

---

# Will Our Public Universities Have Financial Autonomy?

---

Wan Saiful Wan Jan





# Introduction

Public universities in Malaysia are facing a challenging time. On the one hand, they are facing major budget cuts and an increased expectation from the Government to raise their own money. On the other, they must compete with a growing number and increasingly preferred private institutions. Yet public expectations of universities are increasing, despite of a reductions in financial support from the Government and the proliferation of private higher education institutions.

To add to this list of challenges, a university's credibility is greatly influenced by its reputation in research. But research is mainly undertaken at the postgraduate level, or by the university's faculty. Relative to the number of undergraduate students who mainly take taught courses, the number of postgraduates is smaller. Therefore, the group that helps strengthen a university's financial standing - the fee-paying undergraduate students - are not necessarily going to be of much help in raising the university's reputation as a centre of research excellence.

In order to meet today's global challenges, and improve the international standing of Malaysian universities, it is important for them to improve research and academic excellence. But in order to get there, **financial viability** is needed. This paper will explore the concept of financial autonomy and current policies on public university funding by the Malaysian Government. Finally, it will discuss the necessary steps to assist Malaysian universities in becoming more financially autonomous.



**Wan Saiful Wan Jan<sup>1</sup>** Wan Saiful Wan Jan is Chief Executive of the Institute for Democracy and Economic Affairs (IDEAS), a think tank focusing on the areas of political economy and governance. He is also a director of CfBT Education Malaysia; chairman of the Board of Governors at IDEAS Autism Centre; member of the Advisory Board at Laureate International Malaysia; member of the Advisory Board of the University of Nottingham's School of Politics, History and International Relations; and a Governor at Rafflesia Education Group. While residing in the UK between 1993 to 2009, he worked for several organisations, including the think tank Commonwealth Policy Studies Unit, the British Conservative Party's Research Department, and Social Enterprise London. His opinion has been quoted by various media, including the BBC, Asian Wall Street Journal, International Herald Tribune, and The Economist.

He holds a BA (Hons) in Management from Northumbria University, United Kingdom and an MSc in Research Methodologies from Middlesex University, United Kingdom. He is currently a Senior Visiting Fellow at the Institute for Southeast Asian Studies (ISEAS)-Yusof Ishak Institute, Singapore.

<sup>1</sup> The author acknowledges the extensive contributions made by IDEAS' former Senior Executive, Tamanna Patel and the contributions made by Nyoomi Kamani, intern at IDEAS.

# Defining financial autonomy

As a starting point, it is important to define what financial autonomy is. The European University Association (EUA)<sup>2</sup> defines financial autonomy as:

*“A university’s ability to decide freely on its internal financial affairs. The ability to manage its funds independently enables an institution to set and realise its strategic aims.” (EUA, 2010)*

The EUA also has a University Autonomy Tool (European University Association n.d.) which ranks the level of autonomy given to universities in 29 different countries across Europe. The tool looks at four dimensions of autonomy - organisational, financial, staffing and academic. Under their financial autonomy category, eleven indicators are outlined. Six of the indicators relate to a university’s ability to set fees for different categories of students. The remaining five cover the length of public funding cycles, the types of public funding that are made available, the university’s ability to borrow money, the universities ability to keep surpluses, and the university’s ability to own buildings. These are good indicators of what financial autonomy means in practice.

In a study on the financial autonomy of European universities, the authors (Estermann and Nokkala 2009) defined financial autonomy as:

- the extent to which they can accumulate reserves
- the extent to which they can keep surpluses
- the freedom to set tuition fees
- the ability to borrow money from financial markets
- the ability to invest in financial products
- the ability to issue shares and bonds
- the right to own land and buildings

There are more researchers who have provided variations of the definition (Olsen and Maassen 2006) (Thorsten 2008). But on the whole, and for the purpose of this paper, financial autonomy is taken to mean the freedom available for universities to decide how best to generate and use its own finances. It involves both the methods to generate income as well as decisions on where and when to spend the money.

“*Financial autonomy is taken to mean the freedom available for universities to decide how best to generate and use its own finances. It involves both the methods to generate income as well as decisions on where and when to spend the money.*”

”

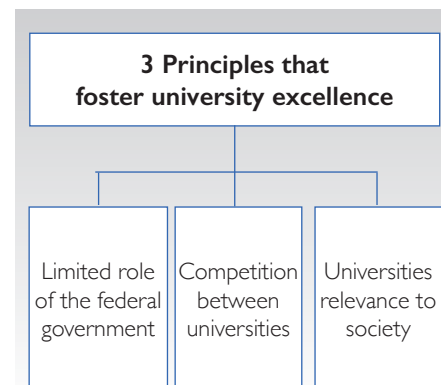
<sup>2</sup> The European University Association (EUA) is the representative organisation of universities and national rectors’ conferences in 47 European countries.

# Why is financial autonomy important?

The value and benefits of financial autonomy can be seen from the examples of successful universities and the levels of financial autonomy that they enjoy. While financial autonomy is not the only factor that would determine the success of a university, it is amongst the top requirements for a university to be able to compete in today's globalised world.

In a report about university performance in the United States (US) and why many American universities are considered world-class (The Economist 2005), three principles that foster a culture of excellence among universities were identified. These are (1) **limited role of the federal government**, (2) **competition**, and (3) **being relevant to society**. The first principle - limited role of the federal government - implies that there is less central control in the US which enables American universities to be governed by those much closer to them, and for them to be creative in generating their own financial resources. This freedom allows those closer to the institutions to determine how they generate and subsequently allocate their funds, including how much to put into research and teaching activities. It ensures they are able to adapt to the rapidly changing external environment much faster because they make decisions locally. For example, American university faculties are not employed by a federal body but they are mostly employed by the universities themselves. And their spending is not determined by a centrally dictated policy either. These contribute to a culture of excellence in many of America's universities, leading to some of them dominating world rankings every year.

