

# Governance and Funding Reform in the European Higher Education Area

## National system analysis: Hungary<sup>1</sup>

### 1 Introduction

Hungary has a highly institutional diversified higher education system. There are eighteen state universities, seven non-state universities, 12 state colleges and thirty-four non-state colleges. In this report we deal with the state universities.

This report on Hungarian higher education is based on existing literature on Hungarian higher education as well as on a set of about fourteen face-to-face interviews with decision-makers in Hungarian higher education (names of the interviewed people can be found at the end of this document). The respondents were asked to provide their view on the impact of the reforms on system performance.

The report is divided into four main sections. Section 2 presents a summary overview of reforms in Flemish higher education governance and funding. Section 3 analyses the available indicators on system performance and qualifies them based on in-depth knowledge of the system. Section 4 examines the main impacts of the reforms and the extent to which these have contributed to changes in performance and section 5 draws a final assessment by the authors themselves.

### 2 Reforms in governance and funding over the last ten years

Hungary's higher education system comprises 71 institutions: 31 state-financed universities and colleges (86% of the students), 26 religious educational institutions (6%) and 14 colleges operated by foundations (8%). The total number of students in the higher education was about 400 000 in 2007/08 (the participation rate was close to 40%), compared to 100 000 in 1990/91. There are 16 state financed institutions with more than 10 thousand students, the other end is 31 small institutions with less than 1000 students. The so-called integration process in 2000 (mergers of institutions) decreased the number of state-owned institutions significantly. Most colleges and universities are located in Budapest, but high quality higher education is provided in other major towns (Szeged, Pécs, Debrecen, etc) as well.

Hungarian higher education has been working towards becoming part of the European Area of Higher Education for more than ten years. From the academic year 2005/06, all students entering higher education in Hungary have been studying in a 2-cycle system that consists of courses leading to a Bachelor (mainly 3 years) and

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later on to a Master's degree (2 years). Universities have the right to operate doctoral schools and to award doctoral degrees.

The establishment and operation of higher education institutions are regulated by the 2005 Higher Education Act. A higher education institution may launch Bachelor and Master courses after having obtained the consent of the Hungarian Accreditation Committee, and following the central registration of the given course. Applicants' ranking in the first cycle is based on their secondary school grades and their secondary school leaving examination results. Only applicants with Master degree may be admitted to Doctorate courses.

The number of students admitted to higher education is limited. The Ministry of Education announces the number of state-financed places in each study field every year (all together it is about 60 000). Institutions can open further places according to their accredited capacity where the students pay the cost of the education. 53% of the students were state-financed in 2007/08, the number of state-financed full-time students was 76%.

#### Reforms in higher education governance

This section describes the main changes and policy initiatives in governance in the period 1995-2008.

##### Integration of HEIs in 2000

The structure of the public Hungarian higher education sector before the year 2000 was fragmented. There were many highly specialized institutions (i.e. most universities and colleges had only one discipline). The integration process was mainly legally imposed in a top-down way, applying administrative and bureaucratic tools. The aim of the integration process – based on the three principles of location, profile and size – was to achieve higher efficiency by merging institutions. Regional universities were created as well as some mergers took place in Budapest. As the result of this the number of state-owned institutions decreased significantly.

##### Increasing institutional freedom in setting their internal governance and management structure

The Higher Education Act 1993 prescribed in detail the internal structure of HEIs, including a long list of responsibilities assigned to each governing body. When the integration process took place, the internal governance structure of the universities was not legally modified: the Senate remains the main decision-making body and the powers of the executives – rector, dean – remains as they were before. However, in the period 1996–2005 the institutions have been trying to take innovative steps to modernize their management structure and interpreted legal regulations in a more flexible way (e.g. some institutions introduced directorates with professional staff instead of having a system of academics-led committees only). The Higher Education Act 2005 made a significant change in declaring that institutions can decide on their own governmental structure (within the guidelines of the Act). Some institutions are applying the new rules, but in general the old academic and decision-making

structures continue to characterize Hungarian higher education institutions. In the interviews only a few experts referred to these changes as being important ones in the sense that they may have an impact on HEIs' future. We decided not to further analyze its effects in later chapters. A new element in the HE Act 2005 concerns the introduction of a new body, the Financial Board (although this body shows resembles with the 'Social Council').

#### Foundation of Financial Boards in 2005.

The foundation of Financial Boards is obligatory for all state-owned institutions since 2006. The Financial Board consists of 7 or 9 members that represent different stakeholders. Initially the majority of the board members should be nominated by the Ministry. However, the institutions successfully disputed this proposal at the Constitutional Court, because according to their view it was considered as being in conflict with institutional autonomy. In the first proposal the major functions of the Board would be to provide strategic guidance and promote institutional economic efficiency, i.e. to some extent a decision making role. This concept has been quashed. The current Financial Boards do not have a decision-making mandate but an advisory one, which is obviously a less powerful position. In most institutions their role is rather weak in determining the financial and economic strategy of an institution (see also the case studies).

#### Reforms in the funding of higher education institutions

In this section we present the main changes and policy initiatives in funding in the period 1995-2008.

#### Introduction of formula funding in 1996.

Formula funding was introduced into the Hungarian higher education system in 1993, but it was only in 1996 when it was applied in practice and replaced the funding mechanism based on negotiations. The funding formula was based on several components and the number of components and funding categories changed significantly in about every two years.

However, it is (and was) mainly input-based and not performance-based (number of students, number of qualified teachers, number of PhD-students, resource intensity of the programs). In 2005 the system was adjusted to the Bologna-system, taking into account the level of the programs as well.

#### Tuition fees.

A long-lasting debate took place on another important feature of funding – full with political, ideological arguments. Tuition fees were introduced in 1995 and abolished in 1998. Student contributions were introduced in 2006 and abolished in 2008 (with a national referendum). Meanwhile the category of the status of “cost-covering” (self-financed) students appeared: students who were not funded by the state, but admitted to the system. They have to cover all the cost of their education. In 2007, the number of self-financed students reached 50% of all students studying in Hungarian higher education. The number of cost-covering students is limited by the

maximum capacity of the institution that is determined in a so-called “capacity accreditation” process. These full cost paying students can be found in all levels of higher education: from full-time Bachelor studies to MBA programmes. In practice however, price setting is taking into consideration a kind of “market value” of the programmes and not the real costs.

#### Introduction of the student loan system in 2001.

The number of students who are entitled to get a loan has been steadily increasing since the introduction of the loan system in 2001. In the beginning only Hungarian students studying in accredited Hungarian institutions were entitled; later Hungarian students studying abroad or foreign students studying in Hungary were also allowed to get a loan. In terms of access the system is performing remarkably well: 84,000 students were in the voluntary student loan system in 2001 (15 billion HUF), 250,000 students in 2007 (154 billion HUF). The loan is relatively low in comparison with both the international average and the tuition fees and living costs in the country. The interest of the loan is close to the market interest rate which makes the student loan system self-sustainable from a government perspective.

#### Changes in the admission and in the allocation of students among HEIs in 2005.

Simultaneously with the introduction of the two-cycle educational structure, the allocation of state-funded Bachelor students also changed. Instead of using a quota system in which the Ministry (influenced by negotiations with the HEIs) determines the number of students for each institution and subject area, quotas are set for major study fields. Students in study areas (engineering, business, liberal arts, etc) are ranked by their results achieved on the final exams in the secondary schools. Those who achieve results good enough to be within the quota in the subject area will be state-financed and the institutions to which they are admitted will receive the funding “attached” to the students. The idea behind the reform is to reduce the role of negotiations and to increase competition among institutions.

For students, the new allocation system seems to be more performance oriented (i.e. in the old system, places were allocated among institutions and all institutions got state-funded places. Weaker institutions were usually selected by less talented students. In the new system students with the best result select first and their choices determine the allocation of state-funded places.)

