CORPORATISATION OF MALAYSIAN PUBLIC UNIVERSITIES: A CASE STUDY

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ABSTRACT

This paper reports on a case study conducted in one of the Malaysian public universities to examine whether or not it is able to operate as a corporate entity as envisaged by the government. Specifically, it seeks to determine if the university is able to generate income equivalent to 30 per cent of its total expenditure by 2010, to assess how much its existing financial management systems contribute or hinders achievement of the target set and to offer explanation as to why current conditions came into being. Results showed that the target is not met, mainly due to limited avenues to generate fund internally and a rigid cost structure that did not allow much room for savings. Three reasons were offered as explanations as to why this situation existed.

Keywords: Malaysia, public universities, financial management systems, cost structure

INTRODUCTION

In the Seventh Malaysia Plan (7MP) (1996 – 2000), the government had set aside RM8.35 billion for education. This is an increase of 25.8 per cent over the allocation in the Sixth Malaysian Plan (6MP) (1991 – 1995). However, the increase was not the case for tertiary education. Only RM2.961.8 billion was allocated compared to RM3.14 billion under the 6MP. This apparent anomaly reflects the government's intention to seek greater private sector participation and funding of tertiary education. New policy initiatives for tertiary education were also introduced, of which the privatization of education and the corporatisation of public universities were the main ones.

The privatisation of education signalled a radical shift in the way the government manage and control the direction of the nation's education policy. Within the Malaysian context, privatization of education refers to the involvement of private sector institutions in providing tertiary education. Institutions are set up as business entities, with total private funding, that operate as commercial ventures and by large have profit seeking motives. They compete in the open market for students whose fees are their main sources of income. Initially, these institutions were mostly involved in secondary education. By the end of 1990s, this has shifted to post-secondary, pre-university and university level. These institutions run programmes ranging from those that they internally developed to those that they franchised from overseas universities. Hitherto, there are 519 colleges and 17 universities licensed to operate as private education providers in Malaysia.

Corporatisation, on the other hand, is an effort by the government to liberalise governance in public universities. Instead of turning them into totally private enterprises, the authority turned them into government corporations. Administratively, these universities are given greater autonomy to manage themselves. They are expected to be run in ways similar to those practised by boards of directors in the corporate sector, but the government still funds their operations, owns all their assets and maintains jurisdiction over their staffing. However, by 2010 this funding will be reduced to 70 per cent of their total operating costs.

As corporatised entities, these universities are expected to be more efficient in managing their resources, intellectual properties and utilisation of their assets. They are also expected to be more creative in finding ways to generate additional income. This devolution of control in operational decision-making is also aimed at enabling them to offer programmes that are more in line with what their stakeholders want. They will then become more responsive, proactive and competitive in their administration and operations. In short, corporatisation is used as a governance mechanism by the government to make these universities more accountable for the resources given, to be more responsive to societal demands and to be more proactive in bringing about changes, especially in offering new programmes and improving old ones. Currently, there are 14 corporatised public universities in the country.

The government, however, will retain ultimate control and monitor the implementation of higher education. For private educational providers, their operations are governed by the Private Higher Education Institution Act (1996) whilst courses and programmes offered must be approved and accredited based on standards set by the National Accreditation Board. As for the corporatized universities, they are subjected to the Universities and University Colleges Act (1974). Courses and programmes offered are monitored and controlled by the Higher Education Department of the Ministry of Higher Education. However, it is envisaged that this monitoring role of the Higher Education Department will soon be taken over by the National Accreditation Board.

Expanding labour market and capacity limitations seemed to be the main contributors to these developments. In the mid-1990s, only about 20 per cent of those eligible were able to gain access to local institutions of higher learning. This capacity limitation, coupled with higher employment growth compared to the supply of labour (3.4 per cent against 2.9 per cent in the 6MP) and greater demand for skilled manpower, forced the government to look for alternative solutions to enhance the capacity of higher education and to initiate alternative mechanisms to increase spending on education. Anticipating increased rate of employment growth, greater demand for professionally-trained personnel and skilled general labour force, private sector investment was sought in planning for the 7MP.

Emergence of knowledge as a new economic drivers and the Asian financial crisis that hit the region in mid-1990s had also presented the authority with the opportunity to reform and liberalize tertiary education. The former led the government to chart new ways in planning and managing its economy whilst the latter forced it to reduce spending and find new ways to kick-start the battered economy. It also put into perspective the logic of increasing the role of the private sector in funding education that has long been seen as solely the task of government. It has also provided opportunities for enterprises to venture into new industries, purely on commercial considerations.

PAST STUDIES

Privatisation of education has long been a focus and an issue. However, research and theoretical papers are few and far in between. A closer look at available literature revealed that there are different versions of privatisation carried out in various countries ranging from allowing private enterprises to carry out the business of selling education to greater sourcing of funding in order to support the running of public educational establishments from private sources.

There has not been any evidence of any state which relied solely on the private sector to run and fund its education systems. On the contrary, all studies had so far shown that in most countries the state is the major provider and financier of education. However, there is also a market for education enabling other providers – the private (for- and non-profit organisations) – to compliment government efforts to certain or special interest groups. There is also a growing market for private investment in education that allows private sector organisations to participate, collaborate, fund and sell educational services for profit (Patrinos, 2000).

Walford (1988) discussed the privatisation of British higher education and noted that funding for tertiary education was increased from an average of 30 per cent after the Second World War to about 50 per cent in 1946, to over 70 per cent from 1953 and to about 90 per cent in 1980. Changes to funding policy initiated by the Thatcher government reversed the trend badly affecting some universities (e.g., Shattock, 1988). Subsidies to overseas students were reduced and “full economic costs” was charged to them. The first private and non-state-supported institution of higher learning was only established in 1976. Walford's and Shattock's papers are important because it demonstrated that the government's effort to reform education can have far reaching effects – both positive and negative. The papers also highlighted the fact that to be successful, reform efforts must be accompanied by related organisational reforms (management and control structures) and changing management philosophy as well as mind-sets of both policy makers and implementers. There must also be a workable funding model which can be accepted as rational and fair to all institutions involved. In short, success of any reform effort is contingent upon availability of a workable funding model and a development of a new culture that will allow the reform to work.

Brown (1992) described his observation about economic restructuring and educational reforms in the Commonwealth of Independent States in post-communist Russia. Building on the pattern of growth of education in Britain, he found that although "perestroika" (restructuring) programmes represented a strategic response to overcome economic and societal problems, reforms to educational systems are unlikely to be possible and successful unless accompanied by reforms in other aspects of social life that raise the need and demand for education. As such, although he observed that the state is beginning to promote individual choice and freedom in educational selection, opportunities for a free market system of education will only likely to be available much later.

Naradowski and Andrada (2001) studied the privatisation process that took place in elementary and secondary education in Argentina. They provided evidence that private education had begun in Argentina since the beginning of this century. In fact, the situation was recognised by a law approved in 1947. Although comparatively small, the enrolment in primary and secondary schools had generally increased after the Second World War by about 4.7 per cent. In 1974, the enrollment in secondary schools was about 6.9 per cent of the population. This phenomenon, they argued was contributed, among other things, by the gradual and continuous change of state regulations for private schools which tended to grant them greater autonomy and a legal status similar to that of public schools.