When it comes to universities being centres of research excellence, there is a correlation between financial autonomy and better research performance. This was highlighted in a discussion on why there is a much smaller number of French and German institutions in the Shanghai JiaoTong University's Academic Ranking of World Universities (ARWU)<sup>3</sup>. It was found that universities in France and Germany have minimal level of competition between themselves, as they are "treated equally in terms of budgets and assignment of personnel ... making it difficult if not impossible, to set up centres of excellence with a large concentration of top researchers" (Altbach and Salmi 2011). The lack of competition which



<sup>3</sup> This ranking focuses on academic research and it takes into account six key indicators: 1) The number of alumni from the university winning Nobel Prizes in physics, chemistry, medicine, and economics and Fields Medals in mathematics. 2) The number of university faculty winning Nobel Prizes in physics, chemistry, medicine, and economics and Fields Medals in mathematics. 3) The number of articles (co-)authored by university faculty published in Nature and Science. 4) The number of articles (co-)authored by university faculty published in Science Citation Index Expanded and Social Sciences Citation Index. 5) The number of highly cited researchers from the university in 21 broad subject categories. 6) The academic performance with respect to the size of the university.

stems from the relatively equal treatment given by the governments of these two countries resulted in universities not being incentivised to be competitive. This in turn affects their performance in global rankings.

Another study comparing Western European universities to those in the US also shows that the American ones are better in research performance. The report was based on the ARWU and a survey conducted by a team of researchers (Aghion, et al. 2007). The authors took per student expenditure along with various other indicators of governance and regressed them against country research performance. The report argued that not only did the amount of per student funding correlate positively to the university's standing in the ARWU but that from all the governance indicators used, only budget autonomy was positively correlated to better research performance. Budget autonomy in this context refers to the university not being required to have its budget allocations be approved by governmental authorities. This highlights that while the size of a university's income matters, what is more important is how autonomous a university is in allocating and distributing those funds. Autonomy allows them to allocate resources to research areas that the government may not prioritise at that moment in time.

Closer to home, a comparison between Malaysia's Universiti Malaya (UM) and the National University of Singapore (NUS) makes an interesting case study. The two universities began as one entity but eventually split after Singapore became independent from Malaysia. The two are now completely separate both in terms of governance and administration.

The NUS enjoys greater flexibility in deciding how much tuition fee to charge while the UM enjoys no such autonomy because the Government has a much stronger control in fee setting. In 2008, the NUS raised about 16.6 percent of its operating budget from tuition fees while in the same year UM raised just three percent from fees (Altbach and Salmi 2011). Additionally, the NUS has steadily gained more financial autonomy since becoming a corporatised entity in 2006. The NUS is able to set its own salary structures and compensation packages to attract academics and lecturers from all over the world to its campuses. Its ability to attract global talents far surpasses that of the UM. Conversely, the Malaysian government, through the Ministry of Higher Education, continues to control fees at the UM as well as many other aspects of its budgetary operations including the setting of salaries. The impact is obvious for all to see. The UM has a lot of catching up to do even if it wants to even come close to the NUS' global reputation.

“  
*The report argued that not only did the amount of per student funding correlate positively to the university's standing in the ARWU but that from all the governance indicators used, only budget autonomy was positively correlated to better research performance.*  
”

# Financial autonomy in Malaysian public universities

This section will not discuss the amount of funding received by Malaysian public universities in detail but will only sketch a picture sufficient to paint a broad understanding of the main principles.

The Malaysian mechanism to fund public universities resonates Europe in the sense that public universities rely heavily on government funding. However, while in some European countries there may be funding from state or local governments, Malaysian public universities are almost completely dependent on the Federal Government apart from a small number of universities. Having said that, regardless of which layer of government is providing the fund, the fact remains the same, in that Malaysian public universities are still reliant on the Government.

Malaysia has seen her fair share of debates about the need for greater financial autonomy in public universities. Tracing the discussion back historically, the desire to give public universities more autonomy is not at all new. Since the early 1990s there have been debates about the need to free universities from government control - at that time mostly in the form of corporatisation. When the Government mooted this idea, it was with the aim of reducing the institutions dependence on public money. The plan was to:

“...allow universities to borrow money, enter into business ventures, set up companies, and acquire and hold investment shares. The government [would] continue to own most of the universities' existing assets, and to provide development funds for new programs, and expensive capital projects. But the universities will assume the burden of raising a major portion of their operating costs.” (Lee 1998)

Furthermore,

“universities [were] expected to raise funds through a variety of revenue-generating activities - such as, raising tuition fees, increasing student enrollments, conducting consultancies for industry and government, running short-term courses to meet the needs of the private sector, and renting out facilities.” (Lee 1998)

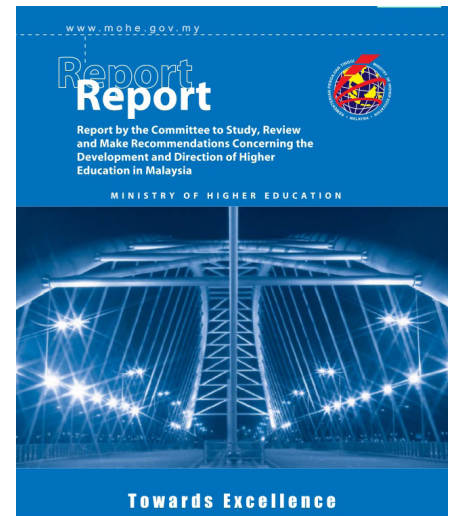
The idea was to have universities run like corporations, with independence in decision-making, and enabling them to raise their own funds outside of the bureaucratic red-tape of the civil service. However, following the economic downturn caused by the Asian financial crisis of 1997, this plan was shelved.

