

*Performance-based Budget Management in Higher Education:
International Perspectives and Their Effects on Thailand*

Nantarat Charoenkul*

nuntarat@gmail.com

Abstract

Due to the government policy since 2001 focusing on the efficiency of resource administration and allocation, a concept of “Strategic Performance-based Budgeting System (SPBBS)” has been introduced into Thai educational system at all levels. Such a concept responds to the principles of educational system management spelt out in the National Education Act 1999, concentrating on decentralization of authority including financial management and budgeting to educational institutions at all levels. Through a performance-based budgeting system, each related unit/body has to participate more in decision making about how to efficiently and effectively use budgets with transparency and equity. The performance-based budgeting system has been fully translated into practice in Thai higher education since 2003. Many universities, in the course of becoming autonomous, have tried to implement such a kind of budgeting system in their institutions to upgrade the potential of financial resource management of each unit. Therefore, this literature review paper aims to explore and probe into some global and national views on performance-based budget management and its significance in Thai higher education.

Keywords: Performance-based budgeting system, 7 hurdles, the principles of good governance, higher education institutions, autonomous universities.

*Assistant Professor Dr., Faculty of Education, Chulalongkorn University

1. Principles and concepts of higher education management in Thailand

Higher education in Thailand is classified into associate degree / diploma and degree levels. The associate degree or diploma level requires three years of study (totally 90 credits), offered by state and private vocational as well as community colleges. The degree level requires two years of study beyond the diploma level, while it needs four to six years of study for those completing secondary education or the equivalent.

Since the establishment of Chulalongkorn University (the country's first higher education institution) in 1917, the number of tertiary institutions has increased substantially within the past decade. There are currently 166 higher education institutions under the supervision of the Office of the Higher Education Commission and 94 specialised educational institutions under the supervision of other ministries and agencies. (Office of the Education Council, 2007).

According to Atagi (1998) and Varghese (2001), as a result of the economic crisis in East Asia which seriously hit Thailand in 1997, Thai higher education policy has moved towards its most drastic reform in nearly a century. To render universities to be more flexible in terms of operation at the time of the rapid expansion of higher education while the government's supporting funds have been limited, an innovative way of university administration, known as "being

autonomous" under the state supervision, has been introduced.

In coincidence with what was stated by Atagi (1998), "being autonomous" means that universities will be partly freed from the state control and bureaucratic restrictions on their financial and administrative autonomy, with their own salary accounts. With the small amount of budget allocated by the government, the state autonomous universities need to mainly depend on themselves and to be more competitive to keep pace with the reform and changes. They need to search for additional and non-governmental sources of income to supplement existing subsidies from the government and taxpayers. This could be achieved by creating more professional-oriented programmes and short courses in correspondence to the market trends and establishing more income-generating activities either from contracted research, consultancy or partnerships with the private sector and external organizations. (Achava-Amrung, 2001; Varghese, 2001). At present, there are 13 autonomous state universities. While becoming more economically self-dependent, these autonomous institutions need to be more concerned about effectiveness and efficiency of financial resource management and budgeting.

With reference to the World Bank (1994), greater institutional autonomy is the key to the successful reform of public higher education, especially reform aimed at resource diversification and more efficient use of resources. The international experiences from France, Japan,

and the Netherlands, where the government has granted increased financial autonomy to state universities to stimulate innovation in research and teaching, imply that autonomous institutions are more responsive to flexibility and incentives for quality improvements as well as efficiency gains. In Chile, Thailand, and Vietnam, as to redistribute the costs of higher education, the government has transferred many powers and responsibilities affecting costs to institutions, while establishing policy structures to guide the development of the system from a greater distance. To successfully optimise the limited resources and opportunities granted by the government, each institution of higher education has to focus more on the result and output / outcome. Accordingly, it is worth exploring and probing into some global and national views on performance-based budget management, its significance and responsiveness to the concepts of good governance, as well as its practicality, in Thai higher education.

2. Good Governance and International views on a Performance-based Funding Approach

Apart from being autonomous, higher education institutions need to be more accountable for their performance. They need to be concerned about monitoring the quality of their training and research outputs, the relevance of their programmes, and their use of public subsidies. This requires more sophisticated evaluation capacity than most governments

have in place today. Countries that rely on performance-based allocation mechanisms are in a better position to foster efficient use of public resources. Nevertheless, performance indicators are most effective when they are clearly related to institutional goals and when they are used as aids in decision-making, not as rigid determinants of funding. (The World Bank, 1994, 65).

