

**THE IMPACT OF MARKETISATION ON HIGHER
EDUCATION IN POST-MAO CHINA, WITH CASE STUDIES
OF UNIVERSITIES IN YUNNAN PROVINCE**

by

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ABSTRACT

An important component of the New Public Management, which has spread through many countries in the world, is the emergence of hybrid governance, a structure which has replaced traditional hierarchical governance in many parts of the public sector. Hybrid governance lies between hierarchical governance and market governance, yet beyond this there is a relative lack of information on how hybrid governance works in detail. This thesis uses principal-agent theory to examine the structure and form of hybrid governance. In particular, the analysis presented allows the construction of a three-dimensional governance model to explore the issue of how hybrid governance works in the context of incentives, a relatively neglected area of the public management literature.

Applying the theory developed in its first half to the rapid change of higher education in China, this thesis demonstrates how hybrid governance can be analysed through an incentive approach which focuses on reducing state authority, enhancing academic power and creating market rewards. The research findings show that the Chinese government has employed these three incentive methods to motivate universities and their staff towards improved performance, and that hybrid governance has replaced traditional hierarchical governance in Chinese higher education, however the effect of changing governance structure is not significant. A reducing, but still high degree of centralised state control has restricted the incentives produced from market rewards and university academics, and the imbalance of the three incentive forces in hybrid governance impairs the further improvement of the efficiency of public service provision. The main contributions of this thesis, therefore, are to give a better understanding of the nature of hybrid governance, and to expose the limit of Chinese higher education reforms.

TO

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CHAPTER 1 INTRODUCTION

This thesis provides an analysis of hybrid governance through an application of principal-agent theory, and establishes a three-dimensional governance model to explore how hybrid governance works in the context of incentives.

The Chinese government has launched a succession of marketisation reforms to restructure its traditional hierarchical higher education system since the 1980s, with the number of changes increasing in the 1990s. However, there is much debate on the issue of which governance structure is the best for organising Chinese higher education between market and hierarchy models. Therefore, taking Chinese higher education as an example, this thesis points out that under certain circumstances, hybrid governance can organise transactions in a much more efficient way than market and hierarchy, and demonstrates how hybrid governance can be analysed through an incentive approach, which focuses on reducing state authority, enhancing academic power and creating market rewards.

The research case study took place in Kunming City, Yunnan Province, in the People's Republic of China (hereafter China). There were five public universities and one private university involved in this study, and sixty-six individuals were interviewed with semi-structured questions during the years 2005 and 2006 in this research.

1.1 The rationale of the research

With the development of technology and information, global economic transformations are the most distinctive processes that have been ongoing since the 1960s. One key influence of these transformations is, western values expressed in terms of economics, culture and politics have swept the globe (Reid, 1994).

In many industrialized countries, there has been a similar movement relating to public management since 1980s, which is characterised by importing the practices of the private sector and the use of market principles to reform public services, and this trend of reforms is normally labeled as New Public Management (hereafter NPM) (Hood, 1991; Pollitt, 1990; Walsh, 1995).

Creating incentives for improvement is a key problem in the hierarchical arrangements in public service provision. An important component of the application of NPM to organizations is the replacement of bureaucratic authority with economic incentives through various market mechanisms. This has been regarded as ‘a transformation of the public sector’ (Hughes, 1994), or the ‘reinvention’ of government (Osborne and Gaebler, 1992) in the public management literature.

Despite the fact that different countries have used NPM to introduce market-based practices into their public sector in different ways, the extensive development of decentralization, privatization, contracts, and pricing and charging for public services has involved a move from ‘hierarchies’ to ‘hierarchies with markets’ in the public sector management across countries (Walsh, 1995). As Corkery et al. (1998) summarise,

“Experience has brought wide agreement that it is the role of government to counteract possible distortions of a pure market economy approach to development. The choice is no longer between state and market, but rather between different mixes of state and market” (Corkery, et al. 1998, p. 3)

As a result of NPM, hybrid governance has replaced traditional hierarchical governance in the public sector, and this has become the dominant structure in many countries across the world.

Although the theory of modes of governance has been discussed widely in the public management literature (see Bradach, et al., 1989; Tenbensen, 2005 and Treib, et al. 2005), there has been relatively little conceptual or empirical work on the analysis of hybrid governance, and studies on hybrid governance from an incentive perspective are rare. This research, therefore focuses specifically on the analysis of hybrid governance through an incentive approach, and makes a contribution to knowledge by bridging this gap in the literature.

1.2 Modes of governance and research questions

The term *governance* was used originally to denote the action or manner of governing, and in this way it has overlapped with ‘government’. Now it has become a ubiquitous ‘buzzword’ which can mean anything or nothing (Jessop, 1998). The core meaning of governance is identified by Benz (2004) as “steering and coordination of interdependent actors based on institutionalised rule systems” (p. 5). Different views on governance have led modes of governance to vary, for example, markets, hierarchies and networks (Thompson, et al., 1991; Rhodes, 2000); markets, bureaucracies and clans (Ouchi, 1980); market, hierarchy and

hybrids (Williamson, 1991); market governance, hierarchical governance and relational governance (Ghosh and John, 1999).