The importance of financial autonomy was once again identified by a government committee tasked with identifying how to shape the future of Malaysian higher education. The committee produced its report, also known as the Wan Zahid Report, in which it stated that one of the main constraints faced by universities in Malaysia is the “lack of autonomy in the management of funds allotted” (Wan Zahid 2005) and that there is a need to give universities more financial autonomy. This report was tabled in the Malaysian parliament by the Minister of Higher Education at that time, Mustapa Mohamed.

Continuing from the Wan Zahid Report, the desire to devolve more power is also demonstrated in the latest policy document on higher education in Malaysia, the Malaysian Education Blueprint (Higher Education) 2015 – 2025 (MEB HE), which is complemented by a series of booklets published by the Ministry of Higher Education (MOHE), explaining the steps they plan to take in implement the MEB HE. Figure 1 is taken from a booklet called the “Green Book: Enhancing University Board Governance and Effectiveness” and it provides a summary of the current state and the transformation envisioned by the MEB HE. As can be seen, the end state is painted less in red (indicating less control by Ministry), and more in yellow (indicating more control by university leadership) and green (indicating more control by college or department). **The vision is to have more powers delegated down from the ministry to the university itself and this is a good vision to have.**

Yet when it comes to financial autonomy there remain many areas in which the ministry wants to reserve their decision-making rights. These include areas such as approving university budget, managing endowments and income generating assets, setting tuition fees, determining allocation of funds and research grants, infrastructure development and management, approval of procurement decisions, and setting pay schemes for the university staff. In fact, the government has no intention to of allowing universities to determine their own policies on the number and profiles of students admissions, a factor that will have a huge influence on the university’s ability to raise money from tuition fees. In other words, proper financial autonomy is not an idea embraced by the MEB HE despite it being identified by the Wan Zahid Report more than a decade ago.

## Policy documents on university autonomy

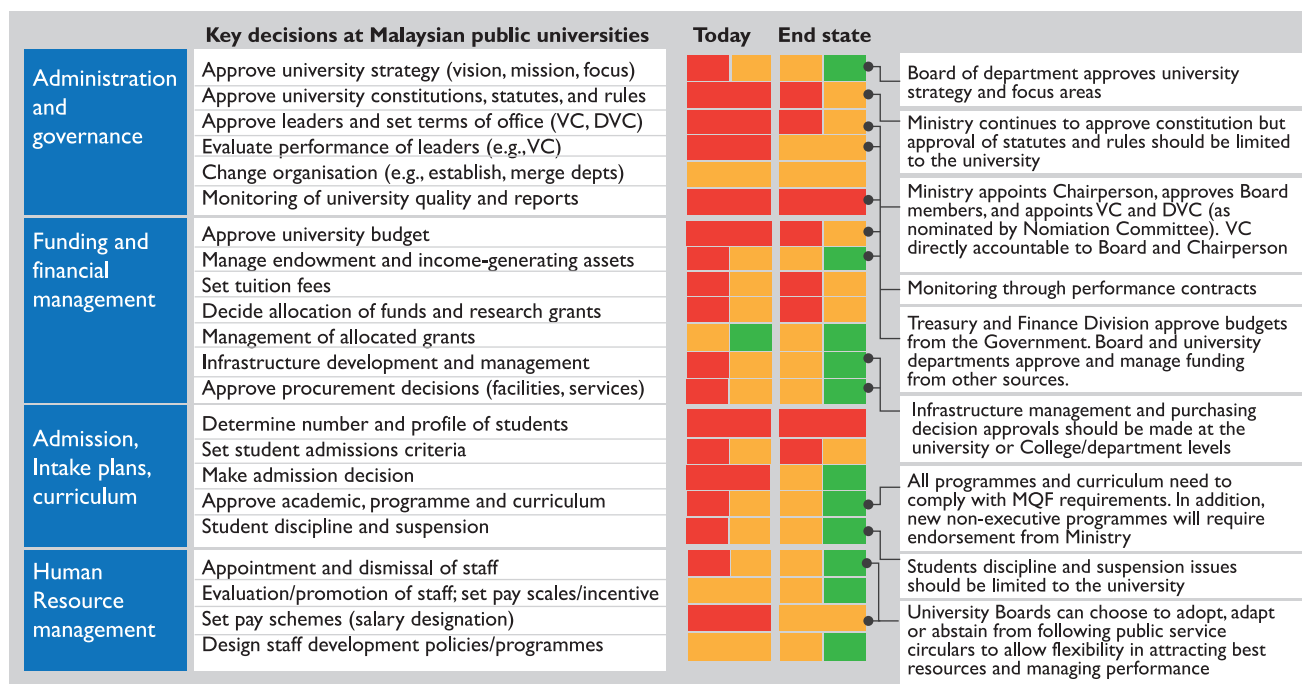


The Wan Zahid report identified initiatives to shape the future of Malaysian Higher Education.



