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Comparing the Administrative and Financial Autonomy of Higher Education Institutions in 7 EU Countries

The challenge of providing qualitatively competitive higher education to an ever increasing percentage of the population, despite the limited availability of public funds, has led many countries to grant broader administrative and financial autonomy to higher education institutions in an attempt to improve results by means of better incentives. Can a correlation be shown between this autonomy and scientific output? The preliminary evidence presented here (using OECD data for 7 Western European countries) provides some support for a positive answer to this question.

In recent decades many countries have faced the challenge, posed by the increased necessity of offering internationally competitive, qualitative higher education to an ever increasing percentage of the population, of providing the community with a highly skilled workforce and a competitive research base. Given the limited availability of public funds, this challenge has increased the pressure to improve efficiency in the financial management of higher education institutions. The path taken by most European countries has been to grant these institutions broader administrative and financial autonomy while at the same time increasing their accountability. The aim of these reforms was to achieve better results by altering the structure of incentives for the agents involved in the management of higher education institutions, both the governing bodies and the academic staff.

The educational policy reforms proposed in some cases essentially amount to transforming "public" universities into non-governmental, non-profit institutions or to permitting the establishment of new non-governmental institutions of higher learning, so as to introduce some internal competition. But more important, although often more subtle, are the educational policy reforms that lead to the increased administrative independence of the existing institutions from strict state involvement, together with increases in the accountability of the governing bodies and the academic staff. Self-assessment reports by a number of higher education institutions published by the OECD between 2001 and 2006, as well as a number of relevant OECD country reports for the 7 EU countries we examine below, (Germany, Belgium, Spain, Greece, Italy, France and the UK) allow us to describe the details that determine

the qualitative aspects of the financial and administrative autonomy that has been granted to higher education institutions in recent decades.

In particular, the 11 relevant OECD reports¹ we examined allow us to investigate the ability of the universities to hire and reward their academic staff according to their own criteria, to select their incoming students and to freely determine the content of their academic programme. We examine whether the universities have been granted sufficient discretion over the allocation of the funds that are put at their disposal, and whether this administrative autonomy is granted together with increased accountability, with regard to both financial and academic matters. We then briefly present and analyse evidence concerning the educational outcomes of the educational policy reforms implemented by the 7 EU countries under examination. We measure scientific outcome through publications per million of population and highly cited publications, and compare them with our measures of administrative freedom and accountability. We then construct a simple index to measure the autonomy and accountability of the academic institutions and correlate them with academic efficiency.

Germany

In Germany institutions have sufficient administrative autonomy to form their academic programme, and they have reasonable discretion to manage academic affairs while being accountable for their actions.² However, they lack the ability to freely select incoming

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¹ In addition to the individual country reports referred to in the paper, the following OECD documents were also consulted: OECD: Education at a Glance, Paris 2006; OECD: Education at a Glance, Paris 2007.

² OECD: Report on Financial Management, Germany, IMHE-HEFCE, 2004.

students, whilst their ability to hire academic staff is subject to some constraints. Also, they are unable to offer performance based financial incentives to their academic staff. Private institutions of higher learning do not play an important role. The exact structure depends on the Laender, but some general patterns emerge. Even though some flexibility now applies to staffing schemes, salaries are fixed as a result of collective agreements. The great majority of academic staff are appointed as employees by the responsible ministry of the Land, with limited or unlimited terms. Some Laender have given this responsibility to the institutions, however. Entry to university is open to all who have been awarded the general entry qualification ("Abitur") but gradually institutions are being allowed to select their students and to implement admission procedures. Courses and curricula are developed and monitored by the institutions, although studies for professions like medicine, pharmacy, teaching and law are concluded by state examinations. External higher education boards have mainly advisory responsibilities. The Laender retain a large influence on administrative matters. The great majority of funding comes from public sources, and research funds are largely peer reviewed and channelled through a central public organisation. Financial affairs are basically regulated and executed by the responsible local governments, but the trend is towards lump payments where the university has considerable freedom to allocate spending but is also subject to more stringent internal and external reporting, reviewing by the court of auditors and the publication of financial statements. The method of reporting is still evolving and improving with experience. Contracts between the institutions and the government increasingly set targets and relate funding to the attainment of these targets. Finally, the same has begun to hold for professors, as there is now an option for performance dependent salaries, but it will certainly take some time to change the picture and the overall results (publications, citations etc.) for German universities.

