

HUMANE

Heads of University Management & Administration Network in Europe

SEMINAR

Funding Sources

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Budapest University of Economic Sciences and Public Administration (BUESPA)

ABSTRACTS AND SUMMARY OF DISCUSSION

Decentralization and Internationalization: The Effects of Financial Systems on Academic Activity

Csaba Forgacs: Vice-Rector, BUESPA

Csaba Forgacs gave an overview of the Hungarian system, explaining that as a result of a new law, the number of Higher Education Institutions (HEIs) had been reduced from about 90 to 25, with effect from 1 January 2000. Parallel with these mergers, and in addition to academic freedom, the government wanted to give more freedom for faculties to finance their activities. For this transitional year 90% of the budget provided by government was to be allocated among the Faculties within the institution. Only 10% of the budget could be used by the central units (Rector's office, Secretariat of Vice-Rectors, Finance Department, International Relations, Central Administrative Office for students).

Different universities were trying to find their own way in the new financial system. There was some variation between institutions as to what counted as the "Centre" (for example, the Finance Department might be included or not). It was a major challenge for HEIs to know how to work under the new budget allocation system, and how the element of centrally-managed international cooperation (student exchanges) should be decentralised. His presentation focused on how the new system affects academic/student exchanges.

Csaba explained that since government money was about 65% of the total income, the remaining 35% could be applied in any way. He also explained how financial devolution was now operating, with a

50% reduction in central costs for membership fees and total devolution of the travel budget. The biggest changes were that government formula funding for students now went 90% to Faculties instead of just 2%, while funds from the leasing of rooms and equipment went 100% to the Centre, rather than the previous 30%. Other shifts were much more marginal. Such changes could have a massive impact on the activity levels of individual departments, with Faculties suddenly more empowered.

There were several channels through which internationalization of academic activity could be supported – not least, grants under the ERASMUS scheme. However, increasingly students themselves had to contribute to the costs of their study abroad. In the light of such changes Csaba raised the question of a need for a new strategic direction and plan, to establish a proper position for international activity. For example, what system for financing internationalization will be preferred by the Faculties? To what extent should the jobs of the International Relations Office be decentralized? Which activities still have to be managed centrally? What strategies would the Faculties find appropriate to support international academic activities, notably the inter-university “Masters” agreements?

Finally he pointed out that in order to finance “central” activity, new forms of financial support were needed. Despite rigorous selection process the recent increase of student numbers (by 60% or 70%) meant that universities had had to use money intended for maintenance on teaching and research. This had led to an expenditure freeze in some areas of routine maintenance.

Financing Models as a Tool for Modernising Hungarian Higher Education

György Bazsa: Pro-Rector, University of Debrecen

This presentation outlined the various ways in which different models of financing can be used to bring changes to a national system. It dealt with the main tasks for the Hungarian HE system, and the main ways in which funding is assured.

Professor Basza noted that the income for universities in Hungary (171 million HUF) led to matching expenditure of 171 million, with 86m on staff and 63m on running costs. There was discussion of the fact that this ratio of about 50% on staff was considerably lower than in a typical West European university, and an explanation was given that staff had two or three jobs, supplementing low university incomes by teaching elsewhere (sometimes in private institutions). This partly explained the SSRs of 12:1, which by Western standards seemed quite favourable. He noted that the number of students had increased three-fold in the last ten years. His own view was that common sense would indicate that quality must decline with greater numbers if there were no increase in funding.

Professor Basza set the context whereby the number of universities had been reduced by means of mergers. He gave his view of HE as producing a skilled labour force, integrating teaching and research and helping to develop the region. Higher education thus played a vital role in the transition to the market economy, and developing research (two thirds of which, in Hungary, took place in the HE system). There was a vital need to develop private funding. The State (central) input to funding represented about 70% of total HE income, and he illustrated the several levels of formula funding for different types of student (eg, postgraduate or undergraduate). Self-generated funding was described as

comprising (limited) student fees, money charged for teaching services or research contracts, small private donations, and possibly some development of alumni activities.

There was a notable tension between strengthening academic leadership and the creation or strengthening of the role of the “secretary-general”. Professor Basza insisted that academics have to decide on academic matters, and that senior academics must decide on direction while administrators merely carry out the necessary steps. HUMANE members were slightly startled by this rigid distinction, and wished to amend the view to say that such a split was acceptable as long as any decisions were made in full awareness of the consequences – and that such awareness depended on skilled administrative staff.

Good Money and Bad Money (or: Always Look a Gift-horse in the Mouth)

Roddy Begg, Director of Alumnus Relations, University of Aberdeen

Roddy Begg changed the Latin proverb which advises that one should “never look a gift horse in the mouth” to produce a fundraiser’s maxim whereby one should always inspect every tooth! In response to questions about individual profit Roddy made clear that in the UK it was strictly forbidden to make personal profit from any university income – the nearest case (where there was still a clear distinction) would be that of researchers who persuaded the public to donate funds to help their own research, thus making their working lives easier.

