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## Funding Reforms in Malaysian Public Universities from the Perspective of Strategic Planning

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### Abstract

The Malaysian Federal Government through Ministry of Higher Education has come out with the initiative to implement the National Higher Education Strategic Plan beyond 2020. This strategic plan focuses on the sustainability of the higher education system in Malaysia. The overall planning included improving the teaching and learning, research and development, engagement and internationalisation of higher education in Malaysia. A part from the strategic planning, the government has also introduce the funding reforms. In order to develop sustainability in today competitive environment, universities must have strong strategic plans. This concept paper discussed the challenge faces the public universities in Malaysia to achieve the government objectives as stated in the Federal Government blue prints.

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### 1. Introduction

Higher Education Institutions (HEIs) around the worlds are facing the decline of funding from government (Ahmad et al., 2012; Beath et al., 2008; Burke, 2002; Fernández et al., 2011). The reductions of funding create a challenge for the public universities to generate their own income. Apart from that, the universities have to find their own money to cover the operation and development. The

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commercialisation, patent, income generation, rental and alumni might contribute to the total income. However, that is not only the solution. The public universities have to come out with comprehensive strategic planning. It is not just a matter of generating income. It must be support with the short and long term planning.

The greater challenge for the strategic plan is the issues of performance, quality, delivery system, employability, marketability, research and development, and internalisation. The universities must be creative and innovative in develop human capital to release the full potentials of its academic and non-academic staff. The strategic planning develop by the government require all universities in Malaysia to improve the performance as plan. Chien (2004) in his research identify seven factors contribute to the organisational performance. One of the factors is organisational culture and environment. As highlighted, Alvesson (2012) a number of studies show presence of a 'strong' culture as a positive influence on organisation performance. In the same time, organisational culture might have impacts on the productivity, performance, commitment and self-confidence (Saffold III, 1988; Zheng et al., 2010).

## **2. Literature Review**

With the intention to fostering the excellence of HE in Malaysia, in 2007 the Malaysian government introduced the National Higher Education Strategic Plan 2020 and National Higher Education Action Plan 2007-2010 (Country Report - Malaysia, 2008; Sirat, 2009). These policies focused on performance, quality, delivery systems, governance, employability, marketability, research and development, and internalisation of higher education in Malaysia (MoHE, 2007a, 2007b). This most recent policy change in the national strategic plan is Malaysia's latest response to the global challenges for internationalisation of higher education (Sirat, 2009). In this plan, the government aims to introduce a new funding policy for Malaysian Higher Education Institutions (HEIs).

Malaysian public universities have been advised to develop a funding strategy for allocating resources according to priorities (World Bank/EPU, 2007). However, although the push to diversify funding for higher education has proven successful in many developed countries (e.g. United States, United Kingdom, Finland, Canada, Australia), Schiller and Liefner (2006) argue that since developing countries, such as Malaysia have different political, economic and educational systems, they need to develop models that are appropriate to the country's educational structure. Therefore, the budget allocation and expenses for development and operation should support the universities for growth in the future. Furthermore, Strehl et al., (2007) point out that implementation of a new system requires support from all university communities and stakeholders to ensure its success. As funding is crucial portion of the strategic planning, the government, universities, and other stakeholders must take part in the plan.

### *2.1. Strategic Planning in Higher Education*

In order to develop sustainability in today competitive environment, universities must have strong strategic plans. Previous literature has argued that funding systems are one of the major factors influencing higher education institutional strategies (Kettunen, 2008; Rolfe, 2001; Strehl, et al., 2007). Therefore, an improved funding system is expected to stimulate strategic activities within HEIs, including staff development, and improvements of structures, outcomes, activities and processes. Here, HEIs need to focus on development of funding policies that are in alignment with government goals.

### *2.2. Higher Education Strategic Planning in Malaysia*

The National Higher Education Strategic Planning beyond 2020 and National Higher Education Action Plan 2007-2010 are the current policy being used to reform the Malaysian public HEIs funding mechanisms. As stated in these policies, the Federal Government will propose performance-based

allocation mechanisms based on competitive funds as the funding strategy and income generation. Here implementation of this new policy will be based on performance rather than traditional methods (Ministry of Higher Education, 2007). In agreement with Orr et al. (2007) these funding allocation methods will stimulate Malaysian universities to be more competitive. Here, the indicators of performances including students' enrolments, quality of teaching and learning, publications, research and development, patents, and licences are useful indicators used for allocate of funding while at the same time improving performance (Jongbloed & Vossensteyn, 2001).

In addition, the MoHE has established a body called the Programme Management Office (PMO) at the ministry level and affiliated agencies called Institutional Programme Management Offices (i-PMOs) at the university level. The PMO and i-PMOs aim to provide support for the implementation, planning and execution of National Higher Education Strategic Plan beyond 2020. While the PMO acts as a steering committee that structures the universities' performances according to the strategic plans, the i-PMOs are required to provide information on these areas to the PMO. The PMO and i-PMOs act as a monitoring mechanism that helps overcome the problem of moral hazard and ensures that the government receives returns on its investment in higher education (Kivistö, 2005).

The Programme Champion is the Minister of Higher Education. The PMO Programme Director component includes: (1) Project Delivery Unit; (2) Process and Mentoring Unit; (3) Monitoring and Reporting Unit; and (4) Communication Unit. The Project implementation is at the university level (MoHE, 2007a).