Belgium

In Belgium institutions enjoy a wide-reaching administrative autonomy that is paired with accountability, with the exception of their obligation to receive all applying students and to retain almost all of them after their first year.³ In Belgium education has become the full responsibility of the communities. The constitutional freedom of education means any institution can be established freely. Universities, within their given

³ OECD: Institutional Experiences of Quality Assessment in Higher Education - The Catholic University in Leuven (Belgium), 2006.

budget, decide on their staff and recruitment. While no specific reference is made in the OECD report on the freedom to set salaries, the freedom to promote, as well as effective reviewing by students of teachers before the renewal of contracts or the tenure offer, suggest that an incentives scheme is actually in place. All secondary school graduates are free to choose their university. There is pressure to introduce some screening, or to allow the failing of 10-15% of the freshman class. Given a mandate that determines the disciplines for which teaching is offered, the institution can decide freely the number and type of courses, the content of these courses and the teaching methods, with the only limitation that the yearly number of teaching hours has to be within a given range. The legislation refers to quality management only in a very limited manner, effectively putting this responsibility on the institutions and not on the government. Universities have a high degree of autonomy in financial matters. Half the financial input is determined by its historic level and the other half depends on several quantitative measures of performance. The internal allocation of funds is free as long as staffing costs do not exceed 80% and some limitations set by decree have to be respected. Research funding is obtained through contracts with both the government and the private sector, a process that is competitive and internalises self-assessment. Professional advice and support as well as access to venture capital is provided to entrepreneurs who want to set up a new, research-oriented business that makes use of a university's knowledge or technology. Unified external peer-reviewed quality assessment has been deemed necessary and its results are widely diffused. Institutions are themselves responsible for regular internal and external quality assessment. A government commissioner participates on the board to report any acts that are unlawful or run against the mandate and the Ministry responsible for the budget also appoints a supervising delegate.

Spain

In Spain, reforms to increase the autonomy of higher education institutions have not led to far-reaching autonomy.⁴ Significant limitations are still set by the state to their operations, and at the same time accountability, even though it has been now introduced, is not particularly far-reaching. In the case of Spain, higher

⁴ OECD: Institutional Experiences of Quality Assessment in Higher Education - The Universitat Politecnica de Catalunya (Spain), 2001; OECD: Supporting the Contribution of Higher Education Institution (HEI) to Regional Development, peer review report, Canary Islands, Spain 2006; OECD: Supporting the contribution of higher education institution (HEI) to regional development, peer review report, Region of Valencia, Spain 2006.

education was state owned and all aspects were tightly regulated by the state until quite recently. The first changes were introduced in the 1970s, and some further changes were added in 2001. Private universities were allowed and public universities have become autonomous to a certain extent. Overall responsibility for the universities was delegated to the regional governments, but a coordinating national council remains. The teaching staff no longer belongs to a national body but to the university. The academic staff is chosen by the institutions but a national authorisation is required. Academics with permanent posts are civil servants and generally constitute about 70% of the total academic staff. The central government determines staff policies, basic structure, teaching load and salaries, but the universities determine the number of academic staff positions. Before entering university, students must pass a university entrance exam that is organised by universities at a regional level. High school graduates can study for the degree of their preference according to their grade in the entrance exam, their secondary school marks and the availability of places. Universities are able to introduce their own academic qualifications although regulations still apply to the syllabi. The state ensures uniformity of quality as all programmes need to be accredited by the local governments. The government determines the core curriculum, up to 45% of the course load of the first two cycles, and beyond that the university is free to determine the programme of studies. Institutions receive government funds/subsidies according to a budget proposed by the local governments. The budget is negotiated with the institution, and only after a compromise is reached is it valid and executed. The budget is mostly target-driven, tightly controlled so as to match the (negotiated) contracts previously agreed with the local governments. There is no financial auditing, but the institution is under examination regarding the extent to which targets – agreed during negotiations – are achieved. The universities are free to allocate only money that they obtain in addition to government funding, such as fees and the sales of services, but most of the research money comes from public sources. However, universities are increasingly providing consulting and research services to external agents. Quality assurance is now conducted by both a national agency and local government agencies. Some members of the Governing Councils of institutions are now external to the university community, and quality assessments are extensive and have a significant impact on the reward of the performance of individuals. Still, they are not related in any way to specific corrective actions as far as the institutions are concerned

