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**THE NEW UNIVERSITIES ACT:  
FROM AN ACADEMIC COMMUNITY TO  
AN ENTREPRENEURIAL  
UNIVERSITY**

**In: Kari Lukka (Ed.), A DEAN, A SCHOLAR, A FRIEND**

**Texts in appreciation of Markus Granlund**

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## 1 FOREWORD

### *Finland's universities are owned by the state*

The universities of Finland are owned by the state. Their total has slightly declined in recent years, as a result of university mergers – currently totalling 15. For instance, Turku School of Economics was merged within the University of Turku in the beginning of 2010.

Universities are regulated in the Universities Act (Yliopistolaki 558/2009) and also the government decree issued with regard to universities, as well as in certain other statutes. In addition, the Ministry of Education and Culture supervises universities quite closely with the help of budget control.

The Finnish Parliament annually approves the basic financing of the universities as an institutional entity. Funding is distributed among the universities primarily in accordance with the national financial model, on the basis of their teaching and research related performance. In addition, the universities obtain strategy-based funding, which is agreed between the Ministry and each university.

The purpose of the national financial model is to reinforce the quality, impact and productivity of the universities' operations. The financial criteria attempt to promote the attainment of current higher education institutions-based policy targets.

The basic funding is allocated to the universities as one entity. The universities decide on the targeting of financing in accordance with each university's own internal strategies.

Government authority has already long encouraged universities to acquire external funding. Indeed, approximately one third of overall financing derives from other sources than the state budget, such as from other public financial providers and private sources. A significant proportion of other financing is research funding subject to national competition.

In internal administration and the planning of degree programmes, the universities have relatively substantial autonomy, but legislation and state funding establish obvious limits for this.

### *The new Universities Act – a significant change*

The new Universities Act entered into force in 2010. Alongside it, the universities were brought under the control of a new type of administrative and management model. The Act seems to copy principles that are typically applied in business enterprises. This meant substantial change in both principle and practice, compared to the earlier academic, collegial system of management.

Already prior to the new Act, the Ministry of Education and Culture had led efforts to have the universities adopt management principles similar to those encountered in

businesses. The same ideas had already been presented in public for a long time by opinion leaders of business life as well as by the managers of various entrepreneurial organizations.

Officials in the field of education in addition to many politicians accepted the entrepreneurial management model enthusiastically. After all, the same kinds of ideas had also been presented and implemented elsewhere in the Western world.

In the following, we examine the impacts of the Universities Act on the administration and management of the universities – in particular, taking a critical perspective to the management ideology borrowed from the world of business. We will compare the situation before and after the inception of the Universities Act, among other things, emphasizing the change in the balance of power between the rector and the university staff. We will study so-called public universities (in the Universities Act, there is also dealt with another type of universities, foundation universities).

## **2 THE CENTRALIZED ENTREPRENEURIAL MANAGEMENT SYSTEM AND EXTERNAL PERSONS ON THE BOARD**

### *Rector as the university's CEO*

The new Universities Act eliminated the old collegial university management system and emphasizes individual directors in accordance with the entrepreneurial model. Although there was, of course, a rector and unit directors in the old university system – faculty deans, department heads, etc. – various collegial bodies had considerable power. This way decision-making power was centrally held by professors, other staff and students – in other words, by the scientific community, which was the core of the old university.

In the new Universities Act, the rector is in effect CEO of the university, whose authority is nevertheless limited to some extent. Similarly, the dean of the faculty and department heads are comparable to the department managers in a business enterprise.

The task of the rector is to manage the operations of the university and decide on matters affecting the university, as well as to be responsible for the economical, efficient and effective discharge of the university mission.

Further, the rector takes responsibility for legal compliance of the accounting as well as the reliability of the financial management.

The rector also looks after the preparation and presentation of the agenda for the Board as well as implementation of Board decisions, unless otherwise designated in the university regulations. The rector is additionally the HR director, as s/he decides on the hiring and dismissal of staff. The rector therefore has a rather tight rein over staff.

In the universities' old administrative model, the rector acted as the chairperson of the Board. In the new legislation, the authority of the rector is limited, in relation to the fact that the chairperson of the Board is elected from outside the university.

Further, the rector may undertake action which is far-reaching in terms of the university mission only where the Board has authorised him/her to do so or where it is impossible to wait for the decision of the Board without causing essential harm to the operation of the university. In the latter case, the Board must be informed of the action without delay.

With these limitations, the rector manages the operations of the university alone, deciding on its matters as well as being in charge of the effectiveness and efficiency of its functions. Moreover, as mentioned above, the rector is responsible for the preparation and presentation of matters for the Board and the implementation of Board decisions. This being the case, the comparison with the CEO of a company is relatively apt.