The New Zealand experience was presented by Olssen (2002). In the paper, he provided a narration on the background and examined the effect of changes in tertiary education due to changes in policy direction after the election of a Labour-Alliance government in 1999. He observed that the restructuring of its education systems was done through deregulation, corporatisation and privatisation. This process began in the 1980s due to government concerns with increasing student enrolment and the need to impose some kind of "user charges" to reflect appropriate shares in financial contributions between public and private beneficiaries. This market-driven model in tertiary education funding was mooted on the idea that education is a private rather than a public good. As such, universities must be more commercial, able to generate funds themselves and accountable for all resources they receive. Funding to universities will be based on yearly assessments of equivalent full-time students (EFTS) (refer to Appendix), proportional to the EFTS in each course-cost category. This study supports views of Walfort (1988) and

Shattock(1988) that successful restructuring of tertiary education must be accompanied by a perceived fair and workable funding model and a new culture which can provide a climate conducive for reforms to take place.

In principle, the Malaysian privatisation of education policy is more akin to that of Argentina's where private educational institutions operate parallelly, complimenting and existing in a largely public-dominated education system. Private educational providers cater for those who are willing to pay for education of their choice whilst the majority still enrolled in public institutions. Corporatisation, as it is being currently practised, is used more as a governance mechanism – a concept more like what is being practised in Britain and New Zealand – minus the funding mechanism used in both countries.

RESEARCH OBJECTIVES

This research was conducted against the background described above. The main aim is to gauge how far these public universities have changed in getting themselves ready and be able to operate as corporatised entities. However, because of the opportunity available enabled data to be collected only from one of them, Universiti Kebangsaan Malaysia (UKM), a case-study approach was adopted. In particular, the objectives of this case study are:

1. To determine whether or not the university (UKM) is ready and/or able to generate income which will cover 30 per cent of their total expenditure by 2010 as set by the authority
2. To assess whether or not the university's current financial management systems are capable of inducing and affecting change that the government had envisaged
3. To offer explanation as to how existing conditions came into being

It is hopeful that results from this case study will be a wake-up call to other universities and relevant authorities to see how much this reform in the administration of government universities had met its desired targets. It is believed that this study will be useful as a starting point from which potentials and problems can be identified and further corrective and reform efforts be initiated, planned and implemented to put them in the right path to financial independence.

PLACE OF RESEARCH

The study was conducted at UKM. The university was chosen because of the opportunity it avails which enable accessibility to data. Though plans were initially made to use more than one university as comparisons and thereby extending the study to other local universities, it was thought that the opportunity presented must be capitalised and used as a start to what could be a potentially huge project.

The choice was also significant because UKM is the second oldest university in the country. Set up in 1970, it had been involved in the establishments of many other younger local universities in the country, providing many of the pioneer personnel and their accounting and costing systems. It began with three faculties (Arts, Science and Islamic Studies) but grew to seventeen academic faculties and three centres of (research) excellence by mid-1990s.

The university had also introduced several administrative initiatives in line with the government's tightening of financial allocation in the late 1990s. It restructured and merged its four science faculties (Mathematics, Life Sciences, Physics and Applied Sciences and also Natural Resources) into one – the Faculty of Science and Technology in 1999. This was followed by the merger of its arts faculties – Language Studies and Development Science into the larger Faculty of Social Science and Humanities in 2001, and the merger of the Faculty of Business Management and the Faculty of Economics to become the Faculty of Economics and Business in 2004. Financially, the university had also adopted the new budgeting system proposed by the government – the Modified Budgeting System (MBS). The university was corporatised in 1998.

DATA COLLECTION AND ANALYSIS

This study utilised secondary data. Two types of data covering a period of nine years (1995 – 2003) were collected for analysis.

Table 1 Categories and types of data collected for the period of 1995 – 2003

Categories of data	Types of data collected	Sources
1. Income	Detailed income figures disclosed in the published Annual Financial Statements	Annual Financial Reports, 1995 – 2003.
2. Expenditure	Operating expenditure – Budgeted and paid from monies received under the annual government management grant, by vote numbers. However, only Vote items *10000, 20000 and 40000 were initially used. We managed to obtain data on Vote *30000 only for the year 2000 – 2003. Non-cash expenditures such as depreciations, provision for bad debts and losses or gains from disposals of assets were also excluded. Expenditure allocations under the annual development fund or any other identified loan funds were also not considered.	Detailed Annual Allocation and Expenditure Report of the UKM's Bursary 1995 – 2003. Please refer to Appendix 1 for details of expenditure items.

** Refer to Appendix 1.*

It must also be noted that the figures used were those related to the operations of the UKM's campuses (in Bangi and Kuala Lumpur) and for its full-time and mainstream government-funded programmes only. Income and expenditure figures for the HUKM (the university's hospital) were excluded whilst income from the university's business units (which run consultancy and commercial academic programmes) were taken as net amount.

An analysis was made on the data to understand the university's basic income and cost structures. The main aim was to determine where the money comes from and how much was spent on specific cost or expenditure items relative to the total. Income figures were taken from the annual reports whilst expenditures were extracted from the annual management report which summarised in detail the amount spent by the university to finance its operations from the government's Annual Management Grants. Initially, the analysis excluded operating expense for asset purchases given under Vote 30000 of the Annual Management Grants as the data was available for only four years – 2000 – 2003. This was overcome by running two sets of analysis – one without Vote 30000 and the other inclusive of Vote 30000. Again, as mentioned earlier, non-cash and capital expenditures which used monies allocated under the Annual Development Grants, past and current, were ignored.

RESULTS AND ANALYSIS

This case study was conducted to examine how far Universiti Kebangsaan Malaysia has progressed in meeting corporatised-targets envisaged by the government. Since the university had been corporatised in 1998, we postulated that there must be signs to indicate whether or not the university is on track to meet the clearly set target – 30 per cent of their expenditure to be internally generated by 2010.

The following are some of the results obtained from the data analysed.

Revenue

For the period 1995 to 2003, the university received its annual management grants totalling RM1.964 billion against total expenditure of RM2.189 billion (Table 2). In terms of percentage, total grant represents 83.23 per cent of its total income and pays for 89.73 per cent of its total expenditure.

