

Proposals for improvement of Masaryk university economic system

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1. Introduction and aim of article

The subject of this article is an economic system of Masaryk University Brno (hereafter MU). Its aim is to analyse the current strategic and financial position of MU, to suggest and to justify some achievable medium term financial targets for MU and to consider the possible problems of top management when implementing these above targets.

2. The current strategic position of MU

The strategic aim of MU is the achievement of the standard european university's level in the medium period. As to the determination of MU position from the point of view of typology of product generic strategy I believe that the production of MU can be included in each of the four segments:

- producing education with wide application in the labour market at relatively low production costs, e.g. economy and law,
- producing education with certain specific application in the labour market at relatively low production costs, e.g. pedagogy, philosophy,
- producing education with certain specific application in the labour market at relatively high production costs, e.g. medicine,
- producing education of a narrow application range in the labour market at relatively high production costs, e.g. some natural scientific fields.

3. The financial position of MU

The financial position is determined by external and internal factors. Therefore it will be useful firstly to describe influences of the economic environment of MU and then to characterise own financial position of MU.

3.1. Influence of economic environment on financial position of MU

Economic environment of Czech universities is characteristic by continuing and at the same time reducing stagnation of the Czech economy and the impacts of the application of the balanced economic policy of the state. It is therefore not surprising that in general there is not a lack of state financial sources and that they are rather covering only the operation of universities.

The development of universities is more or less possible by means of securing other financial means by their own activities, e.g. economic activity, sponsoring etc. In future the deepening of the deficit between the justified need of financial sources and appropriations or state contributions can be hypothetically presumed.

The following changes can be expected in the state financing of institutions of higher education:

- subsequent leaving or reducing the importance of the historical principle at distribution of state finances within the framework of institutions of higher education,
- development of contract bid distribution of finance in connection to the projects accepted by state (innovations),
- deepening of flexibly structured financing esp. for equipment and operation according to the purpose of application,
- transfer of a part of financing to the students in the form of school fee introduction.

3.2. The present financial position of MU and its development

MU is the so called "contributory" organization, which means that it finances its needs from the state contribution, its own sources (admission proceeding, grants and sponsors) and by economic activity.

While the state contribution distribution among the MU subjects is based mostly on historical principle other financial sources are predominantly available for their producers. The rules of economy exist, nevertheless, they are not univocal.

There are two basic problems of the economic system of MU. The first is in the manner of budgeting the state contribution where the accent laid on indexation of historically based division among individual subjects of MU is overcome only with difficulties.

The second problem concerns the allround lack of economy and its tolerance and the effort to solve the tension between sources and needs mostly by demanding a greater portion in total university sources.

In the future the portion of the state contribution will relatively and probably also actually be rather sinking and MU as well as other institutions of higher education should come to terms with the impacts of the budget limitation.

Short summary of the structure, range and development of financial sources for both investment and operational financing of the main activity of MU is given in Appendix No. 1.

The following conclusions can be made based on the data in Appendix No.1.:

- there is a considerable dependence of MU functioning and development on state finance,
- in the course of the period under consideration a significant decrease in the creation of the own financial sources took place,
- the real increase in financial sources is negative, except for the operational allocations from the state and under including the parallel increase in the number of students from 10,366 in 1992 to 11,286 in 1993 which means relatively less financial source in all positions under consideration.

The overview of MU economy in 1993 is given Appendix No. 2. The tight financial situation in covering the MU operation is evident, implicitly the effort to withdraw entire state finance. In the cost structure the dominant role play wages and insurance and another important cost position are material and energy cost.

Finally it can be stated that the current financial position of MU is still satisfactory as the sources are slightly exceeding the present financial needs. With regard to the expected development in economical environment of MU (real decrease in state contribution, introduction of university fees, increase in prices of purchased inputs) and expected internal increase of requirements for financial covering as a result of the increase in demands (number of students will be still rising, requirement for material equipment of the training process are rising as well) the financial position of MU can be endangered very soon.

4. Financial objectives of MU

The predicted development of MU financial position implies the determination of a general financial objective of MU to secure good financial position of MU for the next 3 - 5 years. The implementation of this general objective is possible by meeting the following partial objectives:

- to make the planning system for financial needs more objective,
- to qualitatively change the budgeting system,
- to cover approx. 30 % of operational costs by own sources,
- to create a system stimulating economical behaviour.

In the following text I will try to render the reason for determination of individual objectives and to suggest a framework procedure for their achievement.