#### Increasing the financial autonomy of HEIs in 2005.

Before 2005 state-owned institutions had to operate as budgetary organizations, that is, they were restricted by the Annual Budget Law and the strict rules of public financing. The Higher Education Act 2005 did not change the general position of institutions (that is, in general they are still regulated by the rules of public financing: their autonomy in internal resource allocation increased, but it is far from total freedom), but empowered them to take financial decision easier. Nowadays institutions are allowed to retain and accumulate residual amounts, to keep their own income in a separate account, to pursue business activities without the obligation to pay any taxes and duties if certain conditions are met, to sell not state

owned properties, to launch limited liability companies, to take long term obligations within the PPP programmes, and to subscribe government securities.

Introduction of three year performance funding contracts in 2006.

In the contracts the Ministry guarantees an agreed and steady flow of funds for three years (the amount of money is agreed upon in negotiations between each institution and the Ministry). The HEIs take the responsibility to increase their performance in certain fields. Goal achievement and progress is monitored by performance indicators. The goals, performance indicators and milestones are selected by the HEIs and are approved by the Ministry.

### 3 Performance improvements in Hungarian higher education

The performance of the Hungarian higher education system can be analysed from two perspectives: its position compared to the international average and the direction of changes in the analysed period.

The Hungarian higher education system shows significant improvement in two performance dimensions: access and capacity to attract funds. Compared to the average performance of the sample countries, Hungary has also an above average position in these dimensions.

In other dimensions, however, the Hungarian higher education system has been stagnating. These dimensions include mobility (slight below average position), research output (with significant lag) and graduation (significant below average position). Some remarks can be added to these tendencies, using the components of the aggregated indicators. In the research output dimension the number of scientific articles showed considerable improvement between 2002 and 2006, but the number of patents dropped. As a result the research output stagnated. The below average position in graduation is due to the fact that the expansion period of the higher education system started later in Hungary than in most western countries. It can also be noted that both components for graduation increased between 2002 and 2006, but presumably these elements also improved in other countries, so the pace of growth does not exceed the growth of the sample average leading to an overall stagnation.

Employability and lifelong learning fluctuated between 1998 and 2006, but with different patterns. While employability first grew and then decreased, lifelong learning decreased in the first period and then started to grow. Both dimensions are in the above average position, but employability is strikingly higher than the international average.

The data for the comparison of the cost effectiveness of Hungarian higher education system to the international average is missing. The Hungarian data for the period of 2002-2006 shows that the expenditure per HE student compared to GDP per capita and in euro PPS decreased significantly. This can be explained as an improvement of cost effectiveness, but it should be also taken into consideration that the expenditure

on higher education also decreased in Hungary during this period (see background variables).

Summary of the tendencies can be seen in the table below:

		Relative tendency		
		Improving	Fluctuating	Stagnating
Hungary's current position compared to the sample average	Below average			Mobility
	Above average	Capacity to attract funds	Employability Access (LLL)	Research output Graduation
		Access		

\* no data available about cost effectiveness

The overall situation is also influenced by the background indicators:

- *Change in 18 years olds in population:* there was a significant decrease of the 18-year old population in the last ten years, and it is expected that the situation will slightly deteriorate further in the future.
- *GCI rank score:* in 2001 Hungary was at the back among the countries in the survey of the Global Competitiveness Index and degraded its position.
- *GERD as % of GDP:* in 2006 R&D expenditure (as a percentage of GDP) was only 71% of the international average: Hungary spent relatively less than the peer countries. Spending on R&D stagnated in the analysed period (2002-2006). In the previous period (1998-2002), however, there was a significant increase.
- *Public expenditure on HE as % of GDP:* Hungary's expenditure on HE as percentage of the GDP was 83% of the international average in 2006, which shows that Hungary spends less than most other countries. Moreover, the expenditure decreased in the period of 2002-2006.
- *Disciplinary mix:* the proportion of science and engineering students decreased in the period of 1998-2006. Hungary was constantly below the sample average and the gap widened during the analysed period.
- *Unemployment rate:* the unemployment rate increased faster, and in 2007 it was about 1 % higher than the international average.

#### 4 Effects of the reforms and other explanations of improved performance

##### Integration of HEIs in 2000

Although the integration took place in the early 2000s, opinions about the process and the results differ and give contradictory views. The sensitivity of the topic can be illustrated by the fact that there has not been any comprehensive political or scientific evaluation about the integration process.

In the late 1990s mergers of the HE institutions was a widely accepted concept on a system level – for instance political parties agreed upon its necessity as the higher education system was considered too fragmented. The integration process was based on three principles: location, disciplinary profile, size. The integration of institutions in large cities in the countryside (such as Debrecen or Szeged), and the integration of institutions located in the capital city that have similar disciplinary profiles (such as the predecessor institutions of Budapest Polytechnic or Budapest Business School) are usually considered as successful integrations (ie. institutions were able to utilize synergic effects stemming from the integration, and their economic efficiency increased).

The regional integrations of predecessor institutions located in different cities usually are the less successful examples. In these cases the rationale of the integration (either centralization of financial and academic administration or the integration of overlapping educational activities) has not been realized successfully, mainly due to the opposition of the parties involved, and due to the weakness of the top management of the newly integrated institutions. The disintegration and rearrangement of certain new institutions started almost directly after 2000. Currently the position of these regionally integrated universities is quite weak, and usually they could not fulfill the regional role (attracting more students from the region, making regional business collaboration, links to the local governments) they are expected, therefore opinions about the success of these integration vary. One of the reasons of the failure to integrate these institutions is that the central governmental decision makers and the political parties of the local governments could not agree upon the selection of the institution that be leading in the integration. The interviews usually emphasized the negative consequences of the integration process, only few good effects have been mentioned.

The major problems mentioned are as follows:

- the integration transformed many previously existing and voluntary cooperative relationships into tensions, competition and fights for resources because cooperation was imposed;
- the internal competition for resources stressed the importance of faculties (deans), while central management has not been empowered with the adequate authorities to deal with this situation: as a result faculties dominate institutions, which does not advantage integration;

- academic and financial aspects of managing the institution have got mixed with each other, leading to confusion, and the academic dominance led to the reproduction of 'soft budget constraints'.

From a managerial point of view it would have been possible to run the institutions efficiently with a more centralised distribution of authority (i.e. without structural solutions), but it would have required the wisdom and cooperativeness of the staff - which was unlikely in the distrustful atmosphere created by the integration process. A structural solution to this problem could be to set up the Financial Boards – see later.

The growing importance of faculties fuelled the strive for creating new faculties. This has, to some opinions, a negative impact on the financial stability of institutions because small faculties can operate less economically.

One of the major arguments of the government to integrate the institutions was that the integration would make the rationalization of institutional operations possible (e.g. economies of scale by the reduction of administrative and maintenance costs). In practice the debates and fights between the faculties (mostly independent institutions formerly) make the exploration and exploitation of organizational slacks difficult (e.g. the elimination of parallel activities, setting strategic development priorities, etc.). The buildings and other physical resources have not been concentrated during the integration and this causes operational waste. As a result of these problems (and other, here not mentioned) the integration mostly remains formal and the efficiency gains of the process has been questioned.

On the other hand the growing size and the multi-campus operation of the existing integrated institutions require the development of systemic solutions even in those cases where the integration is seen as “unsuccessful”. Working in a large-scale institution creates managers who in addition to their main academic interests, can represent the aspects of economic sustainability, which can be an important element in the development of institutional governance in the future.

An important lesson from the integration process is that a legally imposed and quick integration has a lot of drawbacks. Motivation and governmental initiatives are needed to ensure results of a slower, more evolutionary process. If the parties involved are able to trust each other, to make long-term compromises, and to find win-win solutions, then the integration could create a development potential to be materialized in the growing ability to attract funds and to better pursue their interests in negotiations.

#### Foundation of Financial Boards in 2005

The introduction of Financial Boards at the top level of the institution is an attempt to introduce board type management into institutional practice. In the original concept (early versions of the reform) the owner (the state) would delegate the majority of the members and the board would have significant decision-making authority in strategic questions, while the rector had the full responsibility for



realizing the strategy approved (and modified) by the Financial Board. The Senate consisting of the representatives of students and professors would be responsible only for academic affairs (i.e. curriculum). In the final text of the HE Act 2005, however, a less powerful Financial Board came into existence in which the representatives of the state are in a minority position and the Senate retained much of its original role and power.

