

# Performance-based funding in higher education



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## **Performance-based funding in the context of Higher Education System: Pros and Cons**

### Abstract

Performance-Based Funding once very popular in 1980s. However, when more other funding approaches been found out, Performance-based Funding no more a mainstream funding approaches. Recently, this funding approach has back to the stage, especially in the educational field. In this paper will explain about the pros and cons of this funding approach in the context of higher education system in Malaysia.

Keyword: Budgeting, Educational Funding, Higher Education, Performance-based funding

### 1. Introduction

Performance-based funding is one of the funding approaches among numerous types of direct public funding of higher educational institution approaches. The other types of direct public funding of institution have funding of teaching through negotiated formula, demand-side vouchers, funding for specific purposes or combined funding for teaching and research, block grant funding and project funding zero-based budgeting, quality circle, six-sigma, and etc.(Salmi and Hauptman, 2006). Performance-based funding is the approach that budgeting based on the performance of individual public university. The performance of individual public university can be measure by using Performance Indicator, which is a set of specific expectation that need to be achieve by the public university. Examples of Performance

Indicator are like student result or the number of student passing examination.

## 2. Main Body

Performance-based Funding is currently in the progress of implementation by the Ministry of Education in Malaysia toward all the public university in Malaysia. Implementation of the Performance-based Funding has brings some advantages to both Ministry of Education and public university. In this paper, some of advantages will be shown in clearly and briefly.

### 2. 1 Help in Save Budget

First at all, Performance-based Funding can Malaysia Government to save budget. Budget always is a hot issue in Malaysia, not only the Ministry of Education but the whole Malaysia Federal Government. For example the Malaysia Budgeting 2015 that release on 10 October 2014, after the Budgeting Plan is release, many different voices are talking about this Budgeting Plan, some are appraisal, and some are critics.

Under the pressure of critics, Performance-based Funding can help release part of the pressure by saving the budget in Educational Fund. According to the study of World Bank / EPU, Performance-based Funding could save up to thirty percent of the budge. In Malaysia Budgeting 2015, budget for Ministry of Education is RM 56 billion (National News Agency of Malaysia). Save up to 30 percent of the budget, which means is about RM 16. 8 billion. A reducing of such big amount of budgeting can be a great counter attack toward all the critics from outside.

## 2. 2 Resources Allocation

Another advantage following saving budget will be resources allocation.

Based on the same example on previous paragraph, Performance-based Funding could release about RM 16.8 billion of budget from the Ministry of Education. This unallocated budget can be used in many different ways, such as increase allowance for the staff of university, as a reward for high performance university, increase loan to students and any other way that can further improve the quality of public university in Malaysia.

Besides using the unallocated fund in Ministry of Education, the unallocated fund that free by Performance-based Funding can be used in other Ministry or field in the purpose of developing the strengths and infrastructures in Malaysia, so that Malaysia can become a developed country in 2020.

## 2. 3 Motivate University to Work Hard.

The implementation of Performance-based Funding will not only bring advantages to the Ministry of Education or Malaysian Federal Government, it also brings advantages to the public university. Performance-based Funding will motivate the public university to work hard. The Performance-based Funding will budgeting an individual public university according to the performance of the university on the Performance Indicator. Hence, to get more fund or budget, university will do harder on improving their performance on the Performance Indicator, such as the CGPA of student, number of student get first class honors, number of student passing particular examination, and etc. These Performance Indicators will be set and

measure by the Ministry of Education, so that the Ministry can fund and reward based on the achievement on these Performance Indicators.

## 2. 4 Avoid Vicious Competition

Another than motivate the university to work hard, Performance-based Funding will help avoid the vicious competition among public university. Competition can be a double-edge in an organization, a suitable level of competition among colleague can improve the performance of organization. However, when vicious competition occurs, it will bring bad effect toward the organization. Same case in public university, to get more budgets from the Ministry of Education, university competes with each other to attract the attention of the Ministry, so that the university can get more funds. In many times, this competition between public universities will become vicious competition; this will bring bad effect toward the development of Malaysia, and the staff and student will become the victims of this competition.

This Performance-based Funding could avoid the vicious competition, the funding will be based on the performance of the university. In this condition, university will focus more on the achievement on Performance Indicators, and the universities will not have time to compete with each other. In other words, compete with other university do not bring any help in improving the performance of university.

## 3. Discussion

Same like other funding approaches; implement of Performance-based Funding will not only bring benefit, it will have some side effects or disadvantages. Some of the disadvantages will be discuss at here.

### 3. 1 Performance Indicators

One of the main disadvantages of Performance-based Funding is the standard of the Performance Indicators. Performance Indicator is the specific expectation that will set up by the Ministry of Education. However, the problem is what standard this Performance Indicator should follow; this is because each university has own standard, own level, own expert field, and most important different number of students due to geographical condition. This means, a single set of Performance Indicator cannot fulfill all the standard of university; but it take more time, cost and human forces to set up and measure specific Performance Indicator to every and each of the university.

Besides that, setting up a set of Performance Indicator for university may affect the behavior and the decision making of the particular university.

When there is a Performance Indicator, university will be more likely to focus on those Performance indicators. University strategies, planning, decision making may become aggressive in making achievement in the Performance Indicator and may ignore other aspect of Teaching and Learning Process within the university in the purpose of getting more budgets.

### 4. Conclusion

In a nutshell, implement Performance-based Funding in the higher education system has pros and cons. However, this funding approach has more advantages as compare to the disadvantages. Hence, Performance-based Funding is suitable to implement in higher education system in Malaysia.

## 5. References

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