and the national bodies that are responsible for the assessment take action only in relation to the accreditation of programmes.

Greece

In Greece, the administrative autonomy of institutions is almost non-existent, and at the same time there is practically no accountability.⁵ Academic staff posts are determined by the ministry, although the hiring decision is taken by the institutions, but only after following a complicated procedure described by state regulations. Staff remuneration, sabbaticals and promotion are also determined by the law. Student selection follows from a national exam, and the number of entering students is determined by the law. The law also determines the creation, structure and operations of the universities. Each university is, however, responsible for the planning and the implementation of the educational programmes. It also issues diplomas that have legal recognition, offering admission to state jobs, and it has considerable autonomy on educational matters. However, the state decides on the textbooks that are used in courses. National legislation also determines budgets, procurement and financial control although some special research accounts have introduced some financial flexibility. Finally, there is now a formal internal and external evaluation of universities, according to a national law implemented just last year, but it has not yet been fully applied.

Italy

In Italy the situation is largely similar to that of Greece, and while some evaluation is taking place, it is not related to accountability.⁶ There are serious constraints as far as hiring and rewarding teaching staff is concerned. Teachers can be hired from a pool of winners in a national competition. There are limitations to the university's hiring professors when they are needed. The workload is described by law and no incentives can be offered for more work than the minimum hours set by the law. Salaries are set at a national level, and even offering reallocation expenses to professors who live elsewhere is not allowed. Perotti⁷ de-

⁵ M. Mitsopoulos, T. Pelagidis: State Monopoly in Higher Education as a Rent Seeking Industry in Greece, in: *Journal of Educational Planning and Administration*, Vol. XX, No. 3, 2006, pp. 299-312; M. Mitsopoulos, and T. Pelagidis: Rent Seeking and Ex-Post Acceptance of Reforms in Higher Education, in: *Journal of Economic Policy Reform*, Vol. 10, No. 3, 2007, pp. 177-192; OECD: *Institutional Experiences of Quality Assessment in Higher Education - Athens University of Economics and Business*, Greece 2001.

⁶ OECD: *Institutional Experiences of Quality Assessment in Higher Education - The University of Venice*, Italy 2001.

⁷ R. Perotti: *The Italian University System: Rules v. Incentives*, European University Institute manuscript, Florence 2002.

scribes how in Italy it is impossible to fire researchers. He also describes how complicated procedures allow researchers whose contracts are for a fixed term – one year – to be reappointed in the next year by a different commission (or to file their case in administrative courts). We point out that only promotion remains as a tool for the institution to offer incentives. The law forbids the use of any student selection criteria by the institutions. The curriculum has to be approved by the ministry, and programmes must comply with standards set by the government. Government approval is needed to set up new faculties, and it is difficult to obtain such an approval because it is given only when the government has funds available. Once given, the professor has complete freedom to design the content of the course. The degrees issued have legal recognition, offering admission to state jobs. Payments are lump transfers from the ministry and institutions enjoy extensive freedom in the way they allocate these funds. No mention is made of financial reporting, besides the use of such reporting for the formulation of arguments between the different governing bodies. These bodies take decisions on the allocation of funds through a complex decision-making process. Research agreements are established with both the public and private sectors but besides fees, which can be of some importance, the transfer payment from the government adds up to more than 87% of the revenue received by the universities. Private money is almost negligible. Research performance is not checked, and only recently has some research money been allocated according to individual research performance, although this external research money supports research projects that are tied to departments and not individuals. Internal evaluation is now required by law, but the law requires no review of the research performance of professors. An organisational chart and the allocation of work load has to be measured by law, and staff attendance is monitored. An internal evaluation in which external members of the College of Auditors participate is required by law, but any evaluation undertaken does not lead to specific responsibilities to take action given the complicated structure of responsibilities between the governing bodies of the universities.