As the interviews show, in its present form the Financial Board can be considered as the restoration of the 'Social Council' whose function was to provide guidance, raise new ideas and to voice opinions of academic and non-academic parties who are frequently underrepresented in academic decision making processes.

It is not just the lack of sufficient authorities that makes Financial Boards unsuitable to fulfill a controlling role in the institutions. Persons delegated by the Ministry are often not suitable, not responsible enough. Currently there are only a few members of the Boards who can convincingly represent a wider stakeholder's view on the strategy of the institutions and on institutional policy issues. Another problem that the Boards are facing is the lack of their own separate staff who can provide the Financial Board with management reports and information. Thus, externally delegated members remain outsiders without a realistic view about the institution. As problems are framed and decisions are prepared by the rector's staff, the academic management (rector, vice-rectors, i.e. all those leaders who represent academic staff rather than support and services) can make the Financial Board to declare (and therefore legitimate) their concepts and decisions. In addition, sharing information with the members of the Financial Board sometimes is in sharp contrast with the interests of the institution. In some cases the academic manager of an institution was delegated to the Financial Board of a competing institution.

The legislator does not provide strong powers to the Board, so its role and powers in practice depend on the institution itself. The impact of the Financial Board can be significant in those institutions where financial and strategic controlling units are missing. An effective role of the Board can be observed if the members of the Board have a (business) relationship with the institution before their appointment. In these cases the success of the institution is their interest, and they have the necessary local knowledge, too.

There are examples where the relationship between the Board and the institution is definitely conflicting. In these cases the Financial Board usually overestimates its own role and its members have no realistic knowledge about the peculiarity of higher education or the characteristics of its financial operation. The general pattern is, however, that there is a peaceful coexistence of the Financial Board and institutional management (rector and the administration).

In the opinion of the interviewees the appearance of the Financial Board has no real impact on the improving performance dimensions of the Hungarian higher education (i.e. no impact on improved access improved third party funding and improved research output in terms of articles produced).

### Effects of funding reforms

#### Introduction of formula funding in 1996

Formula funding was introduced in 1996. Since then funding formula changed almost every two years and the result was an unpredictable funding context. The reason for the constant change was that the formula was not used (consciously) to influence admission policy, but only to redistribute funding. However, because the process contained negotiation elements and the determination of the parameters was not transparent, the formula funding just disguised the way how in fact the resources have been allocated.

Frequent changes in the formula and the low level of transparency led to a situation where negotiations between institutions and the Ministry continued to play an important role, and the financial position of institutions remained hardly predictable. Several experts argued in the interviews that in the Hungarian higher education a negotiated institutional funding system is effective in reality, but it is carried out by “formula funding”, sustaining the image of an objective and predictable funding system.

It should be noted that it is not just the lack of a consistent and credible educational policy which makes the formula funding system working improperly. The proportion of the labour cost in an institutional budget is about 70-80% of the state funding. The staff of the institutions has a public servant status; therefore the funding amount cannot be decreased below that level. It has been argued that a fully functioning formula funding system would require the elimination of the public servant status in higher education. (As public servants, staff enjoy heavy protection, so institutions must have a very-very good reason to dismiss them. If the state would not provide enough money through the formula funding system, institutions could not pay the wages, but they could not dismiss the staff either which is a contradiction. If the state would provide money for wages in other channels, it would not be a fully functioning formula funding system.)

Nevertheless, the formula funding system of the 1990s and of the beginning of the 21<sup>st</sup> century have had a major impact on access to higher education and the expansion of the educational system in Hungary, because most institutional leaders assumed that funding is dependent on the number of students. Strategic decisions have been based on this assumption. Others were aware that institutional funding could not be increased by simply increasing the number of students, but they were convinced that stagnating or decreasing student numbers would have harmed their negotiation powers. Their negotiation position becomes weaker compared to those institutions (or faculties) where student numbers do increase. Increasing student numbers have not resulted in the direct increase of state funding. However, it proved to be an important argument in negotiations and an important means to maintain the actual level of state funding.

“Cost-covering fees”

Apart from the state-funded study places, institutions can enroll students that pay full cost for their education. The number of these students paying fees grew steadily between 1996 and 2005. Their proportion is the highest among part-time, distance learners and postgraduate students. The paid “cost-covering” fees are practically functioning as a regular tuition fee (representing the political hypocrisy: all the Hungarian political parties declare that they are against of the introduction of “tuition fee”, and in Hungary there is no tuition fee in the higher education officially).

The proportion of cost covering students in 2005 was about half of all students. This indicates that many students are willing to pay to gain social mobility. That underlines OECD calculations that show that the private rate of return of higher education is one of the highest in Hungary. This fact also questions arguments against a general introduction of tuition fees.

The status of a student (self-financed or state-supported) is determined in the enrolment procedure. Some research shows that social differences (e.g. a higher proportion of low-income families in the self-financed category) make the system unjust. The Higher Education Law 2005 gives (limited) possibility to transfer students from one category to the other, but the concept has controversial elements, and the algorithm has unclear factors: the impact of the new regulation is not clear.

It is surprising, however, that cost-covering students do not (or cannot) enforce higher quality in education, and what is more, cost-covering students (e.g. in Bachelor programmes) are usually treated as less-qualified students compared to full-time students.

The appearance of cost-covering students has two major effects on HEIs. On the one hand, it increases the flexibility of HEIs as the revenues generated from that source can be spent (almost) without restrictions. On the other hand, it increases the market-sensitivity of institutions: positive or negative impacts can be really seen in the nearest future when the number of potential students from the relevant age groups is likely to decline.

Introducing cost-covering funding plays an important role in the expansion of higher education. It has not simply created the possibility for students to learn but it also encouraged institutions to increase the number of cost-covering students to balance their budgets. This process, however, did not go together with the improvement of quality. On the contrary, the general opinion is that the average quality of the higher education graduates has been decreased as a consequence of the rapid expansion of Hungarian higher education.

#### Introduction of the student loan system in 2001

The student loan system supports students to cover living costs rather than the tuition fees, because the maximum loan is relatively low. Therefore, the existence of loan system does not explain the rapidly increased access to higher education.

The student loan system has two indirect effects. First, the loan is attached to the student, which raises the sense of responsibility and the general level of financial-economical culture. Students learn how to manage debts and risks. Another impact of the existence of the student loan system is that it has been used as an important argument in the debates about the general introduction of tuition fees (which was unsuccessful as we described in the introductory chapter).

#### Changes in the admission and in the allocation of students among HEIs in 2005

As we described in the first chapter, the aim of the reform in this area was to make the allocation of state-funded students more competitive by setting quotas for major study fields instead of negotiating with the institutions and with the representatives of the given areas. Institutions located (or having affiliations) in Budapest were the main beneficiaries of the new system. The position of the small countryside institutions worsened significantly with the decrease of state-funded students, and the decline could not be balanced by recruiting more cost-covering students. The strength of the institutional protests proved that the reform had a real impact, not just on the allocation of students but on the allocation of state funds as well.

There are some unintended consequences of the “competitive” system. Formula funding mainly based on the number of students and the reform in admission together made former colleges interested in building capacities on higher levels and trying to accredit and offer programmes in master and doctoral level. Another consequence is that the declared principles of capacity building in infrastructure are in contradiction with the results of the changes in admission: the EU resources are primarily available for the countryside institutions where the number of students is decreasing. And finally, as size of the 18-25 age group is declining, there is a competition for those students (young or mature) who normally do not think of studying in higher education: the reform contributes to the improvement of access indicators.

#### Increasing the financial autonomy of HEIs in 2005

Only a few experts mention that this reform element has had significant impact on the institutional practices. Those who referred to this reform usually emphasized the intended positive effects, that is, the growing institutional freedom in resource allocation and growing possibilities to develop real cooperation with business and governmental organisations.

These changes may significantly increase institutional capacities for capital attraction. However, for the moment only a few Hungarian institutions have the entrepreneurial spirit and managerial expertise to take advantage of the new measures. (It is also a question when the results of the changes will be seen in the institutional indicators.)