The Malaysian Education Blueprint (Higher Education) 2015-2025

Figure 1: Transfer of decision rights from Ministry to public universities



(Red = Ministry, Yellow = University leadership, Green = College/department)

Source: (Ministry of Higher Education Malaysia 2015)

In 2015 and 2016, there was an opportunity for greater levels of financial autonomy to be given to Malaysian public universities. In both years, government funding to public universities were cut quite significantly. For example, Budget 2017 shows a year-on-year cut in funding for all 20 public of universities, a **reduction that totals RM 1.5 billion, or a 19 percent reduction compared to the year before.** The same cut took place the previous year too, when there was a 16.5 percent or RM 1.4 billion cut. In a private interview with Minister of Higher Education Idris Jusoh on 7 February 2017, this author was reminded that these reductions should not have been a surprise because previous policy documents had already alluded to the impending budget cuts.

Still, these two cuts are missed opportunities because the Government did not use them to introduce a comprehensive and clear plan to enhance financial autonomy in public universities, let alone to corporatise them the way Singapore did with the NUS. Although the intention to reduce budget allocations to public universities may have been stated in various policy documents over the years, the Government did not seriously consider best ways to give public universities more financial autonomy parallel to making the cuts. In other words, the funding cut did not come with comprehensive change that would have allowed universities to decide their own spending priorities and how they want to allocate their funds based on the budget cuts. Thus, rather than offering financial independence in lieu of the Government's decision instead caused a lot of anger and doubts over its competence.

The lack of commitment towards giving public universities proper financial autonomy is not surprising. It was as if Malaysian public universities were not set up with the primary purpose of becoming globally recognised centres of research excellence, instead the focus of these institutions are in providing taught courses. After all, some would argue, when the universities were set up, many of them had social re-engineering as their primary motivation. Malaysian public universities were established with a view of providing education to the masses, especially the majority ethnic Malay and Bumiputera groups in the

country, in an effort to increase their social and financial mobility. The desire for research and global excellence only came in later, but the achievement of the goal is being slowed down by the original reason for founding these universities.

The view that public universities should act as vehicles of social re-engineering is still prevalent today, and is reflected by the Government's refusal to relinquish control student admissions. Of course there could also be the fear, in the Government's mind, that if universities were completely autonomous, the Government would lose its ability to control how the universities function. In an environment where the Government still limits academic freedom and partisan influence over universities is not yet eradicated, losing control is worrying for those in power. Until this attitude or view is changed, it is difficult to envisage that Malaysian public universities will be able to become truly autonomous, academically or financially.

Nevertheless, it would be wrong to assume that all is gloomy. Some Malaysian public universities are indeed taking steps to respond to this new, reduced funding environment. Many examples can be given here. To name a few:

- Universiti Utara Malaysia set up Uniutama Property Sdn Bhd and Uniutama Travel and Tours Sdn Bhd as commercial ventures
- Universiti Putra Malaysia set up the Dana Wakaf Ilmu as a platform to encourage charitable giving by individuals and corporations
- University Malaya set up a for profit private university called the International University of Malaya Wales in partnership with the University of Wales
- Universiti Tun Hussein Onn Malaysia set up a private college called K-UTECH Edu Sdn Bhd to deliver pre-university courses

These are noteworthy initiatives to create financial sustainability but some observers have voiced concerns about mission creep, or deviation from the main objectives of these universities which is for teaching and research (Lee 1998) (Amran and Muhammad 2016). This is a common concern when universities are seen to venture outside of their core business. More importantly, being creative in raising money is only half of the picture when it comes to being financially autonomous. The other half is about having the freedom to decide their own spending priorities without interference from a central authority. This is an issue that is yet to be addressed properly in Malaysia.



The International University of Malaya-Wales is a private university which was established based on a mutual partnership between University of Malaya (UM) and the University of Wales.

# A cautionary note

## Preventing leakages

In the quest to enhance the financial autonomy at public universities, it must be remembered that steps must be put in place to prevent leakages, corruption and abuse of power. Malaysia's experience shows that this is an issue that deserves special attention because even with the limited decision-making power given to public universities in terms of spending, leakages large scale have already taken place.

In 2012 the Ministry of Higher Education introduced a new policy granting some universities the power to make their own procurement decisions for contracts below a certain amount (Amran & Muhammad, 2016). An interview for this paper with a respected former Vice-Chancellor revealed that even he felt that corruption and leakages were widespread in the system. He stated that key officials at universities are often "advised" by higher powers to award contracts to certain companies regardless of whether they had the best proposal in the tender or not<sup>4</sup>.

On top of that, the Auditor General's Report on Federal Statutory Bodies 2015 recorded how millions of ringgit were spent unsatisfactorily because procurement officers at public universities did not follow standard procedures. For example (National Audit Department Malaysia, 2015):

- UiTM's private company UiTM Hospitality Services Management Sdn Bhd paid a contractor RM 5.36 million instead of the RM 2.64 million that was agreed upon in the contract, and there was no proper documentation on record as to why the contractor was paid over an extra RM 2 million.
- University Malaysia Sabah's procurement officials took the decision to split up a contract worth RM 200,000 to avoid having to go through a more rigorous tendering process as required by the university's own procedures.

These incidents point to the need for a stringent set of rules, and a strong mechanism to ensure the enforcement of those rules, if financial autonomy were to be given to public universities. Compulsory annual financial audits like those undertaken by private sector companies would be a good first step, and these should be made public every year. Additionally, given how Malaysian public universities would most likely still receive government grants, there is a need to established appropriate rules and sanction mechanisms.

<sup>4</sup> This interview was conducted with a former VC of a research university in September 2016.

