

# Government's Role in Universities Financing

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## Abstract

When the provision of resources for universities financing as a plan was discussed, reducing the supportive role of government is the first issue that arises in the mind. Despite this misconception, the global reality show in which different systems, trying to earn money from new resources did not lead to reduce government involvement in this sector. There are several reasons to justify government's continued and basic support of higher education, however, they do not justify sole reliance on government resources, but they confirm the necessity of government's continued support. Therefore, many ways can be determined that the government through which specified public resources among those who have the training service and educational service providers. Each of these methods has various effects on the behavior of family and educational institutions. In fact, the effectiveness provides a possibility for governments to manage the educational system through financial mechanism.

**Keywords:** Universities financing, Government's financial support, University`s costs.

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## Introduction

Excellent learning and people participation in high education brings outcomes and benefits that can be stated the private consequences and interests to which distributed only upon the learner and applicant of higher education, and on the other hand, public interests that gave other people and society as a whole by a person learning and studying at a university. These may be economic, social, cultural, political and health interests. The fact that, the University by providing various services (production and distribution of knowledge) play a crucial role in the economic growth and development of the country, is obvious. In the world current situation in which the human resource issue is important

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in different communities because it is a significant resource that they can compete with the other communities. Therefore it is necessary that the human resources are developed properly and a situation provided for their growth and development, then the role of higher education is important as an environment for growing characters, developing talents and appearing the hidden personality of human (Rajer et al, 2011) and a financing system of higher education has critical effects on the higher educational industry and lead to the economic and social development of the country.

Of course, any kind of financing system is not suitable for the development of higher education and economic development and some financing systems stimulating the development and others are inhibiting development (Johnson & Markous, 2010). In a situation that government's resources fail to concurrent with the costs arising from the growth of educational applicants and other costs, the competition for achieving governmental budgets becomes more severe from the universities, the lack of funding for universities is an international problem that is also the problem of both universities in developed countries and universities in developing countries. This problem began after the Second World War when the social demand for entry to university rose and universities could not increase their budget as increasing demand for university entrance, but the problem intensified in the past two decades (McQueen, 1999). Nowadays, countries are trying to recreate their higher education financing system so that they meet development objectives better and more. The point that developed countries have used what patters to finance their universities and what outputs they have, helping them to manage their universities finances better (Riens & Liders, 2003). Since, optimal utilization of production facilities and the maximum achievement of products and services of a university subject to a limited budget that the community gives to the university, so the operational purpose of a university is to meet the highest income or budget from the community in competition with other universities. But society expects from the universities to use receiving budget efficiently and produce the best and the most products and services.

## Theoretical Foundations of the Research

### *Universities Financing*

There are features for optimal financing system that these features can be considered as: do not rely on a specific source of income, do not reliance on unstable income sources, potential funding from local resources and the efficient allocation of resources to activities. Each university requires its own specific characteristics in favorable financing. Favorable Indices of the financing system has special features such as, compatibility with the strategic plan of the university and its objectives, the ability to calculate at the lower levels (in the lib, units, groups and individuals levels), capable of continuous measurement annually, determining ideal revisable and dynamic benchmark for float targeting (Feyzi and Beyranvand, 2015).



### *Government financial support*

Sources of higher educational financing, based interest, can be divided into four groups:

- households (students or their parents),
- institutes (buyers of Educational and Research Services)
- Donors and charities,
- Government as a society representation (social return of higher education),

The fourth resource is based on central financing power and government allocates its financial among the educational institutions by the help of specific mechanism. Basically educational institutions are the receivers of budget from the state-owned of the central government or state, and in addition to financing, the government is responsible for ensuring the proper way of the spending so that educational goals are met. Of course, the activities of educational institutions under the system of financing will be largely in line with the objectives and relations of government and it must accept what is offered to them in training centers parallel with the students' wishes and interests (Sity & Asmak, 2015).

### *Universities costs*

Factors affecting the cost mainly includes the size of a university that is one of the most important factors in determining the educational costs and indeed the overall costs include variable and fixed costs. In universities, the cost of buildings, specialized equipment, libraries are major items of fixed costs. By dividing the fixed costs between large numbers of students, each student's share of the fixed costs will be reduced. In other words, the institutions in which fixed costs are more, can accept more students (to a certain extent) to save in fixed costs. Of course, it should be noted that if the size of an educational institution becomes larger than a certain amount, probably economies of scale will be decline (Ardeshiri, 2007). Cumming (1990) emphasize on the combination of the average cost of academic subjects, as a determinative factor of costs. Bowen (1980) is another expert that based on his theory on determining the costs of higher education, higher education institutions seeking to maximize the prestige (validity), and not profit necessarily. Prestige is a function of the quantity and quality of teaching and research that an institution is responsible for it.