France

In France, reforms have recently introduced more freedom for the institutions, together with increased accountability. However, restrictions that affect the incentives given to academic staff and the formation of the academic programme remain, together with bureaucratic procedures regarding the financial

management of the institutions.⁸ Employment committees examine the relevance of applications for academic and research positions. Universities cannot be forced to hire someone they do not want, but they can only hire someone approved by a national body like the national council of universities. The remuneration policy and promotion system does not leave enough autonomy to reward achievement and penalise dysfunction. All high school graduates that have passed an exam are admitted, but many are screened with the first year exam, so indirectly the university can screen its students after the first year and through the reputation effect its screening process has on students. The general framework and organisation is determined by the government, but the internal organisation is largely a result of self-evaluation. Still, the tutelage and organisation of modular programmes in the first cycle are the result of local initiatives promoted by the public authorities which give financial support. The bulk of finance comes from the central government through complex procedures that lead to contracts between the government and the institutions. Most expenditures are preordained, but some money can be used at the discretion of the university's management. Research can have close ties with associations governed by private law. External assessment is carried out by public and outside bodies, by the costs observatory that looks at costs per student and staffing costs, the national evaluation committee that is based on peer evaluation, and bodies for financial auditing. The result of the evaluation affects the next contract between the universities and the government, including the resources and posts provided by the government. Also, student surveys are being administered.

United Kingdom

In the United Kingdom, universities enjoy extensive freedom regarding administration and management, which is paired with high levels of accountability.⁹ Universities appoint their own staff and executives, and determine their own criteria for appointing and promoting staff. They may set their own salaries, even though they usually offer compensation comparable to other institutions for similar positions. There are some constraints on the number of students in some subjects, notably in medicine, but institutions set their own admission criteria. There is no automatic right to entry. Universities determine their own profile of aca-

⁸ OECD: Institutional Experiences of Quality Assessment in Higher Education - The Louis Pasteur University, Strasbourg 2001; OECD: Institutional Experiences of Quality Assessment in Higher Education - The University of the Social Sciences, Toulouse I 2001.

⁹ OECD: Thematic Review of Tertiary Education – Country Background Report – United Kingdom, 2006.

UNIVERSITIES

Table 1
Research Performance and Administrative Autonomy of Academic Institutions

	External financial auditing, or dependent on evaluation	High discretion to allocate lump sum state money	Freedom to decide student intake	Freedom to hire faculty	Professors' salary compensation competitive	Freedom to determine academic programme offered	External academic review process or external board members	Highly cited publications per million population.	Scientific publications per million population.
UK	Yes	Yes	Yes	Yes	Yes	Yes	Yes	31	1171
Belgium	Yes	Yes	No	Yes	Yes	Yes	Yes	25	833
France	Yes	Limited	Yes	Yes	No	Some	Yes	19	774
Germany	Yes	Yes	Limited	Some	No	Some	Yes	19	771
Spain	Yes	No	No	Some	No	Some	Some	6	579
Italy	No	Yes	No	No	No	Some	Limited	10	541
Greece	No	No	No	Limited	No	Limited	No	3	435

Sources: OECD and ISI, Philadelphia; treatment and calculations: CWTS, Leiden.