Table 2 Grants and internally generated funds (1995 – 2003)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating Grants	180,000	204,789	229,750	185,189	184,267	196,183	230,545	283,277	270,153
Total Operating Grants					RM1,964,153				
Internally-Generated Funds (IGF) (net)									
Students Fee	15,599	18,249	23,315	31,786	36,271	36,185	33,368	33,815	36,415
Interests & Div.	4,825	3,136	4,793	4,618	4,182	3,136	2,120	3,586	2,470
Business Income	na	Na	na	10,791	19,113	15,935	8,651	5,278	3,270
Other Income	4,964	2,855	2,883	2,987	2,777	3,672	4,446	5,404	4,972
Total	25,388	24,240	30,991	50,182	62,343	58,928	48,585	48,083	47,127
Total IGF					RM395,867				
Receipt/Income	205,388	229,029	260,741	224,580	227,497	239,176	270,479	326,082	314,010
Total Receipt/ Income					RM2,360,020				
% of Grants to Income	87.64	89.42	88.11	78.68	74.72	76.90	82.59	85.49	85.15
Av. % Grants/ Income					83.23%				
% of IGF to Income	12.36	10.58	11.89	21.32	25.28	23.10	17.41	14.51	14.85
Av. % IGF to Income					16.77%				

Besides the grants, the university had also managed to generate, on its own, about RM396 million, or 16.77 per cent of the total income. Of this amount, students' fee contributed the most, 67 per cent of the total. Income from business activities contributed 16 per cent, interests and dividends, 9 per cent, and other income made up to about 8 per cent. These relative contributions can be observed from Chart 1 whilst Chart 2 shows the relative proportion of the grants received and the revenue generated internally by the university.

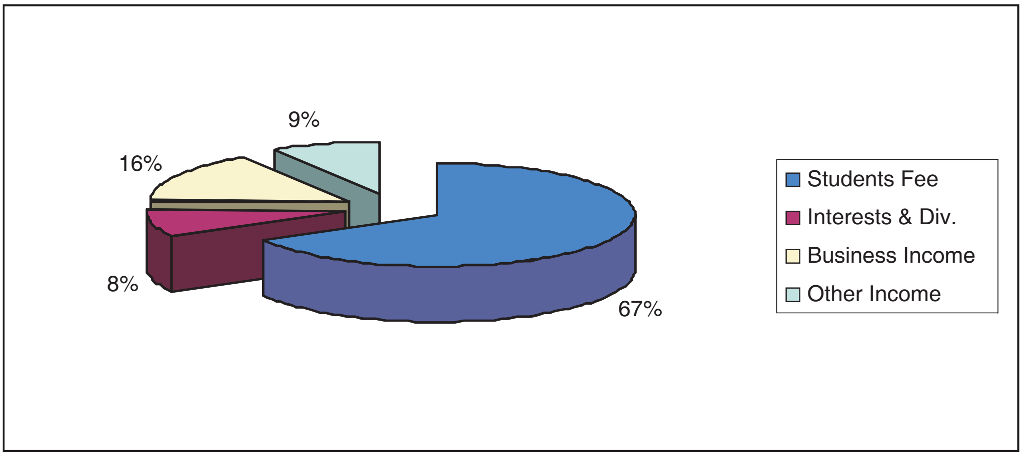


Chart 1 Relative contributions of internally-generated funds

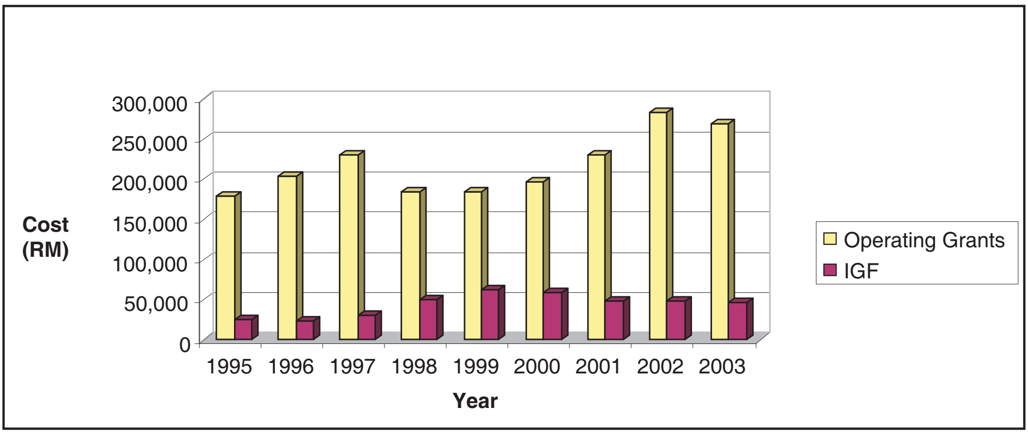


Chart 2 Comparisons of grants and internally-generated funds

Further analysis on the revenue showed that operating grants seemed to have peaked in 2002 and declined slightly in 2003. Such a pattern would be worrisome as the expenditure showed a steady increase. This, we postulate, should have prompted the university to take measures to increase its internally-generated funds.

However, as the following tables and charts indicate, this was not the case. For instance, Table 3 showed that, except for students' fee, IGF had steady falls after reaching its peak in 1998/1999. It had almost stagnated since 2001. This is further substantiated from the evidence taken from Table 4 which showed a drop from 177 per cent to only 30 per cent (compared to the amount received in 1998), representing a continuous yearly decline of almost 35 per cent starting from year 2000.

Table 3 Indexed analysis of internally generated income (1995 – 2003)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Students Fee	100.00%	116.99%	149.46%	203.77%	232.52%	231.97%	213.91%	216.78%	233.44%
Interests & Div.	100.00%	64.99%	99.34%	95.71%	86.67%	64.99%	43.94%	74.32%	51.19%
Business Income	na	na	na	100.00%	177.12%	147.67%	80.17%	48.91%	30.30%
Other Income	100.00%	57.51%	58.08%	60.17%	55.94%	73.97%	89.56%	108.86%	100.16%
Total IGF	100.00%	95.48%	122.07%	197.66%	245.56%	232.11%	191.37%	189.39%	185.63%

Table 4 Annual percentage increase/decrease in internally generated funds 1996 – 2003

	1996	1997	1998	1999	2000	2001	2002	2003
Students Fee	16.99%	27.76%	36.33%	14.11%	–0.24%	–7.78%	1.34%	7.69%
Interests & Div.	–35.01%	52.84%	–3.65%	–9.44%	–25.01%	–32.40%	69.15%	–31.12%
Business Income	na	na	na	77.12%	–16.63%	–45.71%	–38.99%	–38.04%
Other Income	–42.49%	0.98%	3.61%	–7.03%	32.23%	21.08%	21.55%	–7.99%
Total IGF	–4.52%	27.85%	61.92%	24.23%	–5.48%	–17.55%	–1.03%	–1.99%

Particularly alarming is a huge decline in net income from its business activities, that is, from the peak of RM19.113 million in 1999 to a low of RM3.270 million in 2003, as seen in Chart 3 and Graph 1.

