



# Analysis of the College Financial Security Mechanism from the Vision of Governance Structure

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## Abstract

This article, with college financial safety situation as the pointcut, analyzes and researches the effects of the governance structure on college financial security and explores the financial security system to promote the sustainable development of colleges and universities from the perspectives of college internal and external governance structures.

**Key words:** University development; Governance structure; Financial security

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In 2007, Jilin University owed more than 3 billion Yuan, causing wide concern from all walks of life over college financial risk and financial security in the rapid development of our country's higher education. Then the CPPCC national committee released a survey: In 2007 the university total loans of our country was over 250 billion Yuan, and insiders predict by the end of 2011 the total debt will be over 450 billion Yuan. Therefore, college debt crisis is not only limited to Jilin University, but a common

problem seriously threaten the college financial security. Many experts and scholars analyze that many factors caused the current university financial risk, including such internal and external subjective and objective reasons as system mechanism etc.. This article analyses and explores the college financial security mechanism from the angle of governance structure of, aiming to provide useful reference basis for the management at all levels to prevent and control college debt risk and financial crisis.

## 1. AN OVERVIEW OF THE SITUATION OF THE CURRENT COLLEGE FINANCIAL SAFETY

From the character of universities being nonprofit organizations, in view of public welfare institutions within education funding policy and the cost sharing mechanism, theoretically universities should not have explicit financial risk or financial crisis. However, with the higher education gross enrollment rate from 9.8% elite education in 1998 to about 25%<sup>1</sup> popular education in 2011, university financial management faces many risks such as financing, investment, credit, and credit, cash flow, lack of internal control, disposable financial, capital functioning ability, capital debt repaying ability and school development potential are greatly impacted, even making colleges difficult because of unconventional development. The financial “bottleneck” problem and debt risk in the college development not only become the potential financial safety hazards, but also affect the sustainable development of China's higher education. At present, the situation and problems of college financial security include the following:

1). Irrational expansion, lack of financial internal control. University internal control deletion originates from the irrational development under blind positioning

<sup>1</sup>Collating from “the National Education Career Statistics Bulletin” issued by the Ministry of education every year.

and supernormal huge infrastructure investment. In the process of the rapid development of higher education there really appear such phenomena as campus crowdedness, classroom shortage, equipment shortage, accommodation facilities strain etc.. Therefore, appropriate infrastructure investment is necessary. However, under political achievements brought by enrollment expansion and the benefit drive and the requirements of undergraduate teaching evaluation system, some local governments or colleges took the opportunity to expand or move to rebuild, thus “university city” exist in great numbers, luxurious campus everywhere, the financial gap increase, borrowing debts is popular. Many risks such as college financial out of control and huge debt hide behind infrastructure expansion and luxurious campus, which has a direct threat to college financial security.

2). Heavy debt, credit standing tested. To solve the financial “bottleneck” problem in the college development, almost all colleges and universities in the construction are implemented financing loan move, financing and debt has soared, and loans are greater and greater. According to information, some colleges’ debt more than 3 billion RMB Yuan, the asset-liability ratio of some college is more than 70%-80%, or even insolvency, income from tuition and fees is not enough for interest expenses. Once they encounter due loans or cannot “borrow new loan to pay the old”, the capital chain may break at any time. College debt risk not only makes the colleges themselves in the mire, tending to worsen the future financial structure, but also may shift the risk to stakeholders such as banks, governments, education beneficiaries or donors, causing credit crisis, thus financial risk may be converted into financial crisis, and then affect financial security.

3). Shortage of school funds, narrow income channels. In the past 10 years, under the situation that the proportion of fiscal revenue in GDP is continuously rising, financial education funds wander basically around 3%, never achieving the goal of 4% for 18 years. In addition, the statistical data show that the rate of the basic arriving of the local university education funding is 58%, 27% of college funds for running cannot arrive or difficult to arrive, for about 15% of colleges government appropriations cannot reach the colleges, especially in the western underdeveloped regions, the lowest level of funding for each student is 2700 Yuan, three times the difference compared with that in the developed eastern areas<sup>2</sup>. College school funds mainly come from financial allocation, tuition income, social donors, etc.. Under the situation that the investment of government in higher education is far behind the need of college education reform and development and the tight control of the charge standards, the contradiction between capital supply

and demand is increasingly prominent, and the financing situation and financial risk are continuously increasing.

4). The property right not clear, lax supervision, assets (resources) loss. In the current university system mechanism, the government is the investor and the owner of the universities, universities are the consignors of the owners and the trustees of the representing managers, thus causing the state-owned property falsely positioned and property right representative vacant, and the property rights not clear. The internal audit in colleges and universities and the related government functional departments lack of economic activity monitoring, causing the popular phenomenon of the loss of the state-owned assets, wealth accumulation weakened.

