-Mouth exchanges • Radio/TV spots • Attend neighbourhood/civic functions and events • Database with information on actual and potential customers, incl. records on each marketing contact with the customer for more efficient follow-up
Evaluation	Marketing is an on-going process, and that is why the outcome has current to be investigated by sales statistics and recording of customer responses (e.g. evaluation of training courses by questionnaires)

5.2.7. Adjustment of terms for staff participation in non-core business

The purpose of introduction the non-core business in the more developed countries of Europe was initial to generate income by use of the “slack” capacity (marginal not utilized capacity), which is unavoidable in any organization. Hence, the financial management of the colleges by central government is usually based on annual standard units of budget and staff, however these are only making a conditional framework for the current and more detailed practise. Hence, to some extent the college manager can find staff hours not in use and already paid for. This is critical, since else most income from non-core businesses will be “eaten” by the salary expenses, because in service business like education and training the all dominant expense is salary.

The more convenient management of the utilization of staff capacity in regards to core and non-core business is outlined in Diagram 5-1.

Diagram 5-1. Convenient use of staff capacity in regards to non-core business



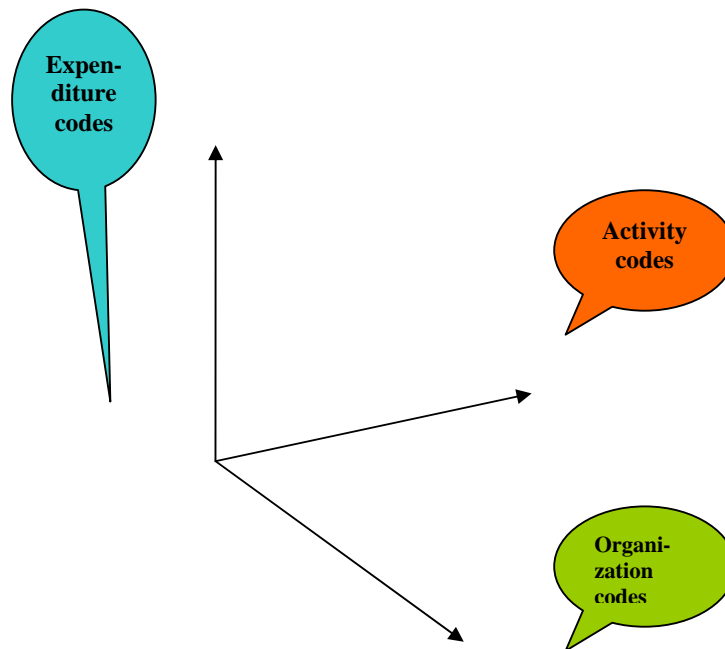
In the VET colleges in Armenia a separate agreement/practise has been established for core staff participating in non-core businesses. This is not convenient, since hours spend on such business activity to some extent can be considered already paid for as part of the payment for the core business undertakings. Moreover, even agreements on payment for core business usual include agreement on payment for extra hours by management approval, and hence much inconvenient to introduce separate agreement/practise probably with per hour rates at more extended level.

5.2.8. Setup non-core business accounts

The introduction of Activity Based Budgeting and Control are required for support of the financial management of the COOPERATION OF COLLEGES, in particular for support of the full-cost charging of short courses and other non-educational services.

Hence, registration on kind of income/expense and activity required. Moreover, due to the combining of more organizational units in the COOPERATION OF COLLEGES the identification of the budget responsible/spending unit is also required. Consequently, the required Chart of Accounts will be 3-dimensional like illustrated in Diagram 5-j.

Diagram 5-j. Dimensions of Accounts



The **Expenditure codes** are given by the existing Chart of Accounts authorized by government. This dimension is also including codes for the various income, including possible separation of income from State budget and from other sources.

The structure of the **Activity codes**, and partly also the code numbers, are given by the existent codes of standardized specialties, however to be supplemented also with code numbers for non-core education and other businesses

Organization codes to reflect the organizational hierarchy, and this way support the identification of organization unit authorized/responsible for the budget release, and also the organizational unit,

which receives the purchased capital items and supply of goods and services for storage or consumption, e.g. including code levels for:

- The individual colleges in the cooperation (level 1)
- The individual college departments (level 2)
- The individual sections of the college departments (level 3)

More computerized standard accounting system packages for desk-tops are available in the market (also e.g. in Russian), which is prepared for such multi-dimensional accounting and reporting. Introduction of such modern accounting system is also supportive for rationalization of the administrative staff, and in case the system is designed and implemented for operation in the joint Cooperation units and in each collaborating college, most probably the investment can be balanced by rationalization of the administrative staff. Finally, operational service, license provision, and consultancy service for such system might be a potential non-core business in itself.

6. Way forward

The more convenient way forward is for each pilot VET college to arrange an internal 1-day seminar with participation of the entire staff for presentation and discussion of the IG Model.

Based on such seminar discussion, the College Boards are to decide to what extent, when, and by start at which component of the model, the college will engage itself in the implementation of the IG Model.

It would be convenient if the National Centre for Vocational Education and Training Development (NCVETD) of Armenia could facilitate the seminars, and moreover support by college request on selected IG-Model implementation activities.