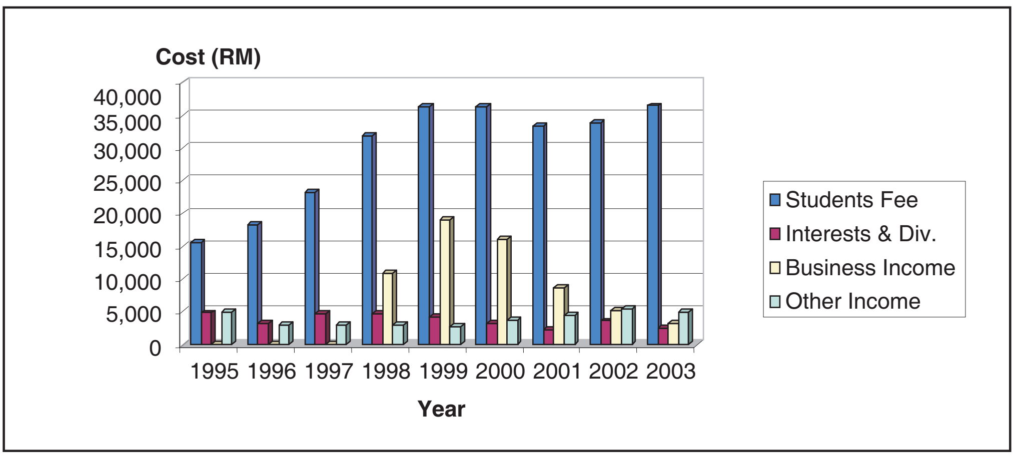
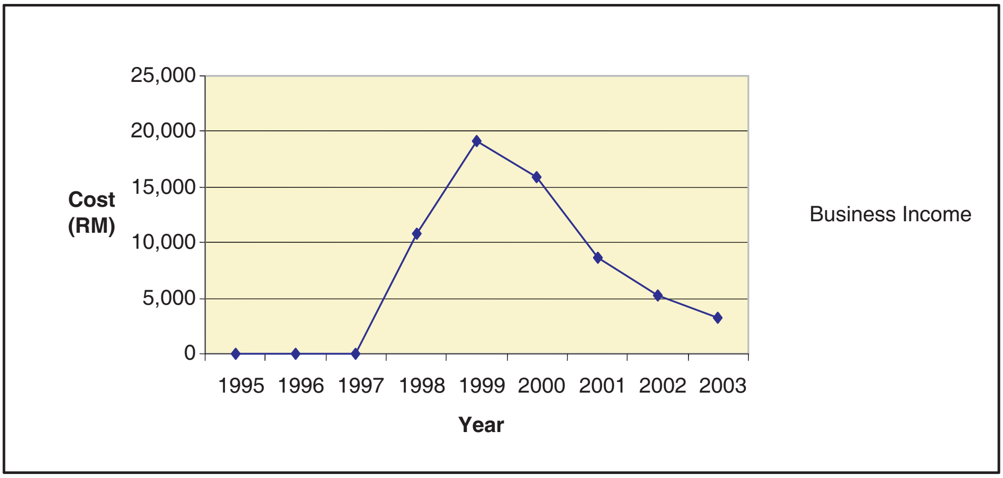


Chart 3 Patterns in contributions of income from internal sources



Graph 1 Patterns of income from business sources

It is expected that the situation is not going to improve in the short term because the university's revenue from student fees is not going to rise significantly in the near future. This is mainly because the university is almost reaching its capacity in terms of student enrolment (Chart 4 below shows that the number of students had stabilised since 2001), and the government's current stance of not allowing public universities to raise their tuition fees. Furthermore, the situation is compounded by the fact that the distance learning programme will no longer contribute significantly to the university's business income after 2004 as the programme had been discontinued since 2001.

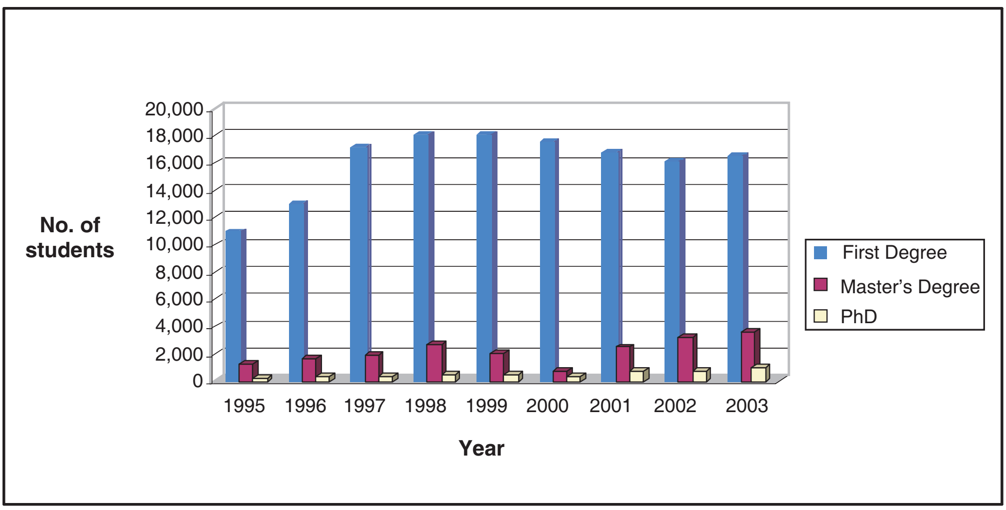


Chart 4 Students enrolment (1995 – 2003)

Expenditures

On the expenditure side, the total operating costs between 1995 and 2003, excluding Vote 30000, amounted to RM2.189 billion. Of this amount, 71.21 per cent was spent on emoluments, 27.79 per cent on recurring expenditure and 1 per cent on scholarships and bursaries. This can be seen from the following Table 5, Chart 5 and Chart 6.

Table 5 Actual costs per expenditure item from 1995 – 2003 (overall RM '000, excluding Vote 30000)

Year	Total	Vote 10000	%	Vote 20000	%	Vote 40000	%
1995	191,311,718	131,158,383	68.56	59,424,906	31.06	728,429	0.38
1996	212,635,065	154,972,247	72.88	56,318,921	26.49	1,343,897	0.63
1997	238,568,467	180,518,799	75.67	57,358,034	24.04	691,634	0.29
1998	226,390,277	168,391,942	74.38	55,553,478	24.54	2,444,857	1.08
1999	228,396,233	182,082,682	79.72	43,783,197	19.17	2,530,354	1.11
2000	222,438,785	161,534,523	72.62	58,445,849	26.28	2,458,413	1.11
2001	252,012,736	172,121,084	68.30	76,996,720	30.55	2,894,932	1.15
2002	304,014,138	197,065,598	64.82	102,300,992	33.65	4,647,548	1.53
2003	312,884,647	210,690,922	67.34	98,087,984	31.35	4,105,741	1.31
Total	2,188,652,066	1,558,536,180	71.21	608,270,081	27.79	21,845,805	1.00

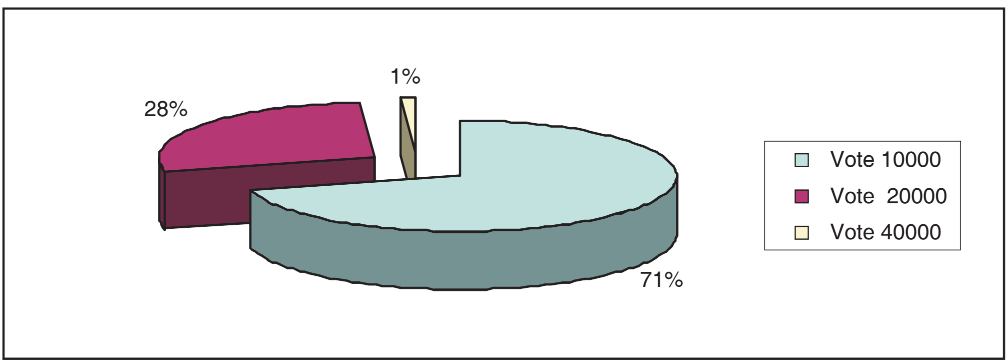


Chart 5 Relative proportion of costs based on expenditure items (1995 – 2003)