## 2. ANALYSIS OF THE IMPACT OF GOVERNANCE STRUCTURE ON COLLEGE FINANCIAL SECURITY MECHANISM

At present, because of the deletion of the system and the laws and regulations, the governance structure in universities in our country is not perfect, especially there is greater influence on the college financial security. Analysis of the influence of governance structure on the financial security mechanism can help us to clarify and construct the framework and path of college financial security system.

1). From the external management structure of the university, although the China Education Reform and Development Compendium issued by the Party Central Committee and the State Council in 1993 explicitly pointed out “in the relationship between the government and university, according to the principle of separating government affairs, through legislation, clarify the rights and obligations of colleges and universities, make become colleges and universities become really legal entities running independently and facing the society”. And “the Higher Education Law of the People’s Republic of China” passed in 1998 once again stressed the qualifications of university legal persons. But in fact university legal positions are only the honorary legal representatives without entity connotation. University management system and internal mechanism in essence are still country ruling modes under planned economy. Human, financial, material control, especially staffing, investment and use of funds, property management etc. are still grasped by the government departments still, and the government is still jointly responsible endlessly for the survival and the development of colleges and universities (such as the government’s responsibility to pay out debt).

Therefore, externality, university responsibility, right

<sup>2</sup> Liu Tianzuo, On Study of the Financial Support System of Local University Development and Debt Problem Dissolving. Speech draft at the survey and iresearch conference by the Ministry of Finance and the Ministry of Education .

and interest cannot be unified. The consequences are on the one hand the out-of-place government monitoring brought about irrational development in colleges and universities and blind loans, causing a huge debt and financial risk in colleges and universities; On the other hand it not only hurts the enthusiasm and initiative of scientifically financing of colleges and universities, and also adds to financial ideas of “son debt father also”, “extension and expansion”, “does not suffer losses” in the university, burying hidden trouble for college debt risk and financial security.

2). From the internal governance structure, in recent years, although some universities set up the board of directors, which still do not really play a role. The board of directors consists of “first hand” or main persons in charge of the school, party and government organization overlapping, functional power crossing, political leadership, administrative management and academic management blending, failing to separate reasonably in their respective areas and effectively exercise duties. This type of directors of “insider”, “people on one’s own side” in university management structure cannot reflect its performance. For the present universities are still the administrative management and administrative leaders are consignors of property owners and the trustee of the representatives of the managers at the same time, such important matters as development planning, teaching reform, professional setting, education level, construction scale, loan limit, financial budget, use of funds are often decided by top university leaders, and the superior departments will only in the secondary status of formal approval and putting on records, for its lack of advanced monitoring, external economic supervision from ownership is weakened or lags. The consequences of the deletion of the governance structure pressed from both inside and outside, from the overall situation, are: power out of control, power decision faulty, behavior anomie, regulatory falling, and from the partial situation, are the huge financing anti-scientific “development” and the financial crisis under the deletion of university internal control and reckless expansion.

### 3. COLLEGE FINANCIAL SECURITY SYSTEM STRUCTURE BASED ON THE VISION OF THE GOVERNANCE STRUCTURE

Effective university governance structure is fundamental guarantee for the sustainable development and financial security system in colleges. To strengthen the financial management, execute budget system, stricken internal control management, start risk management, implement performance evaluation, help universities to standardize financial behavior, and prevent or eliminate financial security hidden danger. And to construct financial security

system to promote the healthy sustainable development of universities we must combine the internal governance structure and external governance structure organically, and extend elements that influence college financial security to a higher level, you can really suit the remedy to the case and do it effectively.

1). To establish a modern university system, perfect governance structure, and optimize the financial security environment. The essence and core of modern university system is university governance structure, and the governance structure is the core of the contemporary Chinese university system. Remove the university elements of the administrative and marketization. A modern university system of interactive coordination among leading of the party committee, administrative management and academic management, each doing his own job “professor managing” and “democratic management”, differentiate clearly management power and responsibility of the party, administration, student recruiting, teaching, scientific research, construction, logistics etc. systematically promoting the college democratic management and financial management according to law; establish university council, the board of directors, the board of supervisors, in colleges and universities to construct governance structure mechanism with decision-making, execution and supervision separated from each other and mutually checking and balancing each other and give full play to the functions of the council, the board of directors and the board of supervisors to supervise the school operation, formulate relevant whole construction development plans, approve budgets and the investment projects, reduce or eliminate the college irrational development and huge financing, ensure the financial safety degree and the sustainable development of higher education.