demographic programmes, set research priorities, and plan their own capital programmes. Government funds are provided as block funds according to indexes such as the number of students that complete programmes. Research funding depends on the assessed quality and volume of research. There is also a borrowing constraint to protect public funds. Universities receive significant income from private sources, and may charge fees. The Quality Assurance Agency for Higher Education was established in 1997. It is a non-government body owned by the organisations that represent the heads of UK universities, and has responsibility for managing academic standards and the quality of awards. It sets academic standards, outlines licensing responsibilities, advises the government and conducts external reviews of universities. Governing bodies usually include a large number of external members. The universities are accountable to the governing bodies and to the students, and they are subject to quality assessments. The governing bodies provide the first line of accountability in terms of ensuring that the institutions meet the needs of students, local communities and society. There are term limits. Also, ultimately, the chief executive is responsible to the parliament for spending public money, and may be asked to appear before it. Financial matters are also subject to audits by the National Audit Office. While institutions have broad autonomy, the government and the funding bodies can exercise power through the conditions of funding to ensure the implementation of their policies on higher education.

Accountability and Scientific Output

We summarise all the information to be found in the relevant OECD databases and publications, and depict them in detail in the tables and figures. In Table 1, we register the freedom of the higher education institutions to decide on each matter of interest, or whether

specific provisions for accountability have been introduced. Restrictions that limit, but do not crucially curtail, this freedom are not the same as restrictions that seriously limit this freedom, in which case we register that the freedom is non-existent or limited. In all cases this summary is based on the description provided by the country reviews conducted, and published, by the OECD. In Table 1 we also present, for each country, information on the number of highly cited and published scientific papers. Regarding the highly cited papers, the citation window is a four-year fixed period that includes the publication year plus a further three years (1996-99, 1997-2000, 1998-2001). The data source is ISI, Philadelphia, and the treatment as well as the calculations are from CWTS, Leiden. Regarding scientific publications per million of population, the same data is used by the DG Research of the European Union, and refers to the publication year 2001 and uses the population estimate of the year 2000.

We observe that in those countries in which the administrative and financial autonomy of the institutions is limited, and in which there is not sufficient accountability, scientific output, as determined by the number of peer reviewed and highly cited publications per million of population, is lower than in the countries in which these institutions enjoy higher autonomy and at the same time face higher accountability. It therefore follows from the evidence at hand that the discretion of institutions to decide on the content of their curriculum, their ability to select and freely reward teaching staff and students, and their ability to manage their financial affairs, when paired with clear provisions for accountability, has a positive correlation with scientific output.

Grading the performance of the different countries in Table 2 in a way that assigns a value of one if the institution enjoys a freedom, zero if it does not and in-

UNIVERSITIES

Table 2
Index for Research Performance and Administrative Autonomy of Academic Institutions

Countries	External financial auditing, or dependent on evaluation	High discretion to allocate lump-sum state money	Freedom to decide student intake	Freedom to hire faculty	Professors' salary compensation (competitive or not)	Freedom to determine academic programmes offered	External academic review process or external board members	Index: the sum of the preceding (7 best, 0 worst)
UK	1	1	1	1	1	1	1	7
Greece	0	0	0	0.25	0	0.25	0	0.5
Italy	0	1	0	0	0	0.5	0.25	1.75
France	1	0.25	1	1	0	0.5	1	4.75
Spain	1	0	0	0.5	0	0.5	0.5	2.5
Belgium	1	1	0	1	1	1	1	6
Germany	1	1	0.25	0.5	0	1	1	4.75

Sources: OECD and ISI, Philadelphia; treatment and calculations: CWTS, Leiden.

crements of 0.25 for variation in between that match the situation described for the education system of the country, and adding these grades, we can construct a simple index of academic freedom for the few countries in our sample. This index, taking into account the small size of our sample and the rudimental construction of the index, seems at least to support the suggestion that further research should investigate the proposition that there may be a correlation between academic freedom and the academic performance of the different countries (Figures 1 and 2).