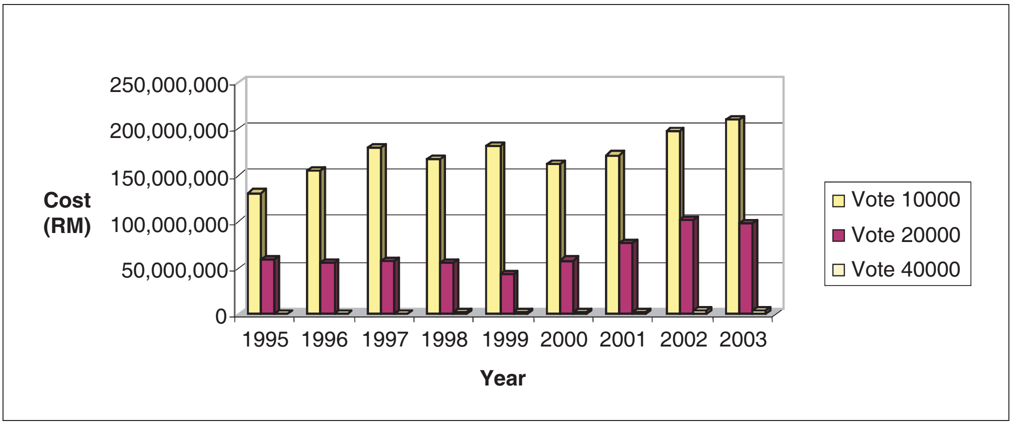


Chart 6 Spending pattern on expenditure items (1995 - 2003, excluding Vote 30000)

A closer examination of emolument costs in Table 6 shows that, of the total amount spent, 81.06 per cent is attributed to academic departments. Only 18.94 per cent is attributed to non-academic departments. This ratio of 4:1 remains the same except in the years when its grant was significantly cut (1998 and 1999).

Table 6 Analysis of emolument costs (1995 – 2003, Vote 10000)

Year	Total (RM '000)	Academic Departments		Non-Academic Departments	
		Total	%	Total	%
1995	131,158,383	103,250,633	78.72	27,907,750	21.28
1996	154,972,247	123,157,867	79.47	31,814,380	20.53
1997	180,518,799	147,958,184	81.96	32,560,615	18.04
1998	168,391,942	142,611,089	84.69	25,780,853	15.31
1999	182,082,682	152,093,167	83.53	29,989,515	16.47
2000	161,534,523	130,708,703	80.92	30,825,820	19.08
2001	172,121,084	138,980,645	80.75	33,140,439	19.25
2002	197,065,598	158,027,270	80.19	39,038,328	19.81
2003	210,690,922	166,578,884	79.06	44,112,038	20.94
Total	1,558,536,180	1,263,366,442	81.06	295,169,738	18.94

This trend seems to indicate that the university's cost structure has not changed throughout the period as Chart 7 shows.

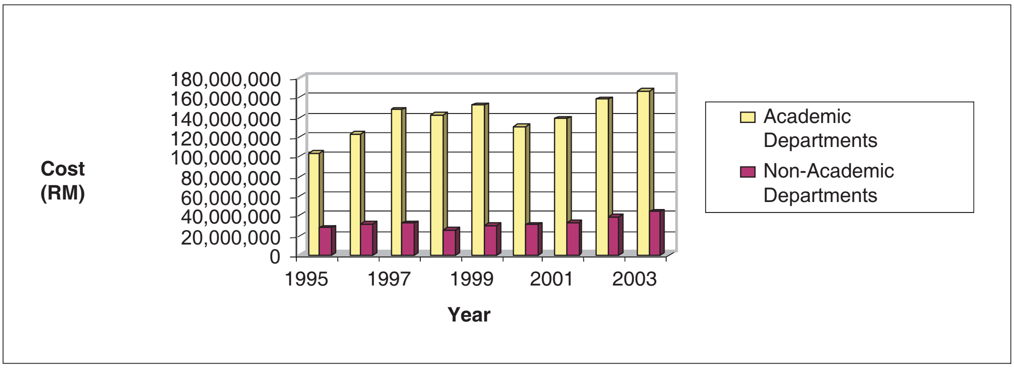


Chart 7 Emolument costs: academic departments vs. non-academic departments

On recurring expenditures, further analysis revealed that of the RM608.27 million the university spent, 4.57 per cent was on travel-related claims (Vote 21000), 23.98 per cent on payments of utilities and rentals (Vote 24000), 24.93 per cent on purchases of academic and administration related supplies (Vote 27000), 29.95 per cent on maintenance and repairs (Vote 28000) and 16.8 per cent for procurements of professional services and medicals (Table 7).

Table 7 Analysis of recurring expenses (1995 – 2003, Vote 20000)

Year	Total (RM '000)	Vote 21000	Vote 24000	Vote 27000	Vote 28000	Vote 29000
1995	59,424,906	6.99	17.55	21.69	31.88	21.89
1996	56,318,921	7.30	20.22	19.76	26.00	26.72
1997	57,358,034	5.34	25.23	22.19	20.90	26.34
1998	55,553,478	3.85	38.88	24.43	17.30	15.53
1999	43,783,197	5.59	25.52	25.70	29.92	13.27
2000	58,445,849	4.34	25.27	27.15	26.10	17.14
2001	76,996,720	3.66	23.13	27.47	34.43	11.31
2002	102,300,992	3.04	22.29	25.32	38.11	11.24
2003	98,087,984	3.46	21.84	27.66	33.77	13.28
Total %	608,270,081	4.57	23.98	24.93	29.95	16.58

The relative proportions between expenditure items within Vote 20000 presented in Table 7 can be better presented in Chart 8.