2). Broaden capital channel, perfect college funds safeguard mechanism, improve college disposable financial resources. According to international practice, higher education funding sources government funding is mainly appropriation from the government. Statistics from the relevant authorities of the United Nations show that, the normal investment of a nation in education should account for about 6% of GDP, 9% for the developed countries, 4.5% for the world average. The Law of the Higher Education of the People’s Republic regulates, the government is the first person in charge to provide higher education standard publicgoods. The National Mid-term and Long-term Education reform and development plan for (2010-2020) CLEARLY POINTS OUT THAT “to establish and perfect diversified education funding mechanism to ensure education priority development with government investment primarily”. Therefore, further perfect higher education multi-channeling financing mechanism, with the government as a platform, using fiscal, finance, financial means, introduce folk capital, establish education bank, issue education lottery, and set

up education development fund, enlarge higher education funding sources, structure education appropriation policy according with market economy system and the public financial system with higher education diversified investing and financing mechanism combining with social funds, to ensure college running funds and the necessary development fund, enhance college disposable financial resources and financial safety.

3). Strengthening planning management, perfecting the internal control mechanism, improving college robust financial ability. Position reasonably, develop scientifically and highlight the school-running personality and characteristics, make development planning and financial strategy of “reasonable planning, measure investment, rational expansion, steady development”, moderately control the scale of development, set up the concept of running-school, make the development concept of having policy and financial and operational mechanism into a whole. On one hand, the government should properly control the scale of the development of the college, and actively guide colleges from the extension development of large expansion to the connotation development to improve the teaching quality; On the other hand, colleges and universities should establish sound financial management concept, make full use of the internal control system and its governance structure performance, for major economic decision making (such as school development planning, project construction, etc.) and major financial matters, implementing the system of collective decision with united signing, giving play to the defensive control function of accounting internal control, preventing significant vulnerabilities or potential safety problems, thus improving robust financial ability.

4). Reforming and innovating, straightening out the property right relations, enhancing the college scientific financial management and the degree of government asset management performance. On one hand, establish a legal person status of college and universities, carry out the running autonomy of theirs, improve college internal management structure and self-discipline, self regulating behavior, secure institutions of higher learning independently carry out teaching activities, scientific research, technological development and social services; On the other hand, refer to the modern enterprise system, explore the university stock system reform under the market economic system reform, that is, university resources and property belong to the country still, the SASAC or the education administrative departments setting up college assets management organization and enforcing not to separate the responsibilities of the consignors of the property owner and the trustees of the representative managers, not only enhancing the enthusiasm of independent school-running, but also making the government better perform the responsibilities

of the asset management of the owner, achieving “clear property rights, clear rights and responsibilities, separating politics with colleges and scientific management” while also controlling financial risk.

5). Strengthening financial management, establishing sound risk early-warning system, enhancing the ability of financial risk control and prevention. University must change the traditional financial management idea of “wait, depend on, ask for”, regulate financial behavior, and strengthen financial management, stick to the road of connotation development, mine internal potential, enhance internal strength, integrate the existing resources, fully effectively use the existing human, material and financial resources, and strive to improve the rate of funding resources utilization and the standardization, safety and effectiveness of the use of public education funds; with budget management and cost accounting as the means, open sources and throttle, building economical universities; on the basis of perfecting corporate governance structure and internal control environment, and establish and perfect the university financial management system, especially the risk early-warning and the long-acting mechanism of prevention debt risk, constructing college financial security system to promote the sustainable development of college and universities.

6). Managing together, establishing and perfecting diversified supervision system, strengthening the college financial security firewall. Establish and perfect diversified supervision system combining organically the supervision over the functions of the government, the college internal accounting supervision and social accounting supervision reflecting “the legal standard, government regulation and profession self-discipline”. On one hand, further change and improve the legal systems of “the budget act”, “the college information public procedures” and “the higher school of accounting system” and so on, referring to the experience of international practices and our national enterprise management structure and internal control, formulating “the university governance structure system” and “the non-profit organization internal control basic standard”, thus standardizing college economic activity in regulations and laws, and guiding the rational development and scientific financial management of universities;

On the other hand, strengthen the social oversight over colleges, improve the long-acting mechanism of social support and supervision over the development of higher education. Departments in charge and the department of wealth should establish a college bank loans approving system and debt monitoring system and implement a dynamic management and risk early warning, inspect regularly, strengthen the macro monitoring of the college development regulations and project loans management, combine education development with rational orientation and scientific financial organically, give out early warning



those colleges already exceeding the repayment ability, financial risk reaching financial security warning line having hidden financial security danger, timely deal with and eliminate, to ensure the healthy sustainable development of higher education; Then, on the other hand, strengthen the function of the internal audit and supervision council, to effectively supervise decision makers' rights and behavior, promote the democratic management and scientific financial management, especially implementing effective monitoring over such key fields as development plan, financial budget, infrastructure projects, large-scale maintenance, equipment procurement, scientific research project management, use of funds etc.. Promoting information

public, let universities economic operation condition and economic rights more "sunshine", from the source, curbing university irrational development and huge amounts of debt.

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