#### Introduction of three-year performance based funding contracts in 2006

Partly based on experiences of similar systems in other countries, three-year performance-based contracts were introduced into the Hungarian funding system in 2006. In exchange for a guaranteed and agreed flow of state funds for three years,

institutions took the responsibility to improve their performances. Goals and indicators for measurement of progress were selected by the institutions themselves from a list set in the amendment of the Law (and accepted by the Ministry). This methodology proved to be too permissive: as a result, some of the selected indicators will not show real progress in performance, and there are no real challenges for the institutional management.

It is not clear yet how institutions can be sanctioned if they fail to perform as agreed. Several institutions have not even presented the obligatory report to the Ministry, or if they have done it, the reports were not based on reliable facts. The Ministry also lacks the capacity (persons and statistical database) to control the performances of the institutions. In addition, rules of public finance do not support long term agreements or contracts and this further reduces the credibility of the long term contracts. As a result parties (especially HEIs) do not believe in long term solutions and the real value of the contract is perceived as low. The institutions optimize their short term activities.

Most interviewees said that the process of the introduction and freezing of the “guaranteed” money (as a consequence of the financial crisis) discredited the performance contracts. From an institutional perspective performance contracts can be considered more as a political declaration than as a legal document with clear implications for their functioning. At the moment three-year performance contracts do neither contribute to the improvement of the ability to attract capital, nor to the access of HE.

## 5 Other factors of influence (alternative interpretations for improved system performances)

### Improvement in access

The expansion in the Hungarian higher education between 1995 and 2004 can be explained by a few additional factors: (1) the opening up of the higher education system, and (2) the increasing number of potential students from the 19-25 year old age-group. Both factors strengthened the belief that higher educational qualifications are a general expectation in society as a whole, which (3) attracted older age-groups without degree to higher education. This resulted in a further increase on the demand side. Higher education institutions have built their capacities according to an “ever-increasing” demand. However, from 2005, as a consequence of a declining demographic trend higher education capacity is higher than necessary, especially in the fields of teacher training, arts, law and economics/business.

### Improvement in the capacity to attract funds

In spite of the increase of cost-covering students and the increase in the financial freedom of institutions, several experts find it hard to believe that institutional capacity to attract funds improved significantly. Many alternative explanations were provided during the interviews:

- **Problems in calculation:** while business and external sources remains stable during the analysed period, state funds decreased; this leads to improved values of the indicators.
- **Lack of contextual knowledge:** indicators in the analysis covered not just higher education institutions, but the research institution of the Hungarian Academy of Sciences as well. The contribution of the Hungarian Academy of Sciences and higher education institutions cannot be separated. It is assumed that higher education institutions perform worse.
- **Abundance of resources:** the dimension of “capacity to attract funds” has the implicit assumption that institutions play an active role in the process. It is also possible, however, that their abilities and sensitivity have not improved. Instead, it is the abundance of resources that is reflected in the improving indicators. For example, there are many tenders where the participation of a higher education institution in the consortia is compulsory or greatly improve the chances for success. Other examples are the funds generated from the companies’ balance sheets (before tax) to contribute to the development of higher education for certain purposes (e.g. innovative research, programmes for vocational studies) by the force of the law.
- **A reason for the abundance of resources** could be that the business sector recognized that investing into higher education is profitable. That might be the case for both small-scale (e.g. student services) and for large-scale business investments (e.g. PPPs).
- **Low basis:** the change in the capacity to attract capital seems significant because currently much potential is un(der)explored; therefore even small changes can lead to considerable increase.
- **Other factors:** there are corporate R&D activities deployed at universities (such as the Siemens and Bosch Departments at the Technical University of Budapest and the University of Miskolc), but it is the tradition of the institution, the social capital of some persons or the location of the university (and not necessarily its good services) that make the institution attractive.

#### The increase of the number of publications

One of the indicators of research output is the number of scientific publications. The increase can be explained as the indirect result of policy making. The restoration of PhD training at universities in 1993 and the continually growing expectations with regards of publication activities are likely to have an impact on the number of publications.

There are other factors and mechanisms which might play role in the improved statistics:

- One assumption is that the rearrangement of disciplines made teaching in sciences and technical disciplines undervalued, and the ‘free’ capacities in those disciplines are used for research and producing publications.
- In its tenders the National Office for Research and Technology prefers or requires medical and technological scientists to publish their results.

- The cooperation between authors leads to increasing number of articles with several authors. Joint tenders also strengthen this trend, because participants can be co-authors in articles, even if not all of them participated directly in the research led to the publication.
- Publications may increase as a result of the increase of international scholarships and exchange programs.

## 6 Final discussion and appraisal

The general outcome of the interviews is that there have been several reforms in Hungarian higher education, although most of them are not perceived as being 'radical'. The reforms have brought changes in the areas of governance and funding in the last decade. The institutional landscape changed through mergers, even though not all of them have been successful. Institutional autonomy has increased (more decision making freedom to shape internal governance structure and more financial discretion), but not in every respect. A new institutional governing body has been introduced – the Financial Board – but its impact on institutional decision making remains to be seen and differs from one institution to another. Tuition fees came and went. Three-year funding contract between the ministry and the individual universities were introduced, but their effectiveness is seriously questioned.

Hungarian higher education performed rather well in three areas: access, third party funding and number of scientific articles published. There are no clear indications – according to the respondents – that governance and funding reforms have contributed to these three areas. Changes in system performance of Hungarian higher education have been the consequence of other factors.

## List of people interviewed

	Name	Position	Date	of the interview
1.	András DERÉNYI	Head of the National Credit Council  Member of the National Bologna Committee	18 2009	May
2.	György FÁBRI	Director of the Hungarian Academy of Sciences, Communication Department	26 2009	May
3.	Attila KOTÁN	Head of Budget Department, Ministry of Justice	13 2009	May
4.	István Vilmos KOVÁCS	Former Deputy Director of Development Department, National Development Agency	20 2009	May
5.	Zoltán LOBODA	Head of the Department of European Union Relations, Ministry of Education	26 2009	May
6.	Norbert MISKOLCZI	President of the National Association of Higher Education Students  Member of the National Bologna Committee	23 2009	June
7.	Dávid NAGY	Member of the executive board, National Association of Higher Education Students,  Member of the National Bologna Committee	28 2009	May
8.	Zoltán PEREDY	Deputy Head of the Strategy Department, National Office for Research and Technology	19 2009	May
9.	János PAKUCS	President of the Hungarian Innovation Association	03 2009	June
10.	Béla PALÁSTI- KOVÁCS	Chair of the Non-university sector, Hungarian Rectors' Conference  Dean of the Budapest Engineering School  Member of the National Bologna Committee	18 2009	May
11.	Bálint SZABÓ	Hungarian Chamber of Commerce and Industry  Vocational counsellor	1 2009	July



12.	Tibor SZÁNTÓ	Chief-secretary of the Hungarian Accreditation Committee	18 2009	May
13.	Pál VERES	Senior Advisor of the Department of Higher Education, Ministry of Education	26 2009	May
14.	József VÖRÖS	Chair of the Economic Advisory Board of the University Sector, Hungarian Rectors' Conference,  Ex vice-rector of Pécs University	21 2009	May

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*The interviews were conducted by Gergely Kováts*

### Summary of reform effects (based on the expert interviews)

Reform	Positive effects / Strengths	Negative effects / Weaknesses	Impact on performance dimensions
Integration (2000)	Increased efficiency  Skilled academic managers	Contradictory introduction  Competition vs cooperation	? cost effectiveness  ? capacity to attract funds
Financial Board (2005)	Stakeholders participation	Lack of decision-making power	No impact
Formula funding (since 1996)	Regulated economic environment	Lack of transparency  Lack of stable and predictable system	++ access
"Cost-covering" fees (1996)	Sensitivity to the market needs  Contribution the budget	Increased social inequality  Principles vs practice	++ capacity to attract funds  ++ access  + cost effectiveness
Student loan system (2001)	Strengthened financial culture and sense of responsibility	Risk	+ access
Increasing financial autonomy (2005)	Cooperation between HEIs and business organisations	Contradictory legal regulation	+ capacity to attract funds
Admission and the allocation of students	Increased competition among institutions	Strategic development of the countryside vs student preferences	++ access

Reform	Positive effects / Strengths	Negative effects / Weaknesses	Impact on performance dimensions
(2005)			
Three-year performance based funding contracts (2006)	Performance indicators Medium term planning	Weak legal regulation Changing rules Lack of credibility of education policy	No impacts yet
+ / -	weak positive / negative impact		
++ / --	strong positive / negative impact		
?	contradictory impacts		

## 7 Institutional case studies

### Corvinus University of Budapest

#### The university as the result of an integration process

The Corvinus University of Budapest (CUB) was established in 2003 as the result of a long and exceptional integration process that contained both voluntary and forced elements. To understand the current governance structure of the university, it is worth to take a closer look at some of the details of the integration process.