4.1. Planning of financial needs of the implementation of educational activities

Planning of financial needs is a subsystem of MU educational activity planning. The problem lies with the fact that the set of this activities include besides the newly introduced activities especially those that are in a certain stage of work in process and that arose according to the past decisions corresponding to the production philosophy of the MU function. In other words, both structure and contents of educational activities in process were not created consistently according to the predicted needs of education for application in the labour market. While the creation of new educational activities should take place already in the sense of the marketing philosophy of the MU activity, the already performed activities should be considered for fixed. The creation of new educational programmes should be started in individual faculties or also in the Rector's Office of MU (if the need of a boundary study programme arises) by their responsible formulation under the priority of the target approach, however, also with regard to the real personnel, material and spacial sources. The subsequent stage should be centralization of the proposed new activities and their evaluation in the sense of strategic objectives and possibilities of MU as a whole.

In all stages of the creation of new educational programmes and also at the determination of requirements for sources in case of activities already performed it is necessary to lean on a proper standard base which enables making the demands for material, spatial and human resources more objective by its up-dated image. The basic standard unit should be the subject of study to which minimum and optimum demands for individual sources can be allotted and thereby to provide a base for expressing the total needs for sources for implementation of the proposed set of educational activities.

By comparison of the planned need of sources and their availability (both actual and planned) it can be then stepped to the decision concerning definite composition of educational activities in the given period.

Intentionally, I have not still mentioned the question of financial need and sources which nevertheless, actually would play a decisive role at final decision making. Finding of the need of financing the planned and already performed educational activities will of course be based on material targets, normative base and prices of production factors in the existing and predicted market. The amount of available financial sources will depend on the state contribution, possibilities and capabilities of the MU itself to really create further sources and since 1996 also on the school-fee.

The rise of this situation should be mentioned. The proposed scope of educational activities may be implementable both from the material and personnel source point of view but the financial covering need not be secured. Then the financial

aspect will mean the necessity of the plan reduction.

4.2. Budgeting system

The present budgeting system may be defined as "incremental budgeting". I am convinced that with regard to the principal qualitative and quantitative changes in the environment and internally it should be necessary to pass to the "zero based budgeting". In the sense of ideas mentioned in the preceding section the budget should be based on the approved material tasks of individual MU subjects, incl. actual determination of task in the creation of extra-budgetary sources and to respect particular operational conditions in individual objects etc. with regard to the fact that the transition to a completely different budgeting system will certainly cause considerable tension inside MU, the creation of reserves should be considered and the over-dimensioning of human resources in some subjects should be solved step by step, nevertheless, purpose-oriented. While in the present budgeting system the subjects in boom are rather suffering, the new system will cause difficulties to the stagnating subjects. On the contrary, it should be clear that the life is changing the conditions and the reactions to it should be come at the best already in advance.

A separate chapter is the problem of monitoring and inspection of withdrawal from the budget by individual MU subjects. The following principle should be applied. The withdrawal is possible only in compliance with the planned tasks and in no case the exceeding of given limits should occur. The responsibility for respecting this principle is born by the statutory representative. The MU subject can withdraw financial means over the limit of the budget only from its own reserves created in the preceding budgeting periods.

4.3. Creation of own financing sources

The stress on increased creation of own financing sources is becoming more and more actual. Therefore the target idea of 30 % of MU need covered by own sources is not extreme. If not considering the influence of future introduction of university fees other possible own sources are:

- economical activity,
- grants,
- sponsoring and gifts.

While the first and to a certain extent also the second group of own source depends directly on the activity of MU subjects, the third group has stochastic character. In the case of this third group the main concern is to convince potential sponsors on the purpose of their support for particular activities and not to be in the position of an applicant as it was the case up to now.

The first and second group of the creation of own sources requires the creation of simple and effective stimulating system which should be based on the following principles:

- The prevailing part of the profit (approx. 90 %) resulting from the economical activity belongs to the particular party who created this profit, the remaining part is redistributed e.g. between the faculty and Rector's Office in the ratio 7 : 3;
- Grant means belong to the solver who will pay to the particular subject most probably indirect cost by an inclusive fixed sum in advance and then he will contribute e.g. 3 % into the university fund;
- The centralized means serve for allocations to such subjects that would be under the average of the creation of own financial sources for objective reasons.