### **Review of the literature**

Entezari and Qaroni (2015), with the aim to investigate the cause of the subsidies from governments to universities and the performance of Iranian government in the financing of higher education, represent an article entitled with " government's rationality and activity in the financing of higher education in Iran"; the results of this study indicate that the governments financially provide higher education for various reasons, including the failure of the market mechanism in the financing of higher education, competence of higher educational services, imperfections of educational capital market, equal

redistribution of opportunities and redistribution of income and wealth. And also, the results of the government performance in the financing of higher education in Iran shows that the Islamic Republic of Iran, not only do not provide higher education with proper technique of financing, but also in the past decade, the financing of higher education by the government, constantly and absolutely, compared with both private financing and other countries (including countries in the region) reduced significantly. Molavi and Khalnedi (2014) compare the new methods of companies and universities financing and the result of their research indicated that the current financing approach in Iran's universities is the financing as the cost compensation. This approach as well as the pattern of per capital cost associated with it, do not realize the principle of desired financing achieving and this issue in micro-level create problems for universities and also reduce the speed of development at the macro level of the country.

Brijer (2016) prepared a study entitled with "changing in financial resources in public higher education, change, diversity, and discontinuity". His research was done to identify the current situation in higher education in the US. In a way that analyze the financial behavior of the US during the years from 1986 to 2010 by using descriptive statistics and the results of this study showed that government budget moved toward different revenues and create relative stability in the costs patterns and changes in income and diversify ways of financing is required according to the new conditions. Zamsnik and Vistopoa (2014), with the aim to study the financing methods at state universities in the Czech Republic, investigate on the implementation of the full cost method in public universities in the Czech Republic as a new tool of financial management, based on changes in the general budget of the universities.

Greer and Klein, (2010) with the aim to offer a public service company as a new mean to contribute to the financing of public colleges and universities, represent a model for the funding of public colleges and universities.

*Research Question:* What is the role of governments to finance universities?

## Method

This research can be considered as a descriptive study, because it states the subject of research and describes it through descriptive data, in term of the objective, this study can be a kind of applied research because the findings results are used to solve the problems in the organization. The method of this research is a librarians Method. The study population includes countries that have the top universities in the world. Sampling method in the study is stratified sampling and sample in this research, including Iran, The US, Australia, Canada, England, Singapore, and Japan. Because according to various rankings (especially the QS ranking of the Institute of Islamic World Science Citation Database) top universities in these countries have universal validity.

## Data analysis

### *The government role in the universities financing of America*

Government agencies like the National Institutes of Health of the United States of America, Department of Defense, Department of Energy and the National Science Foundation of America have a very important role in the financing of universities in this country, of course government budgets that are directly paid a tiny proportion of the funding for universities and changing global circumstances reduce this part of America's universities yearly income and the government is trying to support the universities through indirect methods (Dynarsk, 2013). Even in the case of universities known as state universities, or governmental university form a smaller percentage of income of a university in the country. An increase in demand without an increase in central government funding occurs that suggests a reduction in power or desire of the central government to support financial resources orUniversity (Oskaloosa, 2014). Instead, subsidization and non- subsidization of governmental organizations (tuition, research budget, the order of research projects, providing public property, financing for development projects to expand university, etc.) is done indirectly and universities are constantly looking for different sources to finance their spending. In general, government support has been reduced and versus rising tuition continues and the financing policy of the American central government running from direct support toward indirect support through financial aid programs to students (Dynarsk, 2013). In addition, According to various studies in the United States, without a new budget that has no transparency and predictability for users, the Colleges had lost public trust and not be able to achieve their goals. So, privatization - generate new revenue rather than public financing - creates more transparency, accountability and public confidence in maintaining investment in colleges and provide ways for funding beyond public resources for governmental colleges and state universities (Greer & klien, 2010 ).

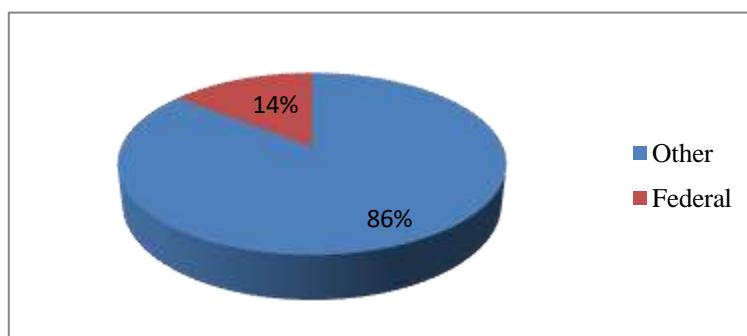


Figure 1. Harvard Financial Resources Breakdown

Source: Harvard university budget plan (2015)

### *The role of government in the financing of universities in the UK*

In European countries, the issue of financial autonomy of universities and reducing government interference is raised because in the current situation of the world and its changes, governmental supports is not enough for universities. So the need was felt to reform the financing of universities that finally, the reforms adopted in early of 2011 that the government only supports a part of the costs of education (Manta et al, 2015). For

example, at Cambridge University, a small fraction of the resources provided from the government support and the resources of this sector through the Higher Education Funding Councils in the country for education, research, and financial aid, are used in the form of study loans, scholarships, awards to students and monetization of students on campus (Annual Report of the University of Cambridge, 2015).