The Budapest University of Economic Sciences (BUES; formerly Karl Marx University) has made a long-lasting transition from a social science institution representing the mainstream ideology of the ruling Socialist Party to an internationally competitive business and management school that has introduced standard curricula of the western world between 1986 and 1999. The role models were the Wirtschaftsuniversität Wien and the London Business School as elite institutions in the field producing the leaders of their country's administration and foreign relations and having a lot of financial and political autonomy. However, there was a pressure on the university management to find partners and to become a comprehensive, "real" university.

That was the background of the proposals of the Senate to merge with the Technical University of Budapest (in 1996) and with the Eötvös Loránd University of Liberal Arts (1999). The first one was preceded by an alliance among four higher education institutions in which participants successfully cooperated to win some infrastructure development tenders (World Bank initiative) between 1993 and 1996. However, the proposal to intensify the cooperation by integrating member institutions was rejected, which resulted in the end of the cooperation and the alliance. The

University Council of the Budapest University of Economic Sciences wrecked the second attempt as well: votes of the defenders of an independent elite school won again.

An amendment of the Higher Education Act on the integration of the Hungarian universities in 2000 created a situation where institutions with programmes in only one study area were required to accredit programmes in at least one other study area – for BUES the simplest solution was a merge with the College of Public Administration. As the result of that the Budapest University of Economic Sciences and Public Administration (BUESPA) was established.

At that time, due to its one-study profile, the University of Horticulture and Food Sciences also integrated into a new university, namely the Agricultural University of Gödöllő (located in Budapest region) by the Act of 2000. The reason was to create a regional university. Conflicts between the members of the constituent institutions were so intense, however, that the faculties of the University of Horticulture and Food Science started to lobby to stop the integration and they got a government permit to be integrated with BUESPA – if they would agree. After long discussions the Senate of BUESPA decided that the Horticulture and Food Science faculties could join and the new university – as Corvinus University of Budapest – was officially formed in the academic year 2003/2004. The seven faculties of the new university have teaching and research programmes in the fields of economics, business administration, public administration, social sciences, horticulture, food sciences and landscape architecture. This combination of disciplines is unique in the country.

The Corvinus University of Budapest has about 17,000 students (2007/08), which makes them the seventh largest university in the country (in terms of 2007/08 student numbers). Student numbers stagnated in the recent years. The boom in student numbers happened earlier, in the 1990s. About 46-49% of all students are cost covering (i.e. fee-paying) students between 2004 and 2007. The percentage of foreign students (excluding trans-border students with Hungarian nationality) compared to the number of full-time students fluctuates between 7 and 8 percent between 2004 and 2007.

Number of enrolled students							
	2001/2002*	2002/2003*	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
Corvinus University of Budapest	15 543	16 212	17243	17 342	17 322	17 879	17708
Hungarian higher education	313 238	341 187	366 947	378 466	380 632	375 819	359 391
* CUB did not exist in these academic years. Numbers of students were calculated for comparison purposes only, by summing up the students of faculties which currently form CUB.							

The university has 290 doctoral students on average (1,6% of all students); they study in one of the 8 doctoral school of CUB.

According to the statistics of the Ministry of Education and Culture the yearly average of income generated from contractual R&D activities is 307,9 million HUF: the fourth largest amount among Hungarian HEIs. The university was especially active in contractual R&D activities: in 2005 12% of all contractual revenues of Hungarian higher education institutions are generated by CUB. The university also established a project-company to act as an intermediary for business enterprises/agencies and the institution. The establishment of new spin-off companies is planned in the near future (to provide food and horticulture research).

As can be seen from this short description, Corvinus University of Budapest (and its predecessors) performed well in student and capital attraction compared to other Hungarian higher education institutions<sup>2</sup>.

#### The structure of the university

The structure of the organisation and the management changed several times during the integration process. During the first years of the integration the then rector attempted to create a highly centralised structure in which the central administration was run by professional directors. The academic structure was also changed by eliminating some departments and merging others. In the second stage of the integration, a new rector was elected in 2003. He was committed to decentralisation, so he eliminated the directorates and restored the traditional governance and decision making structure.

As a result of that a high degree of faculty autonomy characterizes nowadays the decision-making mechanisms of the university. Only decisions primarily concerning university policy and financial and operational framework are centralized in an integrated university management system.

Faculties (1) are entitled to define their own organizational structure, internal rules and regulations. Therefore academic structures greatly vary across faculties and this leads to a lack of transparency. Some faculties have departments, others have institutes, and there are faculties having both. Faculties frequently establish centres, research centres and project organisations. At one of the faculties that has 81 full-time employees, there are four institutes, but 38 research centres as well.

Faculties (2) play an important role in defining the structure of the study programmes and in managing research activities. And (3) they are also responsible for most of the administration and services in relation to study programmes, and also for decision-making regarding especially but not exclusively student affairs. In

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<sup>2</sup> See indicators in detail in the Hungarian System level report.

addition (4) faculties enjoy a high degree of autonomy concerning their own revenues. State funds are also allocated to faculties. Finally (5) in most cases deans rather than the rector are dealing with the employer's rights.

Faculties are governed by a dean and by Faculty Councils. Councils consist of representatives of departments and students to provide significant departmental influence on faculty issues.

Another distinctive feature of the university's governance system is the composition of the supreme decision-making body, the Senate. It has 38 voting members: 1/3 of them are students who have strong influence on university affairs. The other members are delegated by faculties or are ex-officio members. Although the size of faculties in term of student and staff numbers or budgets varies significantly (e.g. in 2007 the largest faculty had eight times more students than the smallest one), faculties are represented in the Senate by an equal number of staff members. This creates tensions among faculties and encourages the larger faculties to further decrease the significance of the central level.

In addition to the Senate, there are other institutional level bodies. The Rector's Cabinet is an operative body, where the agenda of the Senate is discussed with the deans. The Financial Board gives recommendations and voices its opinion on every financial issue. It has an indirect influence on university affairs and it can be considered mainly as a consultative body, although its consent is required for major financial decisions.

A rather new phenomenon in the development of the university structure is the appearance of a middle-management and governing layer between the central and faculty level, which is called the campus level. Its role is to coordinate issues regarding infrastructure maintenance and development, room allocation and timetable planning. It also serves as a place where faculties of the campus can harmonize their interests. This development is contradictory, however. Some consider it as an obstacle of completing the integration in the future because it re-creates and re-institutionalizes the three predecessor institutions. Others think that the campus level is a good way to increase resource allocation efficiency by some kind of centralisation without seriously harming the interests of faculties.

The central management of the university is led by the rector. The three vice-rectors are responsible for (1) educational and research affairs, (2) for international affairs and (3) for strategic issues. Vice-rectors supervise the central administrative offices (i.e. Central Academic and Information Technology Office, Quality Office, International Office, Communication Office, Corporate Partnership's Coordination) and support services (Career Office, Information Technology Service Centre, Central Library of the University). Since the integration of 2003 it has been common practice that each constituting institution delegates one vice-rector. Financial and maintenance affairs are fully centralised into the General Directorate for Finance and Technique.

### Funding and resource allocation

The university is a state-owned higher education institution, i.e. a central budgetary organisation: expenditures of both state funding and own revenues are regulated by a special law, which decreases the resource allocation flexibility of the institution even though conditions improved as the result of the reforms in 2005.