Noteworthy is also the proximity of Germany and France in both their index and their performance. It should be noted that as the data for the cited publications is highly correlated with the data for the highly cited publications, the fact that our index is highly correlated with both these series should come as no surprise.

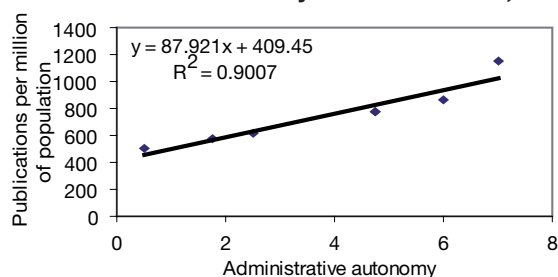
Conclusions

Few universities in continental Europe are regarded as world-class and ranked in the top 50 in the world by research outcomes criteria. Institutions in many member states are held back because governments spend

much less per student in tertiary education than Japan and the USA. In addition, governments do not allow universities to charge tuition fees in order to finance educational infrastructure. Lack of flexibility, "statism" in a negative sense, and overly administrative, financial and bureaucratic control, not to mention professors' monopoly position with no external accountability and evaluation, complement the negative picture. The outcome of all these unfortunate circumstances is a phenomenon which we call "students in exile". Greece is actually a champion of that, with a sky-high rate of 13% of Greek students studying abroad. It should be noted in this matter that, according to Eurostat¹⁰ 40% of the OECD students studying abroad are concentrated in the USA, which receives, in parallel, 2/3 of the mobile R&D. Scandinavian Universities, which are also well funded and enjoy high financial and administrative autonomy, are also at the top of high quality tertiary education catalogues, confirming the evidence presented in this paper.

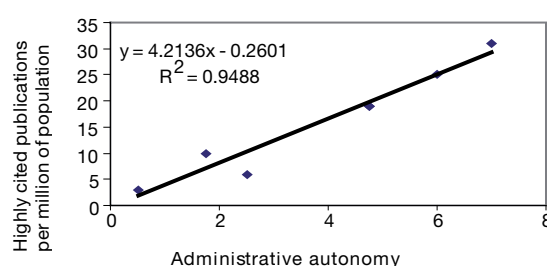
¹⁰ European Commission: Towards a European Research Area Science, Technology and Innovation. Key Figures 2005, Eurostat; Eurostat: Eurostat Yearbook 2005.

Figure 1
Administrative Autonomy and Publications, 2001



Sources: OECD and ISI, Philadelphia; treatment and calculations: CWTS, Leiden.

Figure 2
Administrative Autonomy and Highly Cited Publications, 1996-2001



Sources: OECD and ISI, Philadelphia; treatment and calculations: CWTS, Leiden.

In this paper, we investigated the correlation between autonomy (administrative and financial) and scientific output in 7 EU member states. We originally looked at the ability of universities to hire and reward their academic staff according to their own policy criteria, to select their incoming students and to freely determine the content of their academic programme. We also examined whether the 7 EU universities in the study have been granted sufficient policy discretion over the allocation of the funds that are put at their disposal. We finally examined whether this autonomy is granted together with increased accountability, with regard to both financial and academic matters. We then briefly presented and analysed some evidence concerning the educational outcomes of the policy reforms implemented by the 7 EU countries under examination. We also measured scientific outcome using publications per million of population and highly cited

publications, and we did find a positive correlation with extended freedom in the university's management. To summarise this information, we constructed a simple index for the administrative autonomy of the academic institutions and correlated them with academic efficiency. This index provides some initial support for the proposition that there may be a positive correlation between administrative and academic freedom, and academic performance. It remains, therefore, for further research to expand our investigation of the tertiary education systems to a larger set of countries or to construct a weighted index that takes into account the contribution of the qualitative factors to the variation of the index and at the same time to investigate the impact which other factors, like government spending on R&D or students' performance in labour markets after graduation, have on academic performance.