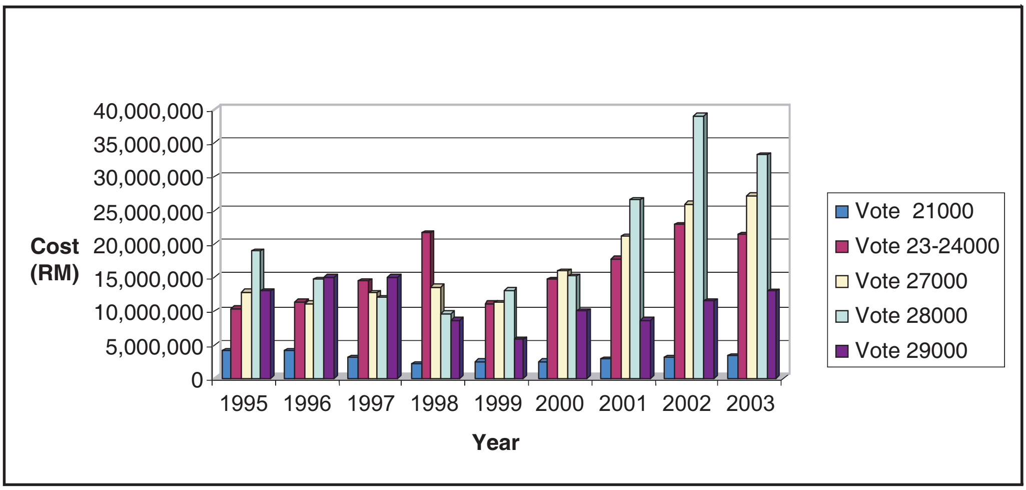


Chart 8 Spending patterns of expenditures in Vote 20000

Another observation worth noting is that from the analysis, there are not many areas where the university can reduce expenditure and delay or postpone spending. Of the five major expenditure items, the university seems able to do that only when managing Vote 28000 (maintenance and repairs), where expenditures on Vote 28000 were significantly lower, in relative terms, during the critical period (1996 – 1998). However, once money becomes available, spending on this item started climbing up from 1999.

The results described above reflect the rigidity of the university's costs structure. With more than 71 per cent spent on emoluments, it leaves little room for savings and accumulation of reserves for future use.

The Impact of Vote 30000

The above discussions excluded expenditures on Vote 30000 – grants allocated for the purchase of operating assets such as office machines, teaching-and-learning aids and laboratory appliances and equipments. This was mainly due to the unavailability of this data from 1995 to 1999. As such, a separate analysis was done to incorporate this data which was available for the period between 2000 and 2003.

Table 8 Total expenditure including Vote 30000 – (RM'000)

	1996	1997	1998	1999	200	2001	2002	2003
Total Exp. (Exc. Vote 30000)	212,635	238,569	226,690	228,396	222,438	252,012	304,014	312,884
Total Exp. (Vote 30000)	na	na	na	na	33,305	33,432	31,990	10,755
Total Exp. (Inc. Vote 35000)	na	na	na	na	255,743	285,444	336,004	323,639
% of Income to Exp.	na	na	na	na	99.75	97.79	98.62	98.04

From Table 8 and Chart 9 that include expenditures of Vote 30000 in the analysis lead to a significant observation, the percentages of income to expense dropped below 100 per cent. This implies that the university was facing deficits. Its total expenditure exceeds its grants and internally-generated funds combined. As such, it can only be assumed that, from year 2000, the university had actually used its reserves to cover the shortfalls.

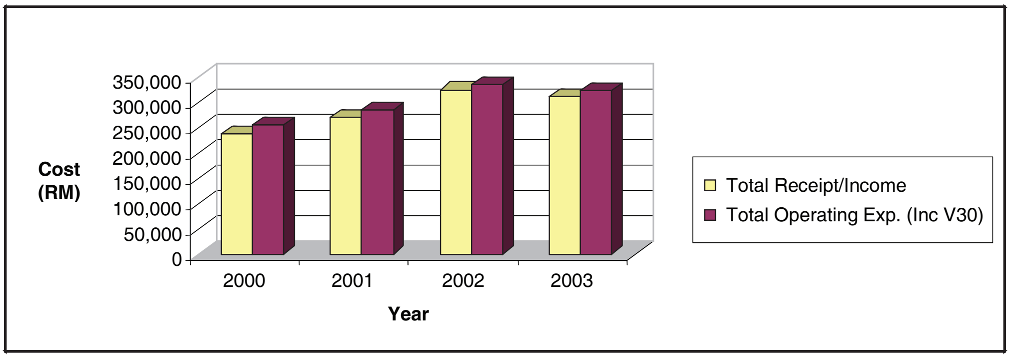


Chart 9 Comparisons of income to expenditure (including Vote 30000)

Costs and Student Numbers

Finally, an analysis was also made to evaluate whether or not this increase in costs is related to the increase in the number of students enrolled at the university. The concept of EFTS (please refer to Appendix 1) was employed. Total costs were divided by the value of the EFTS in each corresponding year to arrive at cost per EFTS for that year. This figure is then used as the basis for comparison and evaluation.

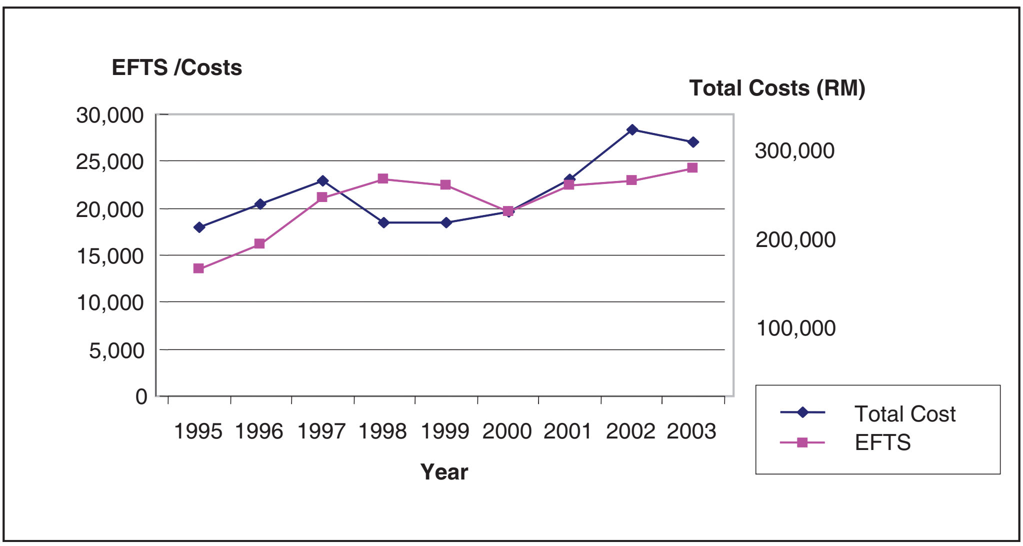
From Table 9, it can be observed that there was a normal increase in the annual grants between 1995 and 1997. There was also an increase in the value of EFTS in the same period and with it the reduction of the average cost per EFTS. This implies that increase in student numbers would lead to reduced average costs per student.