In 2008 the income of the university was about 17,000 million forints. The average annual income growth rate between 2004 and 2008 was 11,5 per cent (5% in 2004 prices). On average 53 per cent of the total income came from state funding and the remaining 47 per cent was the university's own revenue (which is similar to the national average).

#### Revenues (in million forints)

	2004	2005	2006	2007	2008
State support	6 249,7	6 714,2	6 788,3	7 998,8	9 387,1
Own revenues	5 075,7	5 528,4	5 810,1	7 300,0	8 001,1
Total revenue	11 325,4	12 242,6	12 598,4	15 298,8	17 388,2

65–70 per cent of the state funding is the training and maintenance grant provided to cover the costs for personnel and the maintenance costs of teaching and research activities of the university. The rest of state funding is for strictly specified tasks, e.g. grants for student bursaries and for special programmes.

The major sources of the university's own revenues are fees from training and research programmes, tenders and applications, and the utilisation of university assets. 2007 and 2008 were outstanding years, as more than one billion forint was generated through the utilization of university assets. The vocational training contribution<sup>3</sup> from companies has been continuously growing as well as the amount and the rate of revenue from tenders and innovations. These revenues provide a valuable source of investment in educational and information technology.

Concerning the breakdown of expenditure, wages and social security make up around 50% of total expenditure.

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<sup>3</sup> According to the Hungarian law, companies have to pay a vocational training contribution that can be given to educational institutions.

The internal allocation of resources reflects the decentralised nature of the institution. Revenues are transferred to those faculties (and then usually to departments) where they were produced. State funds are also allocated to faculties by using the formula applied by the government.

Central organizational units that provide support services (the Central Library and the Computer Service Centre) or fulfil administrative and executive roles are budget centres who are entitled to manage their finances independently. The budgets of the central organizational units are negotiated and agreed upon during budget planning. Currently about 80% of revenues are allocated to faculties, while the rest is transferred to central executive units, support and maintenance service units.

Incomes and expenditures are monitored and controlled by a budgetary management system. It is worth noting that in the last decade the central academic management attempted several times unsuccessfully to introduce a more transparent controlling and resource allocation system.

### The effects of the integration on the university

#### Teaching

In the integration process institutions with rather different study fields have been merged. Therefore, possibilities for cooperation between these faculties in teaching are limited and remained unexploited. What is more, the strengthening of faculty autonomy weakened even those relationships which were lively before the integration. Some faculties tried to be self-supportive: they try to cover all the courses by its own faculty staff even if staff with better qualifications on other faculties is available. There are only a few cross-faculty joint educational programmes. Paradoxically these tendencies have been escalated by the Bologna process. For instance, shorter programmes (three-year BA/BSc and two-year MA/MSc programmes instead of five-year programmes) motivated faculties to (continue to) teach their own courses.

#### Research

Research has similar symptoms as teaching has. The predecessor institutions of the university have always played a decisive role in research (and in curriculum-development). The advantages of multi-disciplinarity have not really been utilized (yet). Although there are some co operations between faculties and research groups, which managed to attract considerable external funds, the general pattern is different. One of the exceptions is the Regional University Knowledge Centre, which intends to enhance the competitiveness of food chain enterprises and was founded by the Faculty of Food Science, the Faculty of Horticultural Science and the Faculty of Business Administration.

Research (and counselling) is individualized, especially in social and economic sciences where the growing need for consultative services after the 1990s also strengthened individualization and the foundation of private companies with university employees. Research on these fields does not require significant

investments in equipments. Therefore individualization is not limited by technological constraints. As a result, research activities are scattered in the university (individual and sometimes departmental projects are common), cross-departmental research projects are fairly rare. As for EU research applications, the university itself generally participates as a partner in different consortia (which is typical for the country as a whole), and only a limited number of research projects has been initiated from university organizational units so far.

#### Administration and services

A unified financing framework has been developed. Financing operations have also been standardized. Career services and computer services are centralised and information systems (such as student administration and budget control) are unified. There are some services which remained decentralised: quality management, language education, student administration and libraries are managed on campus/faculty level.

#### Summary: the impact of funding and governance reforms on the Corvinus University of Budapest

The predecessor institutions of the university differ in size, organizational culture, institutional profile and disciplinary environment. Harmonizing interest and building trust therefore requires time and integration is possible only gradually. That is especially true if we take into consideration all the experiences from in the 1990s, which made faculties very cautious in negotiations. The frequent ruptures (rejected integration requests, failed integration etc.) in the 1990s and the early 2000s made it virtually impossible to develop a stable vision and to realize a long term strategy and organisational development concept for the univeristy. The institutions were in the state of constant change.

After 2003 a decentralized governance structure was adopted that seems to be stable, but the price paid is the lack of focus in research and education. The faculties are most of time unwilling to cooperate. Therefore, it is still difficult to realize an organisational-wide strategy, although reasons are different than they were in the previous period. Another consequence of the decentralised structure is that faculties can enforce their own interests, which are sometimes in contrast with institutional interests. It is an open question whether the introduction of campus-level management can improve the situation.

The formula funding system supports the faculty's autonomy well, because by using the formula the contribution of faculties to total revenues can be easily calculated. It is unfortunate that the distribution of costs is not as transparent as that of revenues. This is a constant source of tensions.

In a decentralised organisation, central administration cannot serve as a buffer in cases of governmental cutbacks and resource withdrawals, so these must be directly distributed among faculties and this leads to further tensions. Theoretically decentralisation encourages faculties to increase their revenues and to decrease their



costs. Cutbacks and redistribution among faculties (e.g. because of loss-making units) usually hit harder well managed faculties and departments, because they have the money to cover losses of other units. This has an opposite effect on their motivation.

The appearance of cost-covering students increased the institutional capacity to attract funds, especially in business and public administration, economics and social sciences, which became popular study fields in the 1990s. The good institutional reputation made student attraction easy. These disciplines attracted many international students as well. At the same time, the faculty of Horticulture and the Faculty of Food Science were successful in attracting research funds. These faculties are more entrepreneurial and try to use the university infrastructure and spin-off companies to attract more research funds. Staff in social science disciplines is also active in counselling, but this activity is less visible and much harder to channel into the university because it is highly individualized and it does not require special university equipment. Stronger performance control and more favourable funding environment should be created so that researchers in those fields bring their projects into the university.

The increased financial autonomy that was introduced in 2005 also played an important role in capital attraction, mainly because it made possible to concentrate buildings located in different parts of the city and to develop infrastructure. In addition to participate in state-supported PPPs (public-private partnership programmes), this is the only available source for infrastructure development. EU money is unavailable for institutions in the Budapest-region.

It is also worth mentioning that although student numbers stagnated in recent years, the attractiveness of the university among applicants has not changed much. Changes in the admission and in the allocation of students among HEIs in 2005 have not influenced significantly the leading position of the university in general (its impact on faculties varied, however).

#### References

- Bylaws/Organizational and operational rules of CUB
- Institutional development plan 2006 and 2007
- Institutional self evaluation for the Hungarian Accreditation Committee, 2007
- Report of the Hungarian Accreditation Committee, 2008
- Institutional self evaluation for the European University Association, 2008
- Report of the European University Association, 2008

## List of interviewees

Ágoston HOSCHKE	Former Vice Rector for general and scientific affairs at the University of Horticulture and Food Sciences  Former Dean of the Faculty of Food Science	28 July 2009
Ildikó HRUBOS	Professor Emerita  Former Vice Rector for educational affairs at the Corvinus University of Budapest	15 July 2009
Norbert KIS	Vice rector for International Affairs	30 July 2009
István PERJÉS	Head of the Institute of Behavioural Sciences and Communication Theory, Faculty of Social Sciences	28 July 2009
József TEMESI	Head of Department,  Former Vice Rector for Educational affairs at the Budapest University of Economic Sciences and Public Administration	21 July 2009

### University of Debrecen<sup>1</sup>

The University of Debrecen as an integrated new university was established in 2000. The integration process had evolutionary elements. In 1991, as part of a World Bank development programme, the Debrecen Universitas Association was established. Its members were the Agricultural University of Debrecen, the Medical University of Debrecen, the Debrecen University of Calvinist Theology and the Kossuth Lajos University of Arts and Sciences. (Some of them had 600-year traditions). Later, other institutions joined the Association: an affiliation of the Ybl Miklós Technical College of Budapest, the Kölcsey Ferenc Calvinist College of Teacher Training, Wargha István Teachers' Training College in Hajdúböszörmény, and the Debrecen Conservatory of the Liszt Ferenc Music College. In 1996, a cross-institutional body was set up to prepare a joint development plan for the future. As part of the cooperation, joint educational programmes were launched (e.g. in economics and business, in law, in chemistry, and in molecular biology). The cooperation became even closer with the foundation of the Federation of Debrecen Universities in 1998, which was followed by the full integration in 2000.