## False assumptions about entrepreneurship

As stated earlier, some universities have established business subsidiaries to help them raise additional revenue. Some subsidiaries focus on selling products or services to external customers, while some others have not been successful. Some have even been forced to shut down as they made losses instead of generating revenue. For the ventures that failed, the main problem is that they are in areas that are not the core expertise of the universities themselves. Several ventures were set up in fields that had low barriers to entry and therefore it was assumed that they would have been easy to run. These include businesses in cleaning, printing, and facilities management. But they soon discovered that for any business, skills and expertise are a prerequisite to success, without which the venture will fail.

There have been cases where universities have set up business units to run their own internal services. For example, the International Islamic University Malaysia (IIUM), through their IIUM Holdings Sdn Bhd, set up Daya Bersih Sdn Bhd in 2004 as a wholly owned subsidiary to undertake facilities management tasks at the IIUM campus. The revenue model is quite straightforward. IIUM gets a facilities management budget from the Treasury, and they then directly negotiate with Daya Bersih to award a contract to them. Daya Bersih is also able to bid for other contracts outside of IIUM and dividends made by the company are then channeled back to IIUM as a source of income. While this model looks good on a superficial level, there are questions that can be raised. First, the direct negotiation contract awarding mechanism does not guarantee best value for money. How certain can we be that Daya Bersih is providing the best quality of services at the cheapest cost to IIUM, and that no other company can do it at a better price? Second, with an almost guaranteed annual business from IIUM, how competitive will Daya Bersih be in the real world? Can they really compete with true entrepreneurs out there, or are they surviving simply because they do not have to compete? While the vision behind the venture is laudable, there are hard questions that we do need to ask.

In the quest to encourage universities to be creative and entrepreneurial in generating money, we must be careful not to push them to enter into ventures that are not their core business. Creating protected business ventures that are unable to compete in the real world is not true entrepreneurship.

## MEB HE: ideas and challenges

In discussing the issue of funding public universities, clearly it is not just about how much money is allocated to them by the Government, but also how free is the university to use the money in ways that are deemed most useful by the university's administrators. The idea that universities should be managed centrally from a federal ministry or a central agency is outdated. Almost no serious researcher today would argue for increased centralisation of university funding and administration. Instead the shift is towards more decentralisation, handing down more powers to the people who are nearest to the university environment itself, namely the university's administrators and faculty members.

The debate in Malaysia now is more about what is the most appropriate level of support that the Government should provide to a public university. The more populist side argues for an increase in government funding, some even suggesting that higher education should be completely free for all students. This view enjoys the sympathy of those with vested interest, such as university administrators, faculty members and students themselves. Continued and higher funding is imperative for them, as their livelihoods and career advancement depend on it. In evaluating this situation, we need to look at it with honesty: it is not wrong for one to look after one's interest, personal or professional and their demand is a fair one. But their demands cannot be the only consideration, there is a need to look at the wider environment too.

Another group argues for further reduction in government financial support. Some do so out of pragmatism, realising that it is not sustainable nor realistic to expect the government to continuously increase or even maintain the level of financial allocations. A small minority argue for reduction in financial allocation out of their belief that it is not the role of government to provide higher education. They argue that unlike basic education, higher education is a privilege and not a right, and therefore those who want to pursue it should pay for it.

For the purpose of this paper it is irrelevant which side has the stronger argument. The Malaysian government has already taken

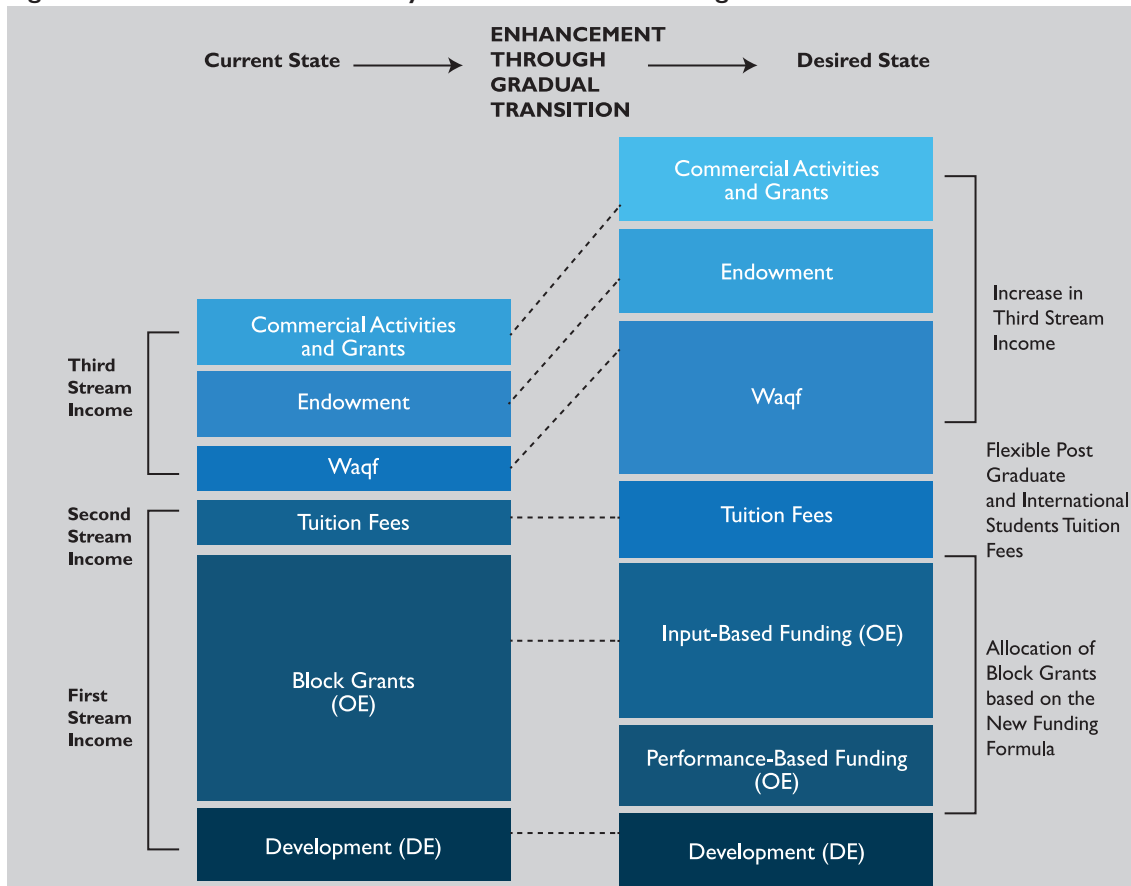
a position on this matter, and it is a decision that attempts to balance the competing demands. This policy position is likely to stay at least until the year 2025, as it is already firmly written in the MEB HE, and this essay is an attempt to look into how to generate the best outcome from that policy. The policy positions are summarised in Figure 2.