Roddy’s main thesis was that fundraising has a number of associated risks. Among these is that of failing to ask for enough money to fund a particular project. It is always essential to take accounts of all overheads, in particular on-costs and infrastructural costs. He illustrated these terms, with examples of some failures to secure funding for essential overheads of a project for which fundraising had been undertaken. This led to discussion of the circumstances under which it is reasonable not to insist on full costs, although it was acknowledged that universities are sometimes too ready to accept less than full funding in the competition to raise funds.

Roddy warned that a particular risk is to accept a benefaction (such as a building, art collection or library) without considering the financial implications of the gift in terms of its maintenance/running costs. Sometimes these implications do not come to light for many years - however, once you have accepted a gift it is difficult to avoid all the implications of its ownership. One should be particularly wary of accepting funding to undertake an activity that is not clearly within the university's academic plan or mission. Roddy similarly warned colleagues against accepting too many conditions attached to any donation - in particular, any excessive influence by the donor on how his/her funding is used. It was important to try always to retain flexibility in the terms of the gift, to allow scope to change direction if the "academic scene" changes.

The issues surrounding the thanking of donors were discussed, in particular the naming of buildings, Chairs or academic departments. Examples were given of the risks of being thus publicly associated with prominent individuals. However, the importance of adequately thanking all donors was emphasised.

The essential message of the presentation was that it is essential to fundraise, particularly as governments withdraw their support for universities, **but** that fundraising has many associated risks and pitfalls. One should always think long and hard, and consider all possible scenarios, before accepting donations.

The presentation produced interesting discussion of how much the results of sponsorship should be allowed to interfere with academic activity – one example involved the use of a building for open-air

concerts, with significant disruption over several days for preparation, rehearsals, etc. This illustrated the point about looking ahead. Another aspect of looking ahead concerned the possibility of using a benefactor's name for only a limited period (as happens in the USA). This might be wise either in case a better offer appeared in the future or (as had happened) in case some negative feature of the donor made continued association embarrassing! Similar considerations were felt to apply to honorary degrees, with an example quoted of a university which had (fortunately!) used its rules to reject the suggestion of an honorary degree for the wife of a later-disgraced Head of State.

The talk also illustrated some of the varying traditions of Europe. As one Italian colleague said, "Good money and bad money is all very well – but what about when there is no money?"! A partial answer was later provided in a remark by Esa Ahonen (see summary below), to the effect that some of the alternative methods mentioned in his talk were quite recent and had been seen as rather radical.

Mass Education: who pays the cost? And when?

Dugald Mackie: Secretary, University of Glasgow

Dugald Mackie briefly illustrated the many different national systems for funding higher education, but reminded participants that – basically – it was always the State which paid. Demand throughout Europe was rising faster than willingness to pay, and government resources generally were shrinking. Universities were thus constrained – yet at the same time quality costs money. Moreover, argued Dugald, "free" education should be interpreted as meaning "at no cost", since *someone* has to pay – and in the UK free higher education had ultimately become incompatible with the combination of rapid expansion and lower taxation.

He pointed out that the transformation of HE from being an experience enjoyed by a privileged elite to something which is almost seen as being as much of a right as school education is increasingly a global phenomenon. With participation rates in developed countries reaching 80% (South Korea), 78% (Finland) and - for such a large country - a surprisingly high 65% for the USA, there had been concerns on the part of some governments about the costs involved in such expansion, and on the part of universities about maintaining quality and sustaining investment in the face of a continuous decline in resources from the State.

Dugald went on to examine the ways in which different European countries deal with the issue of expanding participation in HE while seeking to maintain quality and standards among the universities. The issues included payment for the cost of tuition, widening access, expectations of support from families, private universities, differentiated fees and the maintenance (or not) of quality. He then focused more particularly on the recent evolution in the UK towards student contributions (justified on the grounds that graduates should pay for their enhanced career prospects and earning power). In particular this involved the variation of fee payment within Scotland, and the way in which an argument over tuition fees had become a key political issue in the very first months of the new, devolved government, even threatening to cause the end of the coalition Executive.

While the changes seen in Scotland should benefit students, their beneficial impact on universities was much more doubtful, particularly given inflationary pressures on costs which are not being

matched by increases in State funding. Universities must therefore look to other avenues for additional funds to supplement declining state resources. Such avenues include increased commercialisation of research (and investments in spin-off companies), joint educational ventures with commercial partners to provide long-term income streams, and creating savings through the re-engineering of processes to make them more efficient.

There was some lively discussion as to whether graduates truly did earn more, on average – not for the only time statistics were doubted – but at least for UK members the national statistics were incontrovertible. The idea was raised that it is the national economy which pays the price if mass education leads to diminished quality; and a further point about the national economy was that in a society where the number of retired people will soon largely exceed the number of taxpayers, there simply have to be other sources of income to fund higher education and public services in general.

Dugald drew on his experience as a member appointed by the Scottish Parliament to the Independent Committee of Inquiry on Student Finance (known from the name of its chairman as the Cubie Committee). Several members expressed support for the Cubie view that tuition should be free at point of entry, with repayment (a contribution) being made later, based on ability to pay. Other members stressed that it was not so much tuition fees as the loss of maintenance grants which had been the real problem. There was concern that differential fees within Europe might reduce the level of student mobility – and that such a result would run counter to the general trend of globalisation.