As cited by the Ministry of Education (2003), a performance-based budgeting system was introduced into Thai higher education in 2003. It is operated under the concepts of good governance comprising transparency, justice, participation from stakeholders, efficiency and effectiveness, accountability, autonomy, plan-target-regulation settings, decentralization of power, evaluation with a set of performance indicators relating to institutional goals, as well as social responsiveness. (Shattock, 2006). Such a system has a particular model of management, in which funds are allocated to each office / unit based on its performance, outputs or outcome corresponding to institutional goals / targets.

As discovered by a research team of university staff under the sponsorship of 21 Thailand's University Staff Councils (2001), the Dearing Report, concerning state higher education in England, suggests that there should be justification in budget allocation by reducing the block grant model that is based on inputs and concentrating on an effective and efficient model which is bound with staff performance and outputs. Whereas universities in Australia still give an emphasis on budget allocation in

the form of block grants instead of year-by-year payments, on the condition that it needs to be operated within a three-year task plan, that is possible to be monitored and assessed, under the institutional strategic plans. A three-year planning and budgeting model has been practised in several Australian universities. At the University of Sydney, such a model has been conducted with some block grants allocated as operational costs by the central government. Such grants include supporting funds paid in accordance with the number of full-time students registering in regular programmes. After obtaining budget from the central government, the university then distributes supporting funds in the form of block grants to each faculty / school based on the number of staff and students and the extent to which the faculty / school strategic plan is consistent with the university's (University of Sydney: <http://www.usyd.edu.au/about/orgchart.shtml>).

Normally, in planning and budgeting, the university gives an emphasis on the links between academic and financial plans. Each faculty / school operates independently according to its plans and policy. Nevertheless, it still needs to hand in monthly administrative and financial reports to the university, in order that they could be examined against the plans. A year after these plans have been translated into action, each faculty / school needs to assess its objectives, ways and goals to justify the plans so that they become consistent with the financial status, as well as to prepare for the establishment of

long-term plans. At the University of Technology, Sydney (UTS: <http://www.uts.edu.au/about/admin.html>), information about the problems of over-budget-limit expenditure of each school / faculty is added as an appendix to the university's monthly administrative report. Such information could be used as guidelines and suggestions for budget management of the university. Griffith University is one of the institutions in Australia which has modified its financial and budgeting system by concentrating on goals, performance and outcome in order to bring about stability and benefits in terms of internal business management and planning, as well as to prepare the university itself for future growth (Griffith: http://www.gu.edu.au/about_us/). Such a kind of the above-mentioned approaches of budget allocation and administration support the concept of budget expenditure based on worthiness, efficiency, effectiveness, transparency and accountability.

For financial management in higher education, a critical factor that needs to be concerned about is cost per unit. On this matter, the University of Glasgow in England has studied about a new approach of unit cost calculation in accordance with a set of standards defined in a report, known as "transparency review." (University of Glasgow: <http://www.Gla.ac.uk/transparencyreview/intro.html>.) Through this approach, each institution needs to report with transparency all the expenses for instructional, research and other activities. For the research-oriented universities, they have to set up a time

allocation method. By applying such an approach, each university has to calculate the total cost of instructional, research and other activities at the institutional level. In this regard, they need to divide such activities into two groups: the activities supported by the government and those financed by non-governmental bodies. The cost calculation is normally conducted once a year by each department. The demonstration of actual unit cost for each activity is beneficial to the institution as it could help administrators make the right decision. Also it could bring about a good opportunity for the institution to inspect its cost at the sub-unit level. This helps broaden its opportunity to negotiate for additional subsidies from patrons or other sources of funds. Therefore, the knowledge of cost per unit does help administrators manage their resources efficiently, effectively, transparently and retraceably.

3. Principles of Financial and Budget Management based on the Concepts of Good Governance in Thai Education

To promote good governance in education, a concept of performance-based budgeting was introduced into the financial and budget management system at all levels of education in Thailand in 2003. Later on, it has been fully translated into practice since 2004. The concept of performance-based budgeting perfectly coincides with the ideas on good

governance which cover the following principles of financial and budget management.