**The focus on third stream income**

An important component of the Government’s current strategy is to significantly enhance the amount of money raised by public universities through what is termed as a “third stream” income. This is the biggest expected increase in funds that is being planned. The third-stream income consists of commercial activities, grants, endowment, and waqf. The endowments and waqf are essentially the same in practice, with waqf being the term used when referring to an Islamic, religiously motivated form of endowment.

This new emphasis on third stream income deserves further discussion as it seems to be the most important component of the Government’s plan. At first glance this is certainly a move in the right direction, with greater emphasis on generating revenues from non-government sources, thereby reducing the dependency and burden on taxpayers. Many successful universities worldwide benefit from this type of funding. The ability to generate revenue from commercial and philanthropic sources greatly aids in creating financial sustainability for them. The author feels that the Government is correct in making this a priority area. But the Government would be wrong if they looked at university funding narrowly as an issue that is affected *only* by policies around higher education.

**Figure 2: Desired state of university income sources according to the MEB HE**



Source: (Ministry of Higher Education Malaysia 2016)

### Can we commercialise?

Commercialisation of ideas will only occur in an entrepreneurial society. The process of commercialisation requires academics and researchers to be business-savvy and willing to take risks, as well as the strengthening of public-private partnerships so that businesses can tap into universities' expertise. It starts with an understanding of intellectual property (IP) rights, the steps required to generate value from IP, a regulatory environment that makes it easy to register and protect IP, and an environment that encourages and celebrates the monetisation of IP. Successful commercialisation of ideas requires the actors to be market-driven, and the environment to be market-oriented. Knowledge and IP need to be seen as a commercial product that can generate revenue, not merely as a public good for free sharing.

Without a commitment to sell and profit from the knowledge generated in public universities, the ambition to generate income from the commercialisation of ideas will never be realised. Thus for this target to be achieved, there needs to be a change in mindset among Malaysian academics and policymakers on the topic of commercialisation of knowledge.

### Is reliance on philanthropy realistic for Malaysia?

Philanthropy is a whole new venture altogether. Malaysia's culture of giving is very far below countries where many of their universities are more respected like the US and the UK. In the 2016 World Giving Index, Malaysia was ranked 22, compared to the US (2), the UK (8), and many other Western countries (Charities Aid Foundation 2016). In terms of financing higher education, donations to public university is very rare in Malaysia, in fact just short of being non-existent if we look at it relative to the overall financial needs of public universities. It is a very tall order for philanthropy, especially endowment and waqf, to be made a major source of income for public universities. This is not just a hurdle faced by public universities. The problem is much bigger and affects almost all not-for-profit organisations in the country.

The main hurdle is Malaysia's regulatory environment, which does not encourage charitable giving (Wan Saiful 2016). Registering a charitable entity in Malaysia is confusing and cumbersome. There is no one regulator to oversee charities in Malaysia, and there is not one standard legal structure for charities either. The regulatory function is shared between the Companies Commission of Malaysia for companies limited by guarantees, Registrar of Society for societies, the Prime Minister's Department for trusts, and the various Islamic religious departments in the different states for waqfs. Even if one were to succeed in navigating through the bureaucracy of registering a charitable body, there would still be a need to separately negotiate with the Inland Revenue Board to

obtain a tax exemption status. All these point to a situation where it is overly complex for private individuals or smaller companies to set up a charitable or waqf body, including for the purposes of supporting a public university.

One way out is for universities to establish their own, university-run, charitable bodies because they may get special treatment from the Government to set up. In fact, that seems to be the intention behind the Government's strategy. But this is exactly the problem and the flaw of government thinking. There is a severely misguided assumption that if universities are able to set up a charity, then they will be able to generate revenue from philanthropy. The officials drafting this strategy did not realise that their chosen path would severely limit the potential sources of philanthropic revenue of universities. If we look at the US and the UK as examples, the success of their universities in raising private donations is not because the university itself has a charitable arm, but because there are hundreds if not thousands of charitable organisations that are donating to them. The universities there benefit from multiple and many philanthropic bodies, including from alumni, while the university's own charitable arm acts merely as the recipient. The source of money is from external charitable foundations.