“Diversified Funding at the Helsinki School of Economics and Business Administration”

Esa Ahonen, Administrative Director, HSEBA

Esa continued the arguments of previous speakers that all universities are now facing challenges of declining public funding and, at the same time, the need for higher quality due to national and international demands and increased competition. In Finland no tuition fees are allowed in degree programmes in universities. This means that even if all expenditure is market-based, income for degree programmes is not at all tied to the market, but rather to one sole purchaser, the State, that has decided to pay less for the product. However, at the same time private companies want higher quality. The equation was difficult to solve!

Universities can choose between different strategies based either on a philosophy of maximum savings, or for example on a philosophy of high quality, leading to higher cost levels. HSEBA had deliberately chosen the "high quality-high cost" strategy. This meant setting out to attract the best staff, the best students and the best companies to work with. He illustrated the many ways in which HSEBA had turned to external sources of funding in order to boost and diversify funding. In contrasting this dynamic approach to the traditional university cultures of balanced budgets and minimal risk/initiative, he also warned against the danger of “running after every rabbit” – a point which strongly echoed Roddy Begg’s earlier remarks about sticking to mission. Esa illustrated both why diversification is necessary and why it is difficult. .

Esa also developed his ideas on the problems of rigid organisational forms, and the vague legal status which is held by different kinds of university business initiatives. The HSEBA solution had been to create two modes of operation: the traditional State university structure (including also private funding in different forms), and a separate private limited company structure. He outlined the duality inherent in the business mode and academic mode of activity, and argued for a productive synergy between the two modes (this thesis was also developed at the Helsinki seminar in June 1999). Finally two pie charts for income in 1996 and 1999 respectively showed the clear reduction in government budget from 68% to 56% and the growth of income from university companies (0% to 19%).

In the State university structure HSEBA organised contract research, donations, sponsored Chairs and sponsored classrooms in addition to the normal State funding for degrees. Its recruitment services, student business projects and thesis projects were well developed. The Library had a long tradition of selling databases and information services on CD-ROMs and in other forms. Now the University was more and more creating "packages" and speaking in terms of partnership programmes. These were organised professionally, with support from a foreign consultant. Internal solutions had stressed financial autonomy and (crucially) the idea of investment rather than subsidy. HSEBA had developed new products for sale and had invested heavily in its own brand name (PR, alumnus activity, and sponsorship). This more business-like approach had been seen also in relations with other universities (for example, business courses specially designed for students at the University of Helsinki) and in the creation of a consulting company.

The HSEBA holding company now owned two companies, concentrating on Executive Education and Applied research. Our next move will probably be to turn our new business incubator to a private limited company. Due to our high quality and rapid action companies are getting more interested and we are now also starting to receive remarkable funds for high quality international research, for example in the field of knowledge management.

Discussion immediately centred on the nature of rewards and incentives offered to staff in order to persuade them to change attitudes. Esa noted that in Finland there was not a massive difference between salaries in higher education and in private companies, so that the incentives were not so necessary. In his experience Departments did not make a loss. With regard to risk, all proposals were checked centrally. Alternative income was well illustrated by the University of Mannheim (also originally a Business School), which had now developed a database of students which it sold to selected companies for recruitment purposes. The companies benefited by reduced costs, better recruitment opportunities, and were willing to pay a premium. The original idea had been to help the Alumnus Association, but profits soon went far beyond this. An expansion of the scheme – truly a win-win option – was under consideration.

Some Remarks from the German Point of View

Christoph Ehrenberg: Kanzler, University of Osnabrück

(The observations and background notes given here were designed as a brief introduction to the final session on the agenda. They were not intended as a full abstract.)

Christoph noted that around 10 % of HEIs in Germany are run privately, for the most part closely linked to industry. But only around 1 % of the approximately 1.8 million students in Germany opt to study there. Many of these private HEIs also profit considerably from State funding. He pointed out that State-run HEIs receive more than 90% of their funding from the State. Although the share of third-party funding (research funds) comprised as much as a third of the total budget at some universities specialising in engineering, the greater part of this third-party financing also originates from state or publicly-funded grant bodies and foundations.

It was also true that public spending on HE in Germany amounts to less than 2%, which is comparatively low. The present state of the public purse means that a change could not be expected in the foreseeable future. The cost of German unity had exacerbated public debt to such an extent that debt reduction had become German politics most serious problem alongside the fight against unemployment. State debt is currently 750 billion euros, i.e. between three and four annual federal budgets. Against this background, an increase in financing for HE was not in sight. As a result, alternative sources of funding are gaining in significance. There are two main suggestions:

- Tuition fees, which are however politically extremely controversial: a solution is not on the horizon.
- Mobilising private capital e.g. in the form of foundations; the new law governing foundations is to improve the situation by means of tax relief.

Christoph's presentation was followed by further commentary on the part of the three German colleagues, to illustrate the various situations in different *Länder*. The (theoretical) possibility of differential tuition fees within the *Länder* was discussed, in the context of the Anglo-Scottish split in the UK, but it was agreed that such a move was unlikely.