Currently the university has 15 faculties in the areas of medicine, agriculture, arts, (natural) sciences, economics, law, informatics, engineering, teachers' training and music.

In the academic year 2007/2008 the university had 29,000 students, which makes the university the fourth largest institution in Hungary. 70% of the students study full-time and 37% of them are 'cost-covering' (i.e. fee paying) students. 5,6% of all students are international students. Between 2000 and 2008 the student numbers increased by 34% at the University of Debrecen, while on national level the expansion was 22%. The difference demonstrates the attractiveness of the university.

#### Number of enrolled students

	2000/2001	2001/2002	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
University of Debrecen	21 747	23 062	24 723	25 904	27 403	28 366	29 381	29 121
Hungarian higher education	295 040	313238	341187	366 947	378 466	380 632	375 819	359 391

Doctoral education can be followed in 25 doctoral schools. The Hungarian Academy of Sciences runs 19 external research groups at the university. Both data reflects the research potential of the university. According to the statistics of the Ministry of Culture and Education, in the period 2003-2005 the University of Debrecen received the second largest amount of funding from international and contractual tenders

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<sup>1</sup> Written by Gergely Kováts, Institute of Management, Corvinus University of Budapest

among the Hungarian higher education institutions. In 2005, the University of Debrecen got 35% of all the revenues from international tenders.

The University of Debrecen is one of the most entrepreneurial universities in the country. In 2007, state-owned higher education institutions in Hungary were (joint) owners of 68 business ventures: the University of Debrecen participated in 1/3 of them.

Finally, it is worth noting that researchers of University of Debrecen play prominent roles in the most influential academic organisations in the country. The Hungarian Accreditation Committee (in 2007) and the Hungarian Academy of Sciences (in 2008) elected its Presidents from the University of Debrecen.

As can be seen from this short description, University of Debrecen performs excellently in the dimensions of access and capital attraction<sup>2</sup>.

#### The structure of the university

After the integration, the number of faculties increased gradually. 8 new faculties have been established since 2000. Currently there are 15 faculties grouped into three centres, which have high management and financial autonomy. Two of them, the Medical and Health Science Center (MHSC) and the Center of Agricultural Sciences and Engineering (CASE) were set up in 2000 (simultaneously with the integration). This put the fields of arts and sciences in an asymmetrical position in institutional decision making. To counterbalance this situation, a new centre called Center of Arts, Humanities and Sciences (CAHS) was founded in 2004.

The centres do not just coordinate teaching and research activities of their faculties, but they pursue activities outside of the traditional higher educational fields. The MHSC provides for example health care services, the CASE runs experimental and model farms and provides agricultural counselling, and the CAHS runs teachers' training schools. It makes the funding more complex especially in the cases of MHSC and CASE, because their special activities are funded from specific (non-academic) sources (e.g. health care services provided by MHSC are funded by the National Health Insurance Fund Administration). These special activities can be efficiently carried out only if all the faculties in a given centre participate. As a consequence, it is the centre which is entitled for funding. The complexity in funding and the requirement of high level of cooperation within centres explain the high level of financing and management autonomy that they enjoy.

In addition to the centres, the central administration plays an important role in institutional decision making. First the central administration provides institutional level coordination and administration, i.e. it makes propositions as regards university level affairs and manages the negotiations on proposals that come from lower levels. Second it also runs central services.

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<sup>2</sup> See indicators in detail in the Hungarian system level report.

The university and its central administration are led by the rector. The president of each Centre functions as vice-rector. Teaching, research and strategic matters have also their own vice-rectors.

Since 2004 the central administration has been reorganised: directorates have been established and are led by well-prepared and highly educated directors, who can assure continuity in task management. Directorates are supervised by the rector or one of the vice-rectors. Financial affairs are supervised by the General Directorate of Finance, but as a consequence of the decentralised structure, Centres have their own directorates (reporting to their Centre and to the General Directorate of Finance) that have significant responsibilities and powers.

Although Centres and Centre presidents working as vice rectors have substantial influence on matters of planning and administration, deans representing the faculties directly participate in university level decision making through the Dean Collegium and the Senate (the main decision making body). The Senate is organised on a faculty bases and represents all the interests groups proportionally. In addition to these governance bodies, the Rectorial Director Meeting, the Rector's Council and the Financial Board play role in decision making. Most issues are discussed in each body; therefore they are scheduled accordingly.

Of course, the influence of these bodies on final decisions is not equal. The Senate has 73 voting members, which makes long and profound discussions hardly possible. The Financial Board can be considered as a consultative body, even if the opinion declared by the Board is usually accepted by other decision making bodies and committees. The major role of the Financial Board is to discuss strategic questions and to firmly channel a business approach into the decision making processes.

#### Funding and resource allocation

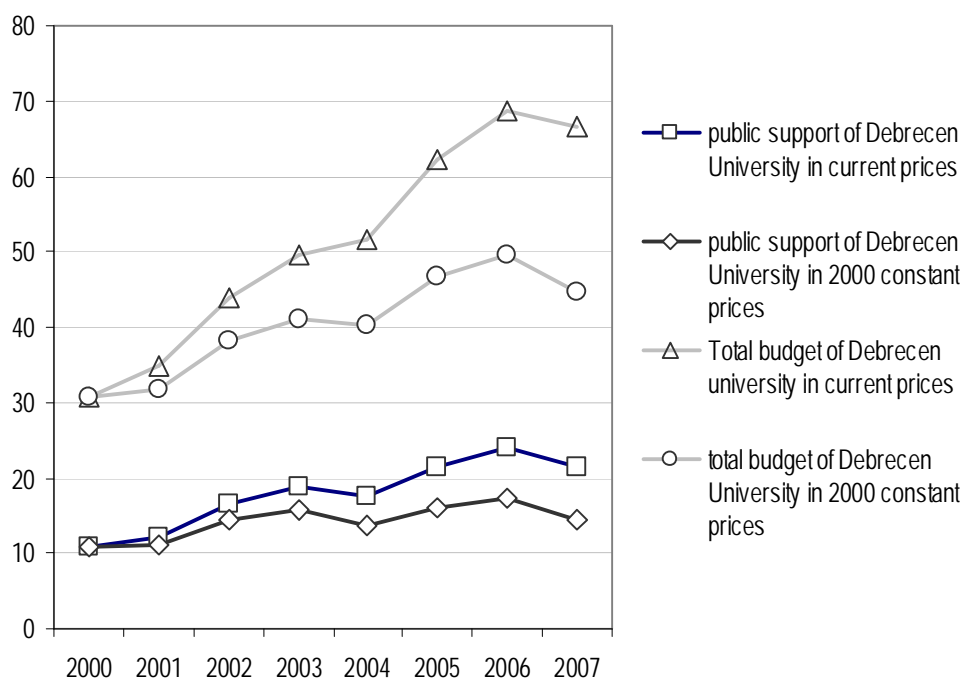
The budget of the University of Debrecen was 66,5 billion Forint (ca. 235 million Euro) in 2007, which exceeded the budget of the second largest city in the country (Debrecen). About one third of the revenues stems from health care services. The state support from the Ministry of Culture and Education amounts around one third of the total revenues (including students grants which have to be transferred to students). The university's own revenues (tenders, contractual research, etc) are around 10 billion Forint. Both the budget and the state support increased by 50% in real terms between 2000 and 2007 (this, however, included students' grants which also increased in that period).