### *The quota principle and the tasks of the Board*

The Board is elected on the quota principle familiar from previous legislation, supplemented by members external to the university. According to the quota principle, the groups composed of professors, other staff and students elect a certain number of members for the Board from within their midst. The rector, deans and other unit directors cannot belong to the Board.

The task of the Board is to determine the foremost objectives of the university operations and economy, and the strategy and management principles. It also decides on the university's operational and financial plan as well as the budget, and prepares the financial statement. The Board is also accountable for the management and use of the university assets, unless the board has devolved the power to the rector.

The Board elects the rectors and decides on the division of labour between them, and can also dismiss the rector if there is a legitimate and well-founded reason for it.

Further, the Board arranges the supervision of the accounting and asset management and adopts agreements of major importance or fundamental consequence for the university and issues opinions on important matters of principle concerning the university.

The Board also adopts the agreements concerning educational and science policy objectives made with the Ministry of Education and Culture, and adopts the university regulations and other corresponding rules pertaining to general organisation and decides on the operational structure of the university.

Moreover, the task of the Board is to hire the leading staff directly functioning under the subordination of the rector, unless the Board has devolved the task to another university organ.

The general, strategy-type and other comprehensive matters – such as objective setting, planning and organizing – thereby belong to the university Board, in the same way as with the Board of Directors of a business enterprise. As noted, the rector takes care of matters on the operational management and practical level in a manner similar to the CEO of a business enterprise.

#### *Members and chairperson of the Board from outside the university*

At least forty per cent of the Board's members as well as the chairperson of the Board must be elected from persons outside the university. The entry of an external chairperson and external members on the Board reduces on its part the power of professors and other staff, and means at the same time a clear exception to the expert authority and autonomy of the university predominant in the 'old' system.

The Universities Act therefore seems to consider that functioning on the university's governing body does not necessarily require scientific competence or any other familiarity with university operations. It is naturally possible in practice that there is an

attempt to elect external members by reference to their familiarity with the university world, but the law does not require this.

However, a deeper expertise on the university is generally lacking in the case of external persons. In most cases, such persons have probably been acquired their experience of university as a student, perhaps long time ago.

The entry of external members to the Board means an impact from the external system of values on the university's decision-making process. In many cases, it expressly signifies an increase in the influence from the business life, as quite frequently in practice business managers and other persons from business life are chosen to the Board. These elections are made by the University Collegium (see next chapter).

Although the election of business world representatives to the Board increases the interaction between universities and the business life – which is undoubtedly beneficial to universities – the influence of the business life on the Board decisions may on the other hand jeopardize the strict scientific independence of the university and its researchers.

The same trend applies with regard to the obligation set for the universities to acquire external funding, as certain terms and conditions may be attached for research and possibly also its results. Even if particular terms and conditions were not imposed, researchers may face the temptation to bend towards the views of the financiers in their research work.

The influence of the external system of values may, among other things, lead to a decline in the importance assigned to basic research. This may occur, for example, in cases where the research themes chosen on scientific criteria do not appear to external eyes “useful” enough. The practical utility of basic research is, after all, frequently uncertain and is often realized – even in the best cases – over an extended period of time.

### **3 THE UNIVERSITY COLLEGIUM: A LEGACY OF THE OLD SYSTEM**

A relic from the old collegial administrative system in the universities is the University Collegium (or the Collegiate Body), whose members are composed of university staff and students. It elects its chairperson and deputy chairperson from amongst its members. The rector has only the right to speak and to be present in the Collegium.

*The Collegium offers a channel of influence to the university community*

The task of the Collegium is to elect the external members to the university Board as well as confirm the election of Board members by professors, students and other staff groupings. The Collegium also dismisses a Board member on the proposal of the Board.

From the perspective of the reduced autonomy of the university community, it is a positive aspect that the university's staff and students are able to affect which kind of representatives from outside interest groups are elected to the Board. Perhaps, however, they have not always considered the possible dangers of business world influence on university.

The Collegium also elects the university's auditors and confirms the financial statement and the annual report of the university and discharges the Board members and the rector from liability.

Moreover, it decides on the bringing of an action for damages against a board member, the rector and a chartered accountant, in addition to releasing a Board member from his/her duties.

The Collegium is above the Board and rector in the university organization, and it thereby offers the university community a counterforce to the exercise of power by the rector and Board.

However the significance of the Collegium as a counterforce for the rector as well as the Board decisively depends in practice on the activity of the Collegium's chairperson and its members, as well as their administrative skills.