1) Comprehensiveness and discipline

The result of overall problem analysis and the manifestation of linkages and relations between components of a system lead to comprehensiveness and discipline in financial management and budgeting.

2) Justice

The decision of administrators or committee members, in charge of monitoring or changing the way of policy implementation, needs to be made fairly and accurately in order to bring about utmost benefits to the organization.

3) Flexibility

An effective approach of financial management and budgeting has to be flexible, transparent and accountable. Above all, it needs to result in liquidity and attainment of objectives and goals.

4) Predictability

The policy on operation has to be clear-cut, possible and continual. The organization needs to plan for the resources to be used in next year and a couple of years to come, so it could be assured that they will be available in time of need.

5) Loyalty

Budget allocation needs to be done on a basis of loyalty, transparency, logicity and impartiality.

6) Information

Accurate information on resources, cost per unit and output / outcome helps enable stakeholders to make decision efficiently.

7) Transparency and responsibility

To promote transparency and responsibility in financial management and budgeting of an institution, the Ministry of Education and the related bodies have spelt out a set of standards and guidelines for the implementation of a system of performance / result-based budget management.

4. Standards of Financial Management

To efficiently operate a performance-based budgeting system, each unit needs to be well-prepared. The office in charge of policy making has to cooperate with the other responsible for monitoring and evaluating. In order to successfully implement such a kind of budgeting system, there needs to be an effective communication between policy makers, administrators as well as all the staff and the practitioners in charge of planning, financing and budgeting. For sustainable development, the system has to be operated based on the standards for financial management, called 7 hurdles. Such standards have the details as follows:

1) Budget Planning starts from strategic planning of a unit, consisting of a vision, missions, objectives, outputs, strategies and structures of programmes. Budget planning focuses on the

formation of a system providing confidence in the comprehensiveness of resource allocation processes covering all the crucial activities. Information derived from the strategic plans could be used for preparing a Medium Term Expenditure Framework (MTEF) to anticipate the limit of budgets available for each year.

2) Output Specification and Costing

Each unit has to specify its activities and outputs resulting from the activities. It needs to develop a financial management system that facilitates the calculation of both direct and indirect costs. It also needs to use the information of costs for making decision on worthiness comparing to the capital and for evaluating other options which require lower costs but offer the same outputs or results.

3) Procurement Management

Each unit needs to develop an efficient, transparent and accountable system of procurement management which covers all critical details of procurement.

4) Financial Management and Budget Control is an indispensable tool for the agility in budgeting which each unit needs for assuring the efficiency and effectiveness in budget consumption. Therefore, each unit needs to set up a standard of financial management and budget control. For budget control, there must be a record of accounts based on an accrual basis instead of a cash accounting system. In this regard, accounting structures, important documents, items and evidence need to be

specified. Moreover, there must be an efficient system of budget management and control.

5) Financial and Performance Reporting

For financial and performance reporting, each unit has to determine key performance indicators (KPIs), a clearly stated system, a framework and structure of appraisal and reporting, including dates of reporting. Also, there needs to be an inspection of the reports in terms of accuracy. Each report should demonstrate the relations between factors and actual performance as well as a periodical analysis of worthiness of performance so that it could be used for further planning in time.

5.1 Financial Reporting: the manifestation of financial status of a unit / an organization to people concerned in order that they know the effectiveness of the unit's / organization's performance and its capacity for managing finance efficiently and effectively.

5.2 Performance Reporting: a performance agreement between a unit and its superior office, concerning budgets and goals to be operated each year.

6) Asset Management

Each unit needs to have an efficient system of asset management, showing its responsibility for asset management. On this matter, the following criteria must be taken into account.