Planning and financing is decentralised and occurs primarily on the Centre-level. Budget planning starts with the definition of general allocation principles, after which central management and Centres have to agree upon the main budget parameters. Centre budgets are redistributed among their faculties and departments. In practice the planning procedure is not so sequential: the final budget is the result of an iterative process in which all participants try to influence the main allocation principles, the amount and the direction of redistribution. It is noteworthy,

however, that in contrast to the general practice of Hungarian higher education, where budgets are finalised by May of the given year, the University of Debrecen can accomplish the process by February. This means that negotiations require much less time than in general. The SAP system implemented in 2006 might play an important role in that, because it provides current, transparent and unified budget control and monitoring.

Although it is possible for institutions to freely decide on their internal allocation mechanisms, this is not taking place at the University of Debrecen. The funding system that serves to allocate state funds *among* institutions is used as an allocation tool *within* the institution as well.

The budget and public support of Debrecen University in constant and current prices (in billion HUF)



- Source: data in current prices can be found in: *Debrecen University Institutional Development Plan, 2008, p. 14.* Data in real terms are the calculation of the author.

The faculties receive 80-85% of their shares, the rest covers the cost of central administration and services. Faculties have to cover all their operational expenditures, development costs and the expenditures of their centres. Loss-making faculties are stabilized by redistribution directed by the Centres and by cross-funding from other faculties. Solidarity currently works, but significant resource withdrawal can destabilize the balance within the institution.

Several factors make planning and resource allocation difficult:

- Some important data are only available late in the planning process (e.g. final student numbers are available only in October)
- Revenues can be roughly estimated, e.g. state funding depends on the number of enrolled student, but only the number of admitted students is known etc. Own revenues (tenders, contracts) can only be estimated.
- The funding environment is uncertain, exceptional cutbacks or the freezing of the savings took place occasionally.

Although the introduction of three-year funding contracts between the ministry and the university was perceived as a good initiative, it can only be applied to a small portion of the total budget (e.g. see the budget of the Medical Centre). In addition, cutbacks because of the crisis discredited the three-year funding contract.

While revenues can be planned only roughly, high proportion of expenditures is fixed (i.e. remuneration and maintenance costs). Development is possible by increasing operational efficiency (e.g. outsourcing) or by attracting additional private or public sources. The first solution is limited by the fact that the law restricts the resource allocation flexibility of institutions (e.g. staff must be employed as public servants). The university responds to these limitations explicitly and suggests policy changes in its Institutional Development Plan.

Universities are not allowed to raise credits for development purposes. PPP programmes and the establishment of spin-off and project companies (enabled by the 2005 Higher Education Act) remain as feasible solutions. However, most forms of capital attraction require the university to match the funds from its own sources. This is obviously very difficult when the university budget is subject to cutbacks. And it reduces the strategic room to manoeuvre.

### The effect of the integration on the university

#### 7.1.1 Teaching

The integration facilitated close cooperation of disciplines that complement each other well. Several faculties are built on the natural sciences. This is a great asset to start multidisciplinary programmes, but it also has the danger of redundancy in the academic structure and educational programmes. This redundancy cannot be fully eliminated because education is carried out in three cities and on several campuses. Such elimination is not necessarily desirable because each discipline applies different perspectives in teaching. Redundancy therefore is reduced only in courses providing general knowledge (basic language and computer skills), bachelor courses and within centres/campuses.

#### 7.1.2 Research

Successful participation in large-scale, complex research projects is considered as one of the main achievements of the integration. These projects simultaneously

contribute to the integration of the university, because it requires the involvement of different centres/faculties. The largest international project is “Genomnanotech” that focuses on research in genomics, nanotechnology and biotechnology. The strength in research of the university is also symbolized by the fact that it competes to be the location of the European Spallation Source (and the odds look good).

The integration made the university not just the most comprehensive university in the country, but made it also more visible in the international arena. Accumulating research experiences in many fields makes the university a resourceful partner in university-industry cooperation, because it can successfully approach problems from several different perspectives.

### 7.1.3 Administration and services

The integration influenced the administration and services in two ways. First, institute level services (library, computer services, language centre, student information centre, etc.) were unified. Second, information systems that are required for administration and management, have been gradually developed and extended to the whole institution. This includes student administration (Neptun system), finance, maintenance and management information (SAP), human resource information systems and document management systems.

#### Summary: the impact of funding and governance reforms on the University of Debrecen

The integration has had a fundamental influence on how the governance and funding systems at the University of Debrecen work nowadays. The three centres reflect to the three dominant founder institutions (the University of Medicine, the University of Agriculture and the Kossuth Lajos University of Arts and Sciences) and managed to preserve much of their autonomy. Instead of radically changing the academic (micro) structure (e.g. by eliminating or merging faculties or departments), emphasis was put on the institutionalization and formal acknowledgement of existing co-operations that rooted in the 1990s. Co-operation and trust were further enhanced in the first four years of the integrated university, when it was a team of representatives of the major scientific fields who governed the university. Moreover, the rector position was fulfilled in a rotating system, while others in the team stayed in charge as vice-rectors (other positions in the organisation were more permanent).

The integration process was interpreted as finding and grabbing opportunities together and developing a viable academic structure in an organic rather than a forced way. There are signs of this path (e.g. doctoral schools are detached from faculties and merged into a graduate school which has its own financial and administrative responsibilities).

Co-operation is of course not without tensions, but the atmosphere is constructive due to the fact that the integration was not only imposed externally, but it was also driven internally. What is more, the governance structure described before was



developed against external pressures. Co-operation in the 1990s served as a solid foundation for trust, which made a conscious and gradual development of management and governance systems possible. The cooperative atmosphere has increased the ability of the university to develop attractive and recognized (joint) educational programmes, to attract private funds and, in general, to pursue its own interests more efficiently.

In the area of funding state support for the university has been favourably: it continuously increased since 2000. The internal funding allocation system used at the university copied the national formula, even though the governmental distribution system does not calculate per capita normative on cost basis.

Fee-paying students play an important role in the financial stability of the institution (e.g. 37% of all students were cost-covering student in 2007). The funding system clearly orientates faculties to increase student numbers until the limits set in the accreditation process and therefore it contributes to the improvement of the access indicators. At the same time, actual funding is still irregular (changeable, uncertain) and unpredictable and the introduction of three-year contracts has not improved this. It has no real effect on how the institution works.

The Higher Education Act of 2005 increased the financial autonomy of HEIs. The University of Debrecen managed to take the advantage of new possibilities by founding spin-off and project companies, which play an important role in its capital attraction. In general, the full exploitation of the growth potential of the university is seen to be prevented by inflexible resource allocation possibilities in employment and infrastructure.

The introduction of Financial Boards at the top level of the university was meant as a significant reform. At the University of Debrecen this Board is functioning as a consultative body that assists the decision makers in taking business/financial viewpoints into consideration. Therefore the Financial Board indirectly contributes to the capital attractiveness (and resource utilization) of the institution.

The University of Debrecen exemplifies the (near) maximum results within the current funding and governance policy framework.

## References

**Bylaws/Organizational and operational rules of University of Debrecen  
Institutional development plan 2007**

**Report of the Hungarian Accreditation Committee, 2007**

**The homepage of the university (<http://www.unideb.hu/portal>)**

## List of interviewees

<b>Name</b>	<b>Position</b>	<b>Date of interview</b>
<b>László CSERNOCH</b>	<b>Dean, Faculty of Medicine</b>	<b>28 June 2009</b>
<b>Attila DEBRECZENI</b>	<b>Vice Rector for Scientific Affairs</b>	<b>17 June 2009</b>
<b>László FÉSÜS</b>	<b>Rector</b>	<b>17 June 2009</b>
<b>János KÁTAI</b>	<b>Dean, Faculty of Agriculture</b>	<b>28 June 2009</b>
<b>Zoltán MAG</b>	<b>General Director of Finance</b>	<b>17 June 2009</b>