Meanwhile, to measure the level of the Malaysian public universities readiness, the University Code of Good Governance (CUGG) and University Good Governance Index (UGGI) have been adopted. The principles of CUGG are to measure the university governance best practices, while UGGI is used to measure the readiness for autonomy implemented in four designated areas namely governance institutions, financial and wealth creation, human resource management and academic management, and admission of students (Berita Harian, 2011). Here, the public universities will be measured based on the results of the audit to determine their readiness for an autonomous status – whether they are eligible or not, and whether they are willing to accept the status of autonomy or not. As mentioned before, the implementation of the autonomy agenda will be the main focus of the MoHE in order to increase the competency of the universities. In addition, greater transparency in performance will enable the Government to make improvements and provide necessary support in the field. Indeed, granting autonomous status is a challenge and a test for the public universities.

Principles of integrity and accountability will be central to the process of granting autonomy, which will then determine the ability of each of the public institution to develop. Some indicators are used to determine whether the autonomous status granted to a university has contributed to improvement in academic, financial, and managerial issues, and whether the university has shown progress in R&D and innovation. As a consequence, all public HEIs were measured for their readiness for an autonomous status in 2011. It was declared that all public HEIs that gave evidence of a positive report will be granted the status of an autonomous institution by 2015 (Utusan Malaysia, 2010a). Datuk Seri Mohamed Khaled Nordin announced UTM as the first public university to be granted with full autonomy by the MoHE (Utusan Malaysia, 2010a, 2010b) followed by other four universities namely USM, UM, UKM, and UPM (Kulasagaran, 2012).

### *2.3 Funding Higher Education Institutions in Malaysia*

The Malaysian government provides 90 per cent of funding to all public HEIs through budget allocation each year, with the remaining ten per cent coming from students' fees (Lee, 2000a; MoHE,

2007a, 2007b). However, even though they comprise the bulk of higher education in Malaysia, the private HEIs rely on their income, and funding suggested by the government will not apply to them. In the meantime, funding provided to public universities still based on negotiation between MoHE and institutions (World Bank/EPU, 2007).

The National Higher Education Strategic Plan beyond 2020 outlines the strategies needed for universities to subsidise their income from internal resources. Phase I of this strategic planning (2007–2010) requires that operating expenditures be subsidised through internal resources by 15 per cent in Comprehensive/Focused Universities and 20 per cent in research universities. Phase 2 of the strategic planning (2011–2015) aims to strengthen the financial resources of Comprehensive Universities/Focused Universities (CUs/FUs) to achieve a target of 20 per cent of operating expenditure, while Research Universities (RUs) have a target of 25 per cent of operating expenditure and 5 per cent of development expenditure. In Phase 3 (2016–2020), the government will expect CUs/FUs to supplement 25 per cent of their operating expenditure and 5 per cent of development expenditure, with RUs supplementing 30 per cent of their operating expenditure and 10 per cent of development expenditure.

In addition, the Critical Agenda Project (CAP) Governance is one of the listed agendas to encourage public universities to move towards an autonomous system of governance such as corporate governance, financial and wealth creation, human resources, and academic management (MoHE 2007). Here, the generation of income by public universities should consider the interests of the university and Government.

#### 2.4 *Performance Based Funding*

Schiller and Liefner (2006) stated that the shift to a new funding mechanism for public universities will likely change the universities' behaviour. Therefore, as the Malaysian Federal Government is in the process of introducing a system of performance-based competitive funding for all public HEIs. The Performance Based Funding (PBF) is very popular to be implemented. This funding system is based on the key performance indicators. Funding to university is going to be allocated based on the real performance and not promised performance. Here, the motivated universities will work hard to get the funding that linked to performance. With that, the activities implemented by the universities will be consistent with the government objectives.

In preparing for the introduction of transparent funding systems, a 2004 study established that performance-based funding models could save the MOHE operating budget for public universities up to 30 per cent (World Bank/EPU, 2007). Here, performance-based funding rewards actual institutions performance where indicators can be used to measure performances and incentives for improvements. There are four types of financing approaches that might be considered: (1) *performance contract* based on agreements to set mutual performance objectives; (2) *performance set aside* based on the portion of public funding get aside for universities to pay on the various performance; (3) *competitive funds based on peer review*; and (4) *payment for results* – outcomes used to portion funding formulas (Salmi & Hauptman, 2009; Strehl, et al., 2007; World Bank/EPU, March 2007).

The PBF mechanism might be the best strategies of resource allocation to be implemented by the Malaysian Federal Government. This competitive based funding has been implemented around the worlds. Liefner (2003) pointed out that universities in Netherland and Britain received a big portion of tax payer funding that are based on competitive elements.

### 3. Conclusion

The higher education landscape in Malaysia has gone through substantial changes. The government of Malaysia has introduced the National Higher Education Strategic Plan 2020 to transform the landscape of higher education in Malaysia. The establishment of the policy is to build a higher education environment that will foster the development of academic and institutional excellence. The National Higher Education Action Plan 2007-2010 initiated by the Federal Government of Malaysia proposing new funding mechanisms that will be applicable to all Malaysian public HEIs. The National Higher Education Action Plan 2007-2010 initiated by the Federal Government of Malaysia proposed new funding mechanisms that will be applicable to all Malaysian public HEIs. Government all over the world are now facing with tight budget to funding the public universities. Here, universities are now required to generate their own funding in order to remain competitive. As today, the strategic planning an important role to generate income.

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