4.4. Economy

As I stated above, the economical behaviour of neither individuals nor MU subjects is a typical phenomenon. However, the saved crown is the cheapest source of reasonable purpose-oriented financing. Therefore it is necessary also in a non-profit organization to stimulate people to behave economically and to act in compliance with simple and effective economy rules. These rules may be effective only when they stimulate economical acting directly at the place of consumption, i.e. at the workplace. Therefore I suppose that each workplace (department, institute etc.) will receive a budget and it will be interested in meeting its tasks as economically as possible. The prevailing part of the saved budgetary means will be left for the saving party (e.g. 80 %) and the remaining part will be transferred to the faculty and Rector's Office, e.g. in the proportion 7 : 3. The rise of the saving should not result in reducing the budget for the next period and the saving itself is an allocation of funds of the workplace according to the decision of its head. For the reason of the national control of wages it will be probably needed either to prevent at all or to limit the application of saved means for wages.

5. Problem sphere of implementation of financial objectives

Implementation of the above financial objectives will be influenced by external and internal aspects. By conjuncture the effect of external aspects is mainly positive as the decreasing amount of the real state contribution and the rising competition supported by the prepared new university law enforces the implementation of principal internal change of MU management system. On the contrary the effect of internal factors acts against the implementation of the proposed financial objectives. There are more reasons for the negative internal influence. As one for all

I would like to mention the rules for budgetary organizations valid till a near past (MU was budgetary organization still in the year 1991) when e.g. it was necessary to spend all money until 31st December etc. and the up to now implemented system of budgeting which supports conservative approach to the allocation of sources.

To assert the proposed objectives require at first to persuade the MU top management of the necessity of their achievement. However, it will not be easy for the reason of its weak point just in the strategic management. At the lower levels I expect support of introduction of exact economic rules, maybe also stimulation of the creation of own financial sources. However a strong resistance will occur against the proposed budgeting system as it will have a negative impact on such subjects that still have a privileged position within the MU. Similarly there will be a general disapproval to returning to the application of planned process which is still understood as comeback to the totality period.

For the above reasons I held for necessary to step forward gradually, nevertheless, aimed at the implementation of financial objectives and simultaneously to perform a consequent educational activity based on the stress of not perspective character of the existing proceedings with regard to the changing external environment. And what is very important, at first to begin in such a way so that the academic community would understand the positive impact of the implementation of objectives as soon as possible.

Conclusion

The predicted development of the MU financial position implies the determination of a general financial objective:

"to secure good university financial position for the next 3 - 5 years".

The achievement of this general objective is possible by meeting the following strategies:

- to make the planning system for financial needs more objective,
- to qualitatively change the budgeting system,
- to cover approx. 30 % of operational costs by own sources,
- to create a system stimulating economical behaviour.

Appendices

Appendix no.1:

The survey of the financial sources of MU

in 1000Kc

Year	State sources			MU sources	Summary investment	
	oper.	for invest.	summary		without	with
1992	346.133	61.944	408.077	20.448	366.581	428.525
	94.4 %		95.2 %	4.8 % 5.6 %	100 %	100 %
1993	429.693	23.768	453.461	6.947	436.640	460.408
	98.4 %		98.5 %	1.5 % 1.6 %	100 %	100 %
93/92 nom.	1.24	0.38	1.11	0.34	1.19	1.07
93/92 real %	3.2	(82.8)	(9.8)	(86.8)	(1.8)	(13.8)

note: rate of inflation 20.8 %

Appendix no.2:

Survey of economy of MU in 1993

in 1000Kc

item	abs.	%
state operation financial resource	429.693	
own financial resource	6.947	
operation financial resource	436.640	
operation costs	429.693	100.0
include:		
personal costs	271.094	63.1
material costs	84.270	19.6
purchased services	73.921	17.2
other costs	408	0.1
state resource less costs	0	
all resource less costs	6.947	

Source: Analysis of economical dealing in 1992

MU Brno, 1993

Analysis of economical dealing in 1993

MU Brno, 1994

References

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SUMMARY

Návrhy pro zdokonalení ekonomického systému Masarykovy univerzity

Ekonomický systém Masarykovy univerzity je založen na příspěvkové formě hospodaření, která dává široký prostor pro uplatnění interní iniciativy k tvorbě vlastních finančních zdrojů. Poněvadž budoucí rozvoj školy bude stále významněji limitován schopností zajistit jej především vlastními silami, je tento článek věnován rámcové analýze finanční pozice univerzity, včetně jejího predikovaného vývoje a hlavně formování některých námětů pro zdokonalení funkce ekonomického systému. Návrhy jsou směřovány jak do oblasti interních úspor nákladů, tak i ve smyslu podpory hospodářské činnosti. Pozornost je též věnována možné implementaci doporučení ke zlepšení rozpočtových aktivit a plánování potřeby finančních zdrojů pro zabezpečení provozu školy.