6.1 Chief executive officers have to realize the importance of asset management.

6.2 The scope of responsibility for assets needs to be clearly determined.

6.3 There needs to be a complete and up-to-date registration of asset in control.

6.4 The service charges incurred from the use of assets should be appropriately made.

6.5 There should be regulations and guidelines, leading to the worthy use of assets.

6.6 An option of asset renting should be considered in place of purchasing.

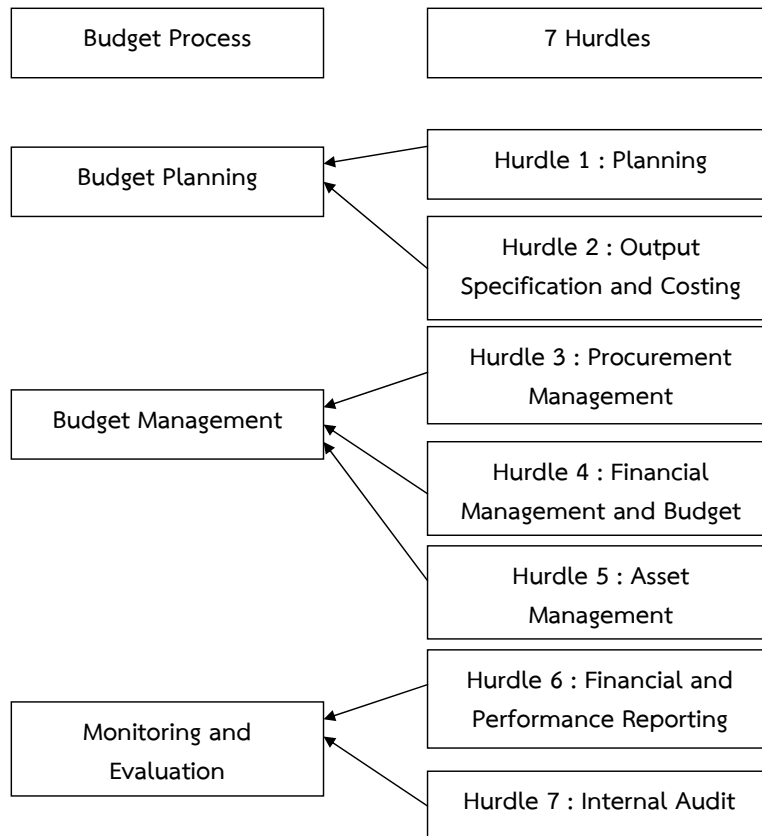
6.7 A plan of asset acquisition and replacement should be made in advance with the consideration of an advance expenditure framework.

7) Internal Audit

Each unit needs to develop an efficient system of internal audit, together with a mechanism that could control and examine the performance so that it would attain the defined objectives and goals. In this regard, there should be an independent section / unit of a suitable size in charge of internal audit, with its clearly defined authority and responsibility. Moreover, there needs to be a comprehensible set of key performance indicators (KPIs). Nevertheless, the inspection is not only limited to financing, but also includes the operation of a unit / programme / project / activity, which is considered a process applied in the assessment of its performance on the consumption of resources. Such an assessment is made with the criteria of economy, efficiency, effectiveness and worthiness. As the system of performance-based budgeting focuses on decentralization of the authority on budget management to operating units, the standard of financial management, known as 7 hurdles,

is relevant to the budgeting process, comprising budget planning, budget management, as well as monitoring and evaluation.

The following diagram shows the linkages between the budget process and the 7 hurdles.



Source: Chaiyasith Chalermmiprasert (2001, 23)

5. International perspectives on a Performance-Based Budgeting System

As a result of an investigation on the advantages and disadvantages of performance-based funding, Geuna and Martin (2003) indicate that the main virtue of a result-based approach of funding lies on its ostensible meritocracy, its tendency to improve quality both in instruction and research, its provision of greater accountability as well as stronger connection

between research / projects and organization policy / strategy. Nevertheless, it has some drawbacks in terms of a high cost of investment for managing human resources and obtaining a reliable information system to support the full implementation of such a kind of funding approach and a risk of the occurrence of a phenomenon where academics devote more time to conduct mainstream research rather than producing an original and innovative piece of work and focus on research at the expense

of teaching (in case the rewards for research are greater than those for teaching).

To tackle with the above-mentioned limitations of the performance-based funding, Jongbloed and Vossensteyn (2001) suggest that, instead of a single use of quantitative indicators such as the number of degrees awarded and the number of research publications, the input indicators and a number of qualitative indicators: the quality of research and the extent of its contribution either to each institution, the society or the nation and the integration of teaching and research, also need to be brought into consideration of all the persons concerned when deciding on the budgets to be allocated to each institution.