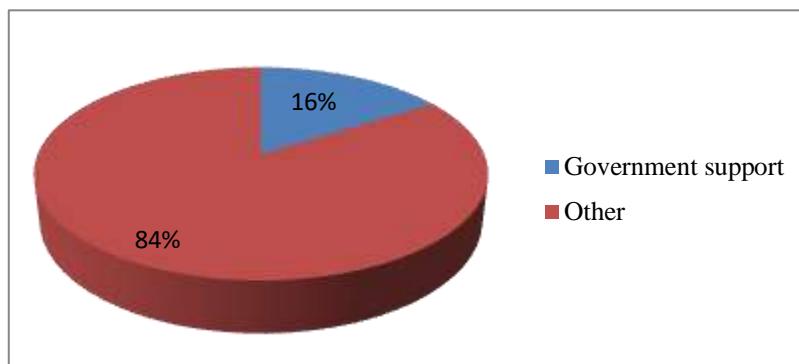


Figure 2 Cambridge University Finance Resources Distribution  
Source: Annual Financial report Cambridge University (2015)

### *The role of government in the financing of universities in Canada*

More countries spend about 5.1 percent of its GDP to fund higher education, but in some countries, such as Canada, Korea, and America it reaches to 5.2 percent (Konuk et al, 2014). The Canadian government is more supportive of its universities (Neill, 2006). Among Canadian universities, the University of Toronto was studied that position superior place and the data collected from financial reports of the university (2016), investing in term of funds shows that less than half of university resources is from public funds and government support and growth of higher education enrollment strengthen the government's general budget is put under pressure and university funding has been on the decline in recent years from this place.

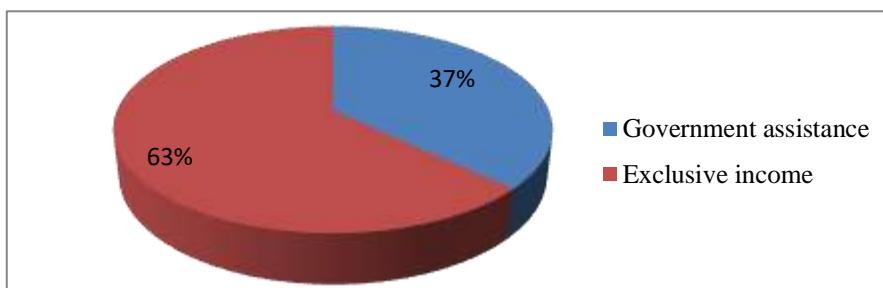


Figure 3. Distribution of Toronto University Resources  
Source: Annual Financial Report Toronto University (2015-2016)

### *The role of government in the financing of universities in Japan*

The Japanese government through direct and indirect financial assistance and different supports help universities with specific objectives in financial affairs. For example, the

University of Tokyo, according to its financial report (2014-2015), uses public resources and government support. Because this university is trying to have the features of a public institution that is a national and public unit and not only a public institution debtor 'profits'.

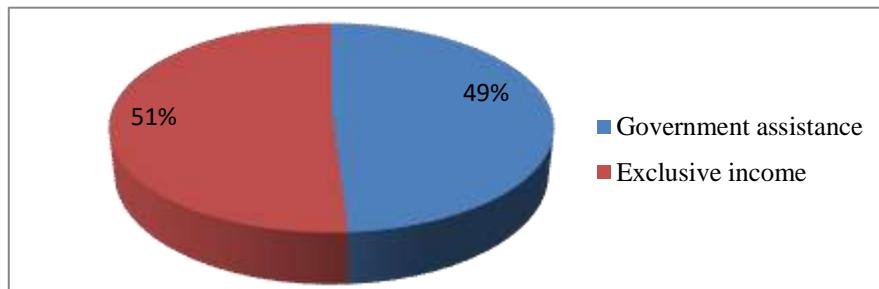


Figure 4. Distribution of Tokyo University Resources  
Source: Annual Financial Report Tokyo University (2015-2016)

#### *The role of government in the financing of universities in Singapore*

National University of Singapore, as a result of the impacts of globalization and increasing demand for higher education, has relied on methods except the government resource but also public resources to finance universities in the country are considered, because the Singapore government in order to gain efficiency and greater ability to recruit more members of their community and thus Financing in order to improve academic and social development at the University and in various research compelling reasons to grant (subsidy) higher education, hardly one of the following reasons: academic effectiveness for community and to ensure the quantity use of educational facilities, government intervention is necessary for all members of society, (Alfaro & Ketels, 2016).