Table 9 Comparison of costs with EFTS (1995 – 2003)

Year	Total Costs (RM '000)	Increase Costs %	Student Enrolment			EFTS*	Increase in EFTS %	Cost per EFTS (RM)
			First Degree	Master's Degree	PhD			
1995	191,311,718	na	10,984	1,256	255	13,506	na	9,711
1996	212,635,065	11.15	13,011	1,630	301	16,209	20.01	9,561
1997	238,568,467	12.20	17,183	1,952	368	21,032	29.76	8,583
1998	226,390,277	–5.10	18,033	2,647	459	23,151	10.08	7,274
1999	228,396,233	0.89	18,033	2,096	467	22,345	–3.48	8,149
2000	222,438,785	–2.61	17,570	763	389	19,687	–11.90	8,205
2001	252,012,736	13.30	16,832	2,495	712	22,355	13.55	7,699
2002	304,014,138	20.63	16,114	3,245	792	22,962	2.72	8,582
2003	312,884,647	2.92	16,480	3,582	946	24,218	5.47	9,711

** Please refer to Appendix 1 for explanation of EFTS.*

However, this observation (increased number of students would lead to reduction of average student costs [cost per EFTS]) cannot be held true in every situation. This can be seen from the increase in cost per EFTS of RM7,274 in 1998 to RM8,149 in 1999 even though the value of EFTS decreased from 23,151 to 22,245. Figures from 2001 to 2003 showed similar pattern, thus further disputing the conclusion that increased student number would reduce the average costs per student as demonstrated in Graph 2 and Chart 10. As such, it can be further concluded that total expenditure of the university is not related to the number of students it has.



Graph 2 Comparisons between costs and EFTS

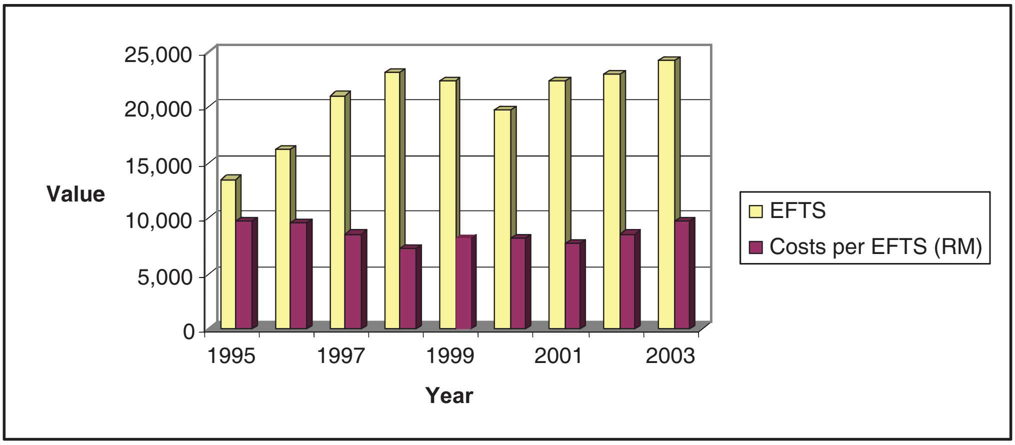


Chart 10 Comparisons of costs per EFTS with EFTS

In summary, it is safe to conclude that, faced with declining capacity to generate income internally and hindered by a rigid costs structure which left little room for savings, the university will not be able to achieve the target set for 2010. To be successful, it must create more avenues and activities to generate income and must be allowed to increase its student fees. There is a potential though that the university can generate revenue from commercialisation of its research outputs. However, this is not supported by the data collected. From the cursory discussions made, it will be a long time before this can be realised.

DISCUSSION

This research was aimed at gauging whether or not corporatised universities in Malaysia are ready and/or are able to generate income which will cover 30 per cent of their total expenditure by 2010 as set by the authority, to assess whether or not their current financial management systems are capable of inducing and affecting change that the government had envisaged and to offer explanation as to how existing conditions came into being and what can be done to overcome it.

Results from the analysis made on data collected showed that UKM is neither ready nor capable of meeting the target set. On the outset, two factors seemed to be the main contributor – the university's limited ability and avenues to generate funds internally and its cost structure is too rigid leaving little room for savings in other discretionary expenditures.

Three major reasons can be offered to explain why such a situation exists in the university and contribute to its predicament. Firstly, the university's financial and management accounting systems are not capable of meeting the need of managing a corporate entity. This can be explained as follows. The university is practising cash accounting. Limited use of accrual basis of accounting was only to account for liabilities and receivables on completed transactions which was not settled or paid for by the end of the year. As such, spending plans are subjected to the amount of government grants and the availability of cash. Since government grants were known only at the beginning of the year and monies received quarterly, financial management is rather ad-hoc and short-term based. On the other hand, budget planning, even with the new system (MBS), was more of the "apply and hope" and guessing-game type because there was no guarantee that the amount requested will be approved. More importantly, budgets were developed on established expenditure model based on the size of university's existing manpower and campus facilities, irrespective of student population. As such, when the allocation falls short of its original demand, it is the discretionary expenditures that will be cut, further reducing the ability to save.

Secondly, there was an absence of efforts to first introduce a mechanism that could have changed perceptions, attitudes and new practices that were required to be adopted by university administrators before corporatisation was implemented. For instance, as a corporate entity, it was expected that the university would be more proactive and creative in its financial decision-making. This would, in turn, provide greater opportunity for it to offer consultancy services and commercialise its research finding, thereby enabling it to earn additional revenue. To meet such expectations, it would be assumed that the university would be prepared to provide the infrastructures to manage the production of products or goods that it can sell to the market. Prior to that, a market research was expected to be conducted and rigorous marketing effort made to secure customers for whatever goods it is producing.

Except for establishing departments or commercial units to undertake commercialisation efforts, none of the others were given due attention. Hardly any comprehensive marketing research was conducted to gauge demands for its products, especially those research outputs which were supposed to be commercialized. Even in the offering of programmes on commercial basis, a proper and comprehensive market research was not comprehensively conducted. In addition, there was almost a total absence of proper marketing department or the hiring or employment of professional marketing personnel to seriously market the products it is selling, let alone using any of the advanced marketing technologies available in the market. In addition, most of these departments or units are staffed by academicians who are more administrators than entrepreneurs.

In short, commercialisation efforts conducted by the university were not successful because it did not have dedicated and competent managers to run the business or the skills or know-how to sell its products in the open market – even with its superior infrastructure and manpower, and it does not use methods and expertise as practised by private companies and other profit-seeking entities.

The above findings support what Shattock (1988) had found in that many reforms in government-related institutions were not successful because of an absence of professional administrators willing to take the risks and challenges expected of such endeavours, and a working and decision-making culture which can ensure successful implementation of the policy introduced. In fact, it is more likely that what happened in this case was similar to the findings of Brown (1992) in which he argued that the extension of the free market as a means to reform education is unlikely to be totally successful without first mediating the tensions between the social, political and economics of the system. Since the education system in Malaysia is very much entrenched within these parameters, success will be limited as players (university administrators, policy makers and those involved in the monitoring and funding of these institutions) grappled with the need to do balancing acts that justify and satisfy their roles in the process.

Finally, it was envisaged that the so-called liberalisation and independence in decision-making would allow the university to map out strategies which are more cost conscious and budget constrained. However, results from this study indicate that the university neither has the plan nor strategies to be commercially viable. Firstly, implementation of its budgeting system remained focused on planning resources based on what it has (manpower and assets it owns) and not on products it is supposed to produce (numbers of students, research and publications). Secondly, the university lacks a consistent resource allocation mechanism and gives little critical scrutiny to analyse and rationalise financial impacts of academic spending unless prompted by severe shortage of funds. However, the greatest indicator of all was a total lack of long-term comprehensive financial analysis to accompany academic plans – such as the recently concluded restructuring and merger of faculties.