“  
*The point here is, it is almost irrelevant whether or not the universities themselves are able to set up philanthropic arms or their own foundations. The real issue is whether or not others are able to set up charitable bodies so that in turn they can support the universities.*  
”

#### **Examples of charitable donations to universities abroad:**

- Former chairman of Intel Corp Gordon Moore donated USD 600 million to the California Institute of Technology through his own Gordon and Betty Moore Foundation in 2001
- Stanford University received USD 400 million from the Hewlett Foundation in the same year
- The Atlantic Philanthropies Foundation donated GBP 65 million to the London School of Economics in 2016
- The John Templeton Foundation donated millions for research at the Georgetown University between 2011 and 2016
- Hong Kong's Li Ka Shing Foundation donated GBP 2 million to Oxford University in 2017.

There are also plenty other foundations who provide scholarships and financial assistance to various universities. The point here is, it is almost irrelevant whether or not the universities themselves are able to set up philanthropic arms or their own foundations. The real issue is whether or not others are able to set up charitable bodies so that in turn they can support the universities.

Therefore, in order for public universities to benefit from charitable giving, there must be a parallel effort to encourage the flourishing of charitable bodies in the country as a whole. It is a mistake to think that charitable giving will immediately happen when the university themselves set up foundations or charities. To make this strategy work, there is a need to

create a whole new ecosystem that encourages philanthropy to flourish. Our laws need to be revamped to make it easier for private citizens and corporations to do good, streamlining the oversight mechanisms for charitable bodies, and setting up a body akin to a Charities Commission to take charge of all regulatory functions pertaining to charitable entities, including waqf bodies.

### **Is there political will to give full financial autonomy?**

It must also be stated that the current plans outlined in MEB HE and the various supplementary colour-coded books are greatly focused on how to increase and diversify the revenue streams of public universities. There is not much indicating that the Government is aiming for financial autonomy in its complete sense, one that combines the freedom to raise as well as spend funds. Referring back to the definition of financial autonomy as stated at the beginning of this essay, it seems like many of the functions of a financially autonomous university will still not be devolved down to Malaysian university administrators. This problem was already identified in the Wan Zahid's Report back from 2005 and it seems like it is still a major hurdle.

The top leaders of public universities - the Chairman, Vice Chancellors and Deputy Vice Chancellors - will still be appointed by the Minister, albeit based on nominations from the university Board of Directors. The conflict of interest is obvious. If they are appointed by the Minister, then why do any of them need to take the Board seriously? And how free are they to speak up for their university when dealing with the Government, when it is the Minister who appoints them? This potential conflict is ignored by the drafters of the MEB HE. This policy is contrary to the recommendation in the Wan Zahid Report (2005) for Vice Chancellors to be recruited through open and competitive advertising. It is also clear indication that the Government has no real intention to grant full financial autonomy to public universities, because true financial autonomy would mean the Board is the one who recruits, appoints and appraise the Vice Chancellor and all other staff.

The issue of tuition fees is particularly important. Recall that in the indicators of financial autonomy provided by the EUA states how six out of the eleven indicators all relate to a university's ability to set fees for different categories of students. But the MEB HE insists that the Government will have a major influence in determining tuition fees, implying that the fees will not be guided by market signals. It is very likely that fee levels will be influenced more by partisan politics rather than independent and robust economic calculations. At the same time, the Government will also retain the powers to determine the number of student and their profiles, and they will also retain some of the powers to set student admissions criteria. Again, these imply the universities will not be financially autonomous even after the completion of MEB HE.

This is disappointing, especially because the demand and need for autonomy is not a new idea. Twelve years ago the Wan Zahid Report in 2005 has already stated that "The Committee is of the opinion that most of the demands to reduce Government control over public IHE have merit since with a reduction in control, there will be accountability and flexibility in management operations." (p. 64). Unless the Government fully accepts that financial autonomy is a key component of financial sustainability and academic excellence, it is unlikely that we will be able to solve the financial conundrum faced by our public universities.

# Conclusion

Moving forward, the Government needs to re-examine their approaches in three areas.



## 1. Commercialisation of Intellectual Property products created by universities

To ensure the successful commercialization of ideas, university leaders need to instill a stronger commitment to entrepreneurship to relevant faculty members, with a view to ensure they see IP as commercial products to be sold for profit. Commercialization will not work if IP is seen as a public good.



## 2. Creating an environment for philanthropy

To ensure the full potential of philanthropy is realised, the government needs to look at the wider environment and put into place policies and regulations that will help the philanthropic sector to flourish. It is not sufficient to make universities set up charitable arms. We need a society that embraces the culture of giving and the creation of a single regulatory body for charitable bodies with simplified rules, like a Charities Commission.



## 3. Broadening financial autonomy in universities

The Government must realise that focusing just on diversification of revenue sources alone is too narrow of an approach. We need a wider outlook that emphasises full financial autonomy, covering income generation as well as the freedom to set spending priorities. The restrictive approaches in the MEB HE are wrong and must be replaced with steps that prove the government understands what financial autonomy is in its proper meaning, and that they have the political will to pursue it.