In the old administrative model, the Board consisting merely of representatives from the staff and students elected the rector: as mentioned, the choice of rector is now made in part by external members totalling 40 per cent, which increases the rector's independence from the staff.

The Collegium is a healthy administrative solution, also in the sense that it offers the expertise represented by staff and students a channel, by which it is able to affect the administrative decisions of the university – in addition to the channel offered by the Board memberships.

*The possibility of conflict*

Because the Collegium has been given a certain amount of power in university decision-making, there might naturally arise conflicts, for instance, between the Collegium and both the rector and the Board. Naturally, in all kinds of organizations the possibility of conflict always exists. However, if personal relations are in order, the question of dominance and counterforce are irrelevant – as well as conflicts.

It is interesting that the functioning of the traditional university's collegial administrative structure was often regarded outside the university as conflict-oriented or even "wrangling" between the university's internal interest groups – and referred to this, this system was critiqued particularly when the current CEO model and the Universities Act was driven through.

In this argument, however, the central concept of the collegial administrative model was misunderstood: the joint decision-making of various interest groups which occurs within the context of mutual interactions and reconciliation, is not in general "wrangling". If the system rests on a healthy foundation and is managed correctly, potential conflicts end in consensus.

## 4 AN ENTREPRENEURIAL UNIVERSITY EMPHASIZES MEASUREMENT

In addition to the CEO model, it is characteristic of the entrepreneurial university concept that the effectiveness of operations is an essential aim and criterion of success, and it is followed-up intensively. In business enterprises, success is measured with money, i.e. by various profit indicators.

### *The problems of measurement in the university*

The criteria for the success of a university cannot, of course, be profit measured in money, because money represents only an input factor for the universities. The yield of a university is, instead of money, something qualitative and intellectual. It can be concretely characterized as, for example, the number of degrees and research projects completed. In more abstract terms, the yield of universities is information, knowledge, wisdom and civilization.

Since university yields are basically qualitative, their quantitative measurement is difficult. Therefore, the application of an entrepreneurially modelled measurement mentality forms a major problem in universities. According to the entrepreneurial model, measurement must always be practised and as unambiguously as possible as well; therefore, measurement tends to concentrate on quantitative indicators. This has occurred at universities as well, in spite of the qualitative nature of the university yields.

However, the validity of the indicators appears to remain in universities a secondary issue: the measurers do not often appear to be concerned over what the indicators in actually measure – as long as they measure something.

Even if as typical yardsticks for the operations of universities are used the total numbers of degrees and publications, there has also been an attempt to introduce quality by measuring, for example, the entry of the graduated onto the labour market and by dividing up publication forums on the basis of their assumed quality. These are, however, rather approximate indicators.

It must be remembered that universities are not universities of applied sciences, which educate students for labour markets. And moreover, employment is largely a matter dependent on the individual's personality and other personal qualities. Correspondingly, the merits of a publishing forum are at the discretion of subjective evaluation.

Generally, foreign publication forums are regarded as best: after all, internationality is one of the central values both in the world of business and in the university. On the other hand, from the perspective of the community, a publication in Finnish may in many cases be more useful than one in a foreign language, but stressing internationality seems to be more important than the interests of the community. Of course science also

frequently strives towards internationality, but this is a different matter than uncritical emphasis on the latter.

*Foreign ranking lists and reducing expences*

The media in particular follows foreign ranking lists that create a competitive juxtaposition between universities. The ranking lists are structured by reference to the needs and circumstances of foreign universities and especially favour the natural sciences as well as publishing in certain international journals. If a university is missing a medical faculty, for instance, it is clearly in a poorer position in ranking than universities that have one.

Despite these sorts of imbalances, rankings are used as such for the comparison of all universities and to position universities accordingly. In this way, partly erroneous criteria are used to criticize weakly ranked universities. This results in groundless demands for change being made to universities, even if they perform in their own area quite acceptably or well.

The consequence has been a groundless underestimating of our universities. This kind of negative publicity tends also to generate a loss of motivation on the part of the staff. Appreciation for our universities and research has indeed gone from bad to worse during the last few years and decades. There may indeed be many reasons for this, but distorted rankings are without a doubt one of them.

Both general profitability thinking and the decline in appreciation for university research have on their part reinforced the wishes on the part of the government to impose cuts on state funding.

In reducing expences, the short-term target-based utilitarian thinking specific to the entrepreneurial operational culture, combined with the annual measurements of results, are in danger of leading to a situation where such projects are particularly saved from cuts, where fast results are anticipated. In other words, funding of the basic research is being cut, because there results are obtained slowly and uncertainly.