One possible explanation to this problem is that corporatisation had not “really” transferred the power to the university and thereby prohibiting it to be fully-committed in making the institution truly corporate. Even though some layers of bureaucracy had been removed and the university was allowed to manage its properties, set up companies, raise funds from other sources and change its governance structure to reflect the new operating environment and philosophy, the government still retains full control over higher education policies, staffing and owns all its assets. In many ways, these factors curtailed and limit the abilities of the university to carry out its functions fully as a corporate body. These handicaps, whether real or imagined, could have become the imaginary lines in governance structure which defines risk-taking levels and decision-making parameters of the university administrators, thus justifying whatever achievements or non-achievements they had thus far.

Perhaps, from a more philosophical standpoint, failure of the university to fulfil the expectations of corporatisation could have been contributed by strong external political pressures bearing upon the university. However, fulfilment of this external demand may not be congruent with the need and philosophy of those who manage the university. This tension calls for a compromised response in terms of a new management structure and control mechanisms which must be seen to be credible and visible (Jones, 1988).

Lee and Piper (1988) viewed this compromised response as competing perspectives from which decision makers viewed their roles. In explaining this, they argued that the government could have introduced corporatisation with a believe that the rigour of the market place would force open and subject the university to be more proactive and creative in managing its resources, or in short, to adopt a commercial management perspective.

However, this perspective assumes the pre-eminence of the profit motive and market forces. The power of customers is espoused and change is essential to meet market demand. Decision makers are supposed to operate with decision support expertise and clear financial objectives. They are to use financial information to plan, strategise and evaluate their performances.

All these are new and alien concepts to the university administrators because universities had always been managed through consensus management which viewed organisations as coalitions of professionals dedicated to their clients and profession. Since these groups hold different views and their interests are not singular, conflicts normally occur especially in decisions related to setting priorities and resource allocations. As a result, decision-making would normally involve professional arguments, discussions, debates, negotiations and play politics in committees. However, market forces cannot be an arbiter to a compromise. As a result, the commercial management methods cannot be effectively implemented in the university.

Hence, tensions arose. Faced with the tasks of managing the university as expected by the government and at the same time to accommodate the long established practices in the management of a university, decision makers seek a way out by adopting or subscribing to an alternative management philosophy which Jones (1988) described as an "industrial ethos". Lee and Piper termed it as the "executive management perspective".

This perspective is attractive because it is a rational model. It also fits nicely with the need to depart from the long-established but highly suspected collegial model of consensus management. The model rests on the basis that to be successful, managers need to establish objectives, develop plans that relate to resource allocation, periodically evaluate their performance and take actions to reduce deviations from objectives set. This is evident when the university adopted a new budgeting system – the Modified Budgeting System (MBS) – in planning its resources and controlling its expenditure. As the system (MBS) demands, faculties are designated as responsibility centres and allocated with limited grants that they manage themselves. This devolution of financial management to faculties is a new phenomenon and played an important role as a mechanism that could be seen as a credible and transparent way to enhance and justify the adoption and implementation of the executive management approach by the university.

CONCLUSION

Although reforms in education in Malaysia were targeted at all levels as an on-going process, the privatisation of education and the corporatization of universities are of great significance and has far-reaching effects. It began with University of Malaya in 1996 and had since involved thirteen other public universities and university colleges.

The stated corporatisation aims are to enhance managerial capabilities and efficiency, granting greater flexibility in seeking alternative sources of revenue and allowing these public institutions of higher learning to become more responsive to societal demands and to change. These universities were given greater autonomy to manage themselves operationally and financially. In turn, they are expected to be run and managed in ways similar to those in the private sector. The objectives are, with this change in governance philosophy, they will be more proactive, competitive, accountable and responsible to their stakeholders – the government, students and society at large. Specifically, the government had set a target for them to internally generate and support 30 per cent of their own planned expenditures by 2010.

Results from this study, however, failed to find evidence to indicate that these corporatised universities would be able to meet the target set. As such, it can be concluded that the expected synergy envisaged from the liberalisation of governance on decision-making has not been taken advantage of or capitalised. Limited avenues to generate income and a rigid cost structure are two main reasons why we believe that the university will not be able to achieve the target set by the government.

Three reasons are offered to explain why the university is facing this situation. Firstly, it adopted a financial and management accounting systems that are not able to serve the new philosophy of managing a corporate entity. The university must use commercial accounting systems that would promote and support a more financially-conscious decision-making process. Secondly, there is an absence of a new culture to implement the new management philosophy. As a result, the necessary climate and the relevant decision-making structure to implement the concept were absent. In the process, the university failed to produce an environment conducive to the successful implementation of the new governance system. This, we conjectured contributed to the failure or the inability of the university to plan income-generating activities comprehensively, operate the venture in a truly professional and profit-focused manner and staffed the units set up to undertake the money-generating efforts with qualified, appropriate and skilled personnel required for the job. Finally, it is also believed that for all the resources and manpower it has, the university's inexperience and muddled objectives (between economic and social roles) had created powerful tensions in which the social prevails. As a consequence, efforts to introduce a free-market mechanism to enhance efficiencies in the administration of public universities had not been fully-embraced.

However, the analysis had also indicated that the university was able to institute savings and prioritised its spending when faced with a situation that leaves it with no alternative but to cut cost. Seen from such a perspective, then perhaps the university had failed to capitalise the experience during the crisis period to promote a new financial management culture in its administration.

The above conclusions were neither conclusive nor cast in stone. Rather they are conjectures which were developed in reference to some past studies, based on data which was gathered in the course of the research and within constraints of conducting a study using the case study method. At best, these are tentative propositions which merit further research and more analysis.

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APPENDIX 1

1. Equivalent Full-Time Student (EFTS) and Cost per EFTS

ETFS is a concept which equates the amount of resources relatively consumed or used by an undergraduate, a master's and a doctoral student in a year of his or her full-time study at the university. In other words, it is assumed that a full-time doctorate student costs the university as much as three full-time undergraduate students, and therefore assigned three EFTS.

In this study, an undergraduate is given the value of one (1) EFTS. A full-time master's student is given the value of one-and-half (1.5), whilst a doctorate student is given three (3) EFTS. This assigned value is based on a similar study conducted in 1999.

Total EFTS is then calculated by multiplying the assigned values with the actual student number in that particular year. Total cost is then divided by the total EFTS to arrive at the 'cost per EFTS'.

2. Expenditure Items by Vote Numbers

Vote number	Expenditure items
10000	Salaries and Wages Fixed-allowances
20000	Travels and Claims (21000) Posts, Utilities and Rentals (24000) Office, Laboratories, Academic and Recreational Supplies (27000) Maintenance – Building, Vehicles, Furniture and Fixtures, Teaching Aids (28000) Payments for Services – Part-time payments, Medicals, Honorarium, Training and Miscellaneous (29000)
30000	Purchases of assets (valued more than RM3,000) for teaching and administrative purposes, Motor Vehicles, Lab Equipments
40000	Scholarships, Bursaries and Assistance