The research conducted by Frolich and Klitkou (2006) to verify the efficiency of a performance-based budgeting system reveals that, in Norway where the main feature of funding mechanisms is output-oriented, almost half of the institutional block grants are allocated according to the number of credits, graduates and publications produced. Accordingly, all institutions of higher education are encouraged to increase the quality of their educational programmes and research to broaden the possibility to receive additional funds from their government. However, this performance-based funding model still needs to be periodically monitored to assure that academic staff and researchers do devote more time to research activities and to international publications of

their research work, while maintaining the quality of their teaching tasks.

From the cited international perspectives on the performance-based budgeting approach, it can be summarized that, in spite of its remarkable advantages in terms of the provision of a stronger linkage between the performance or outputs / outcome and the organization strategies / policies and greater accountability as well as transparency in management of budget and other resources, this result-based funding has some limitations that any institutions applying or planning to use it need to be aware of while implementing a performance-oriented system. Or they may have to consider another option such as a hybrid approach, which is based partly on performance to create incentives and some essential improvements and partly on educational size to minimize costs.

6. Factors leading to Success in the Management of a Performance-Based Budgeting System

To successfully manage a performance-based budgeting system, each organization / unit has to be concerned about the following factors (Office of the Policy and Budget Planning, unidentified year of publication):

- 1) A strategic plan which is formulated with a clearly determined goal, operational guidelines that are carefully prioritized, as well as its systematic connection with the outcome presented in the form of a strategy and output;

2) Leadership of the administrator, who needs to have a strong determination and possesses characteristics of a change agent. He / She has to be able to motivate and drive the staff to laboriously work to achieve the objective of the organization and to earnestly try to improve their work continuously. Moreover, he / she needs to have expertise in the tasks under his / her responsibility, possess the skills of data analysis, have self-confidence and drive towards success, have a strong desire to lead and motivate, have loyalty, as well as be united with his / her subordinates. (Sukhothai Thammadhirat Open University, 2001, 223-224).

3) Participation from staff in the organization / unit in every stage of management, starting from setting a strategic plan, translating it into action, and producing the output / outcome in accordance with the plan. The more participation the organization gains from the staff, the stronger teamwork it can raise. Unity between administrators and staff serves as a driving force towards creativity, efficiency and effectiveness.

4) Staff perception and understanding of the performance-based budgeting system. All the staff concerned need to be imparted with knowledge and skills that enable them to formulate a strategic plan and a Medium Term Expenditure Framework (MTEF). The development of staff's knowledge and understanding of the matters related to the organization / unit is a crucial stage in institutional management. It has an effect on operations taken in the organization / unit as a whole in terms of efficiency and

effectiveness. It also enables the organization to properly adjust to any changes and helps reduce work problems.

5) Operations taken in accordance with the performance-based budgeting system as a strategic action plan and a medium term expenditure framework are made. For the implementation of the system based on 7 hurdles, there should be a group of staff distinctly assigned to take responsibility of each task in order to maintain accountability.

6) Constant supervision, monitoring and upgrading knowledge and skills of the staff.

7) Continual development and improvement to bring about management tools and operational process, as well as output of high quality.

In addition, a number of qualitative indicators need to be considered, apart from the quantitative ones, to prevent injustice and inequity in the allocation of budgets to any institutions.

7. Conclusion

A performance-based budgeting system apparently manifests the linkage between the used resources and budgets and the output / outcome, on the condition that any management approaches could be applied to strengthen collaboration between administrators, staff, communities, as well as other stakeholders who need to share the responsibility of tasks to efficiently and effectively attain the goal spelt out by the organization / unit. Efficiency concentrates

on producing the utmost outputs / benefits while saving the time and wasting the fewest number of resources. Effectiveness focuses on generating results as defined in the organization / unit policy and goal which need to be consistent with those of the government. Therefore, the performance-based budgeting system requires a systematic method of management, the formulation of the organization / unit's goal and strategic plans, a system of assessment that needs to be conducted systematically and accountably, as well as participation from the stakeholders within and outside the organization / unit. Nevertheless, the lessons learnt from the international perspectives concerning the significance of a performance-based budgeting approach and its limitations provide a thought-provoking idea of how to efficiently operate such an approach in various contexts. To effectively implement a performance-based budgeting system in an institution of higher education, a study of how such a kind of budgeting system

functions and any problems arising from the application of the system in the context of a developing country like Thailand, where the reform of financial management and budgeting is in progress, needs to be conducted in order to quest for an administrative approach or a model of the performance-based budgeting system that would fit in with and be applicable to the autonomous state universities, that tend to increase in number from time to time.