## References

- Aghion, P, M Dewatripont, C Hoxby, A Sapir, and A Mas-Colell. 2007. *Why reform Europe's universities?* Brussels: Bruegel Policy Brief.
- Altbach, P, and J Salmi. 2011. *The Road to Academic Excellence: The making of world-class research universities.* Washington D.C.: World Bank Publications.
- Amran, A, and J Muhammad. 2016. *Governance Reforms in Public Universities of Malaysia.* Edited by F Mat Taib and M Abdullah. Penerbit USM.
- Charities Aid Foundation. 2016. *World Giving Index.* Charities Aid Foundation, UK.
- Cotelnic, Ala. 2015. "Comparative analysis of university financial autonomy in Lithuania, Scotland, Sweden, Denmark and Romania." In *Enhancing University Autonomy in Moldova.* EUniAM.
- Estermann, T, and T Nokkala. 2009. *University Autonomy in Europe: Exploratory Study.* Brussels: European University Association. European University Association. n.d. *European University Association Website.* Accessed January 2, 2017. <http://www.university-autonomy.eu/dimensions/financial/>.
- Jongbloed, B, and H Vossensteyn. 2016. "University funding and student funding: international comparisons." *Oxford Review of Economic Policy* 32 (4): 576-595.
- Lee, Molly. 1998. "Corporatisation and privatisation of Malaysian higher education." *International Higher Education* 10.
- Ministry of Higher Education Malaysia. 2015. *Enhancing University Board Governance and Effectiveness.* Kuala Lumpur: Ministry of Higher Education Malaysia.
- Ministry of Higher Education Malaysia. 2016. *Enhancing university income generation, endowment and waqf.* Ministry of Higher Education Malaysia.
- National Audit Department Malaysia. 2015. "Auditor General's Report Series I on the Audit of the Activities of Federal Statutory Bodies and the Management of Subsidiary Companies."
- Olsen, J.P, and P Maassen. 2006. "European debates on the knowledge institution: the modernisation of the university on the European level." In *University Dynamics and European Integration.* Dordrecht: Springer.
- The Economist. 2005. *Secrets of Success.* 2005: Economist Group.
- Thorsten, N. 2008. "University autonomy: a matter of political rhetoric?" In *The university in the market,* 133-141.
- Wan Saiful, Wan Jan. 2016. *The Star.* October 25. Accessed January 8, 2017. <http://www.thestar.com.my/opinion/columnists/thinking-liberally/2016/10/25/budget-2017-a-tiny-but-good-step-for-third-sector-we-need-more-partnerships-between-the-govt-and-the/>.
- Wan Zahid, Noordin. 2005. *Report by the committee to study, review, and make recommendations concerning the development and direction of higher education in Malaysia.* Ministry of Higher Education.





IDEAS is inspired by the vision of Tunku Abdul Rahman Putra al-Haj, the first Prime Minister of Malaysia. As a cross-partisan think tank, we work across the political spectrum to improve the level of understanding and acceptance of public policies based on the principles of rule of law, limited government, free markets and free individuals. On 2 September 2016, IDEAS was ranked as the 17<sup>th</sup> think tank to watch globally in a survey of more than 6,800 think tanks in 143 countries by the University of Pennsylvania's 2015 Global Go To Think Tank Index Report.

Please support us by making a donation. You can make a contribution by cheque payable to "IDEAS Berhad" or by transfer to our account CIMB 8001367104. We can only survive with your support.

© 2017 IDEAS. All rights reserved.

Institute for Democracy and Economic Affairs (IDEAS)  
F4 Taman Tunku, Bukit Tunku, 50480 Kuala Lumpur  
[www.ideas.org.my](http://www.ideas.org.my)  
Reg No: 940689-W

## Selection of IDEAS' Publications (2016 - 2017)

---

### Policy IDEAS

Malaysia's Tax System: Friend or Foe to Prosperity? By Dan Mitchell, Policy IDEAS No. 38 (April 2017)

Upgrading Democracy: 'Soft Laws' and The Ombudsman by Roy Lee, Policy IDEAS No. 37 (February 2017)

A critical look into the Whistleblower Protection Act 2010 by Christopher Leong, Policy IDEAS No. 36 (February 2017)

Innovations in Vector-Borne Diseases by Philip Stevens, Policy IDEAS No. 35 (November 2016)

Separating the Attorney-General and Public Prosecutor: Enhancing Rule of Law in Malaysia by Aira Nur Ariana Azhari and Lim Wei Jiet, Policy IDEAS No. 34 (December 2016)

Strengthening the Royal Malaysia Police by Enhancing Accountability by Nicholas Chan, Policy IDEAS No. 33 (September 2016)

The Principles of Political Finance Regulations by Dr. Stefan Melnik, Policy IDEAS No. 29 (May 2016)

Financial Burden of Living with Autism by Shanuja Chandran, Policy IDEAS No. 28 (June 2016)

How Can Malaysia's Budget Documents Be Improved? by Sri Murniati, Policy IDEAS No. 27 (April 2016)

Economic Liberalism in Asian by Dr Razeen Sally, Policy IDEAS No. 25

Edisi BM: Pembebasan Ekonomi di Asia by Dr Razeen Sall, Policy IDEAS No. 25 (June 2016)

School Autonomy Case Studies of Private School Chains in Malaysia, Policy IDEAS No. 24 (February 2016)

A Case Study of a Chinese Independent School by Nina Adian Disney, Policy IDEAS No. 23 (February 2016)

### Brief IDEAS

Governing State-Owned Enterprises: Lessons learned from IMDB by Rama Ramanathan, Brief IDEAS No. 5 (August 2016)

The Potential of Independent Religious Schools Brief by Altaf Deviyati, Brief IDEAS No. 4 (June 2016)

Are FTAs bad for Health? by Sreekanth Venkatamaran, Brief IDEAS No. 3 (May 2016)

Lesser Government in Business: An Unfulfilled Promise? by Wan Saiful Wan Jan, Brief IDEAS No. 2

Policy IDEAS are IDEAS' regular publications that introduce and propose ideas for policy reforms based on analysis of existing policies or best practices.



MAINSTREAMING MARKET IDEAS

Institute for Democracy and Economic Affairs (IDEAS), F4 Taman Tunku,  
Bukit Tunku, 50480 Kuala Lumpur

Tel: +603 6201 8896 / 8897 Fax: +603 6201 2001