*Irrelevant indicators are detrimental*

The idea behind universities has at least formerly comprised freedom of research – and the term is still mentioned in the Universities Act, but the reality might often be different.

A genuine academic freedom is very essential, as it ensures at its best the emergence of creativity. In the old university, the quality level of research was traditionally subjected to comparison and competition in, for example, filling a position. In addition, scientific work was also in the old days competitive by nature.

Many do perceive the irrelevant indicators applied in the current university system as disruptive to research and its freedom. And inevitably this is exactly what they are –

particularly if and when the indicators emphasize matters that are different from the research traditions and scientific criteria.

This way the researcher may end up in a situation of conflict: should s/he examine the kind of themes that are scientifically interesting and important in the view of the researcher, or those favoured by the indicators?

This kind of dysfunctional indicators should indeed be eliminated or revised for relevancy, but experience actually suggests that under the current ideology both the Ministry and political decision-makers are not interested in seeing any faults in the current system.

The researchers of universities can thereby react to the irrelevant indicators mentioned either by carrying out research as well as possible and ignoring the “recommendations” of the indicators, or through adapting to these indicators – in spite of their harmful effects on research.

## **5 HOW IS THE NEW UNIVERSITIES ACT PERCEIVED IN THE UNIVERSITIES?**

Since the Universities Act has now been in effect for six years, experiences have been collected with regard to its viability and impacts. Accordingly, questionnaire studies have been carried out amongst the staff, in order to discover impacts resulting from the Act.

It has been noted that the work satisfaction of staff has diminished following the inception of the new Act. According to one study, only ten per cent of the staff considered the university reform as successful. Academic freedom was also perceived as declined. A large proportion of the staff no longer feel capable of affecting university and working environment to the same extent as before.

This development seems to have been for the most part a consequence of the entrepreneurial, centralist management model introduced by the Universities Act. It emphasizes, as mentioned above, the importance of the rector and the administration in everyday operations.

The change can also be described as an increase in bureaucracy. The administration gathers many kinds of information important from its own perspective, the significance and utility of which are frequently difficult to understand on the teaching and research level. Collecting this information naturally takes time from the university's main operations, research and teaching.

Centralization of the administration has also led to a situation in which administration personnel have been transferred from the institutional level to the central administration, due to which the accessibility of services on the institutional level has deteriorated. Accordingly, many professors, for instance, have reported that they have been required to increasingly sacrifice their time to routine administrative tasks.

The changes in the universities' financial model have led to a situation where an ever larger part of professors' time is taken up with acquiring research funding. The application bureaucracy linked with this has grown and grown – which naturally reduces the time available for research work.

The competition introduced with the entrepreneurial management and operational culture has created competitive positions among individuals, research groups and organizational units. This diminishes cooperation which previously was one of the core aspects of academic work. Precisely, the performance measurement and ranking lists dealt with above have fostered a competitive mentality.

In most disciplines, team work is an essential mode of working, so there is no room to make it more difficult. Naturally competition can activate operations – and that is in fact its purpose – but its negative consequences must be acknowledged and an attempt made to eliminate them.

## **6 IS THERE SOMETHING THAT CAN BE DONE?**

How can all these problems be resolved? It has been noted, however, that the government has no interest in “opening” the Universities Act. Exactly, the entrepreneurial policy adopted in the Act is in accordance with the generally dominant ideology found in the state administration. In addition, it mirrors the neoliberal economic thinking adopted throughout the entire Western world. This being the case, it seems useless to hope for changes, at least in the short term.

The only realistic option would appear to be that the staff of universities endeavour to minimize, according to their possibilities, the harm caused by the current administrative model in their work. There seems evidently to be motivation for this, since – as previously noted – the staff are quite extensively dissatisfied with the current administrative model. For the most part, it is only the universities’ rectors and other administrative personnel who appear to be satisfied with the situation. Assistance from them is therefore not to be expected.

It is of course also possible to live under the Universities Act as well. The staff at the universities still appear to be internally strong and motivated, and therefore they are capable to adapting to the challenges and requirements imposed on them – no matter how unjust the challenges happen to be.

The success of the universities and staff satisfaction nevertheless depend a great deal on what sorts of personalities are chosen for management positions at the universities. The current administrative model permits an autocratic management style, contrary to the old collegial university model. For this reason, there is reason to be especially careful in the election of rectors as well as Board and Collegium chairpersons.

At all times, the right type of personality and administrative skills of the rector have been an important resource for the university’s success and reputation. This is the case particularly in the present situation as our universities are regulated by the Universities Act.