8. Acknowledgements

This literature review paper is part of a research project on "Development of an Administrative Model of Performance-Based Budgeting for Institutions of Higher Education". The research project has been sponsored by the Thailand Research Fund (TRF) in collaboration with the Office of the Higher Education Commission (OHEC), Ministry of Education of Thailand, to whom the researcher would like to express thankful appreciation.

References

- Achava-Amrung, P. (2001). *Impact of economic crisis on higher education institutions in Thailand* (A study sponsored by the IIEP), Draft report.
- Atagi, R. (1998). 'Economic crisis accelerates the reform of higher education in Thailand', *International Higher Education*. Vol.11, p.9-10.
- Board of the Chairpersons of National University Staff Councils. (2001). *A New Model of Good Governance in Higher Education Institutions*. Bangkok: Chulalongkorn University Printing House.
- Chalermmiprasert, C. (2001). *A Standard of Financial Management: 7 Hurdles, and A New System of Budgeting*. Bangkok: Dhira Film and Citex Co.Ltd.

- Frolich, N. and Klitkou, A. (2006). 'Strategic management of higher education institutions: performance funding and research output', *Paper submitted to the Conference on Indicators on Science, Technology and Innovation, Special session on Indicators for strategic management of higher education institutions*, 15 to 17 November 2006, Lugano.
- Geuna, A. and Martin, B.R. (2003). 'University Research Evaluation and Funding: An International Comparison', *Minerva*, Vol. 41, p. 277-304.
- Griffith University. (2007). *About Administration*. [Online] Available from: http://www.gu.edu.au/about_us/. [2010, July 14]
- Jongbloed, B. and Vossensteyn, H. (2001). 'Keeping up Performances: an international survey of performance-based funding in higher education', *Journal of Higher Education Policy and Management*, Vol. 23, No. 2, p. 127-145.
- Ministry of Education. (2002). *Guidelines for the Administration of a Performance-Based Budgeting System in accordance with a Standard of Financial Management: 7 Hurdles*. Bangkok: Ministry of Education.
- Ministry of Education. (2003). *The Administration of a Performance-Based Management System in Schools*. Bangkok: Ministry of Education.
- Office of the Education Council. (2008). *Education in Thailand 2007*. Bangkok: Amarin Printing and Publishing.
- Office of the Policy and Budget Planning. (Unidentified Year of Publication). *Managing a new System of Budgeting: PBBS*. Bangkok: Office of The Prime Minister.
- Shattock, M. (2006). *Managing good governance in higher education*. London: Open University Press.
- Sukhothai Thammadhirat Open University. (2001). *A Handbook for the Instruction on Finance and Budgeting*. Nonthaburi: STOU Printing House.
- The World Bank. (1994). *Higher Education: the lessons of experience*, Washington, D.C.: World Bank.
- University of Glasgow. (2009). *Transparency Review*. [Online] Available from: <http://www.Gla.ac.uk/transparencyreview/intro.html>. [2010, July 14]
- University of Sydney. (2009). *About Organisational Administration*. [Online] Available from: <http://www.usyd.edu.au/about/orgchart.shtml>. [2010, July 14]
- University of Technology, Sydney. (2009). *About Adminisatration*. [Online] Available from: <http://www.uts.edu.au/about/admin.html>. [2010, July 14]

Varghese, N.V. (2001). 'Impact of the Economic Crisis on Higher Education in Thailand', in N.V. Varghese, *Impact of the Economic Crisis on Higher Education in East Asia: Country Experiences*. Selected papers from the Policy Forum organized jointly with RIHED, Bangkok, and Ministry of Education, Malaysia, Selangor, 29-31 January 2001, Paris: International Institute for Educational Planning, UNESCO.