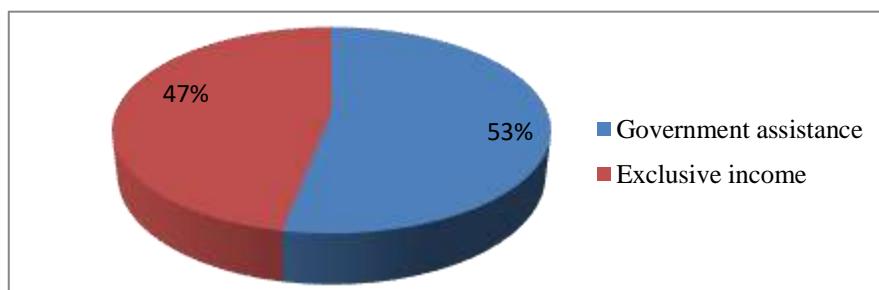


Figure 5. Singapore National University's Financial Resources Sharing  
Source: Annual Financial Report National University of Singapore (2015)

#### *The role of government in the financing of universities in Australia*

Several studies conducted in this country of which government support must exist because it leads to long-term return and the resources of education and research, adequate, stable and predictable order to meet the expectations of society and government. Australian universities to budgetary pressures by the government endure, due to the steady decline of the level of investment in universities do not accept and the investigation concluded state support, in the long run, lead to the long-term for them and continued

government support, provides conditions for research academic, educational, research and other research infrastructure (policy statement 2016).

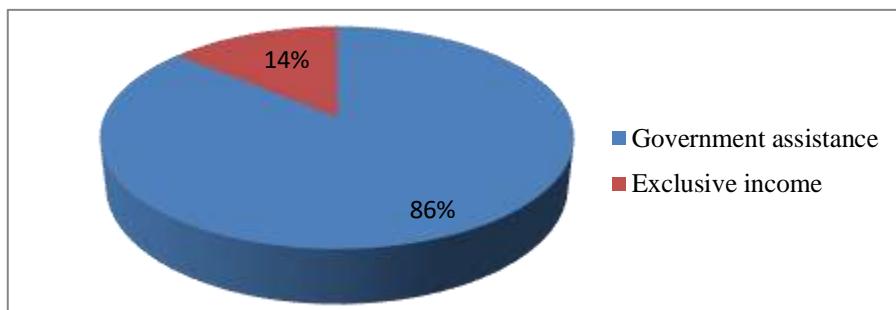


Figure 6. Australian Department of Financial Resources Distribution  
Source: Annual Report National University of Australian (2015-2016)

### *The role of government in the financing of universities in Islamic Republic of Iran*

The structure of higher education in Iran is adopted from a concentrated system. The centralized structure usually designed for a stable and simple environment and such a structure will not be responsive to a complex environment. Iranian economic, political, social and cultural transformation has been constantly changing. The mismatching between the structure of higher education and political and social environment lead to the educational system perform passively. Despite the government support funds for universities to mid-80s faced with little problems. Thus, in reviewing the financial situation of public higher education in Iran, it was observed that this section to meet the growing demand for higher education has not adequate resources, and cross-national comparisons also show that despite the fact that the fair share of governmental general budget allocated to higher education, so, However, its share of total national resources of the country's GDP is very low compared to other countries of the world and for measures to strengthen the universities to communicate with industry and business sectors, educational and research cooperation and goodwill of people to think and solutions for the financing of the proposed university is necessary.

### **Conclusion**

Recent studies of the authors suggest that the strategy of the government's funding needs to be changed and in general what is important in this method of universities financing is that as long as the universities sleep in the context of a relaxed and comfortable state budget and they do not have any concern for earn money by other means, there is no hope to forming a constant flow of communication between university and industry, as well as the comprehensive development of a science at the national level. But the important point is that the sole reliance on the government resources cannot be justified, however, the continued support of the government with low levels is necessary and be approved. Meanwhile, government payments to the university should be designed through which do not lead to diversionary incentives. Because these kinds of incentive reduce the quality, communication, and efficiency. The educational system of any country

has some objectives that are required within the framework of mentioned tasks and also to help them, the governments intervene in the higher educational economy in three ways:

- determining the conditions of the framework (formulation and adoption of legislation, regulations, guidelines, and policies) through which the role and contribution of the market and government specified in the economy of higher education;
- Providing adequate physical infrastructure for supplying higher educational services that are practical by the establishment of public universities and institutions of higher education;
- providing a part of the financing needs of higher education which takes place with appropriate policies and design appropriate mechanisms (Entezari and Qaron, 2015).

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