Despite the well-known classification of governance modes as markets, hierarchies and networks, the attention of governance structure on market, hierarchy and hybrid will provide a better way to understand the marketisation reforms in Chinese higher education. Therefore, the market-hybrid-hierarchy governance structures are the key typology selected for this research.

Before introducing the research questions, two typical governance structures in the literature are now discussed: market governance with a price mechanism and hierarchy with a bureaucratic mechanism.

1. Market governance with a price mechanism

The principle of the market as a coordination device is “that it involves voluntary exchange of goods and services between two parties at a known price” (Levačić, 1991). In a free market with no government intervention, competition and profit-driven motivation lead individuals to serving the public interest as a by-product of pursuing their own private interests (Smith, 1776). As Adam Smith (1776) argued, the economy would be led by an invisible hand to produce what was desired in the best possible way.

Under the assumption of perfect competition, the outputs and the prices of goods and services are determined competitively in the market place according to consumers’ preferences and incomes, which will theoretically lead to a Pareto optimum or Pareto efficiency--- resource allocations that have the property that no one can be made better off without making at least one other person worse off (King, 1984).

However, in practice, there is no perfect information; price will not always provide the ‘right’ signals. With bounded rationality and opportunism, a price mechanism will generate costs in the transaction, such as costs for searching, negotiating and monitoring due to information asymmetry. In a market, individuals might be incited to produce more goods than optimal when social benefit is below private benefit or too little of the goods when social benefit is above private benefit. There can be ‘market failure’, which refers to “a circumstance where the pursuit of private interest does not lead to an efficient use of society’s resources or a fair distribution of society’s goods” (Weimer and Vining, 1992, p. 30). This issue has been elaborated in a well-known and voluminous literature (Stiglitz, 1988; Wolf, 1988).

In addition, organising economic activities through the market can lead to cheating behaviours, for example, farmers might add water to the milk they sell, which produces costs of cheating. *Cheating cost* is “the sum of the cost of measuring outputs plus the losses due to fraud when measurement is imperfect” (Hennart, 1993, p. 531).

When market failure is serious and cheating costs are high, a switch to hierarchical governance may reduce transaction costs and cheating behaviours. Under hierarchical governance, individuals are paid a fixed sum to follow orders and can therefore generate little individual benefit from cheating, because the direct link between outputs and rewards is removed. Is hierarchy therefore more efficient than markets at organising transactions?

2. Hierarchy with a bureaucratic mechanism

The hierarchical mode of governance is coordinated by a set of fixed rules and orders (Levačić, 1991). Instead of being decentralised and coordinated by prices in a market, information is centralized and coordinated by authority in a hierarchical arrangement.

Under hierarchical governance, there are bottom-up and top-down processes of information syntheses. Employees are required to channel the information they possess to a central person who assimilates this information and retransmits relevant information back to employees through direct instructions. With unbounded rationality and perfect information, this is a more efficient method of making optimal decisions on the resource allocation than the decentralised system of market prices (Williamson, 1975).

However an important shortcoming of this hierarchical governance is the low-powered incentive system it embodies. Because it is quite difficult to measure individual behaviours as the market does, most resources (such as labour time or effort) are allocated by managerial authority. Employees perform mainly in accordance with orders or rules, and they are rewarded by compliance. Therefore, driven by authority, employees will be less concerned about the allocation of their resources and inefficiency arises. As Beetham argues,

“Adherence to rules can become inflexibility and ‘red tape’. Impersonality produces bureaucratic indifference and insensitivity. Hierarchy discourages individual responsibility and initiative” (Beetham, 1991, p. 133)

Also, under hierarchical governance, an agency shirking problem often arises, because of information asymmetry and a divergence of objectives between employee and employer. As long as an employee’s behaviours are costly to monitor, the employee will have a degree of scope to shirk his/her responsibility. In order to overcome the shirking problem, an employer will have to invest resources to motivate the employee or control and direct the employee’s behaviour, which can strongly increase transaction costs.

In short, within market arrangements, there is the potential problem of cheating cost; under hierarchical governance, the low-powered incentive system can cause the problem of

bureaucratic shirking. Therefore, the answer to reducing both the cheating problems of market governance and the shirking problems of hierarchical governance that has been proposed is the introduction of a new governance structure --- hybrid governance as analysed in this research.

The issue of incentives is a key to solving these problems in the market and hierarchical governance, and it is an important dimension of the design of governance structure in the public sector. The importance of this issue therefore leads to the major research question of this study: 1. how can hybrid governance be analysed through an incentive approach? And this question is further divided into two sub-research questions:

1.1 what is hybrid governance?

1.2 how can hybrid governance control cheating problems in market governance and mitigate shirking problems in hierarchical governance?

To explore these theoretical questions, Chinese higher education has been selected as a case study in this research. Therefore, a key empirical research question and sub-research questions are also developed as follows:

2. how can hybrid governance in Chinese higher education be analysed in the marketisation reforms in post-Mao China?

2.1 what forms has marketisation taken?

2.2 what has been the impact of marketisation reforms on the management of Chinese universities and academics' performance?

1.3 The structure of the thesis

This thesis contains eight chapters in total, listed below and the structure of the thesis is shown in **Figure 1.1**.

Figure 1.1 highlights the key points of eight chapters and provides an overall picture for the thesis. The more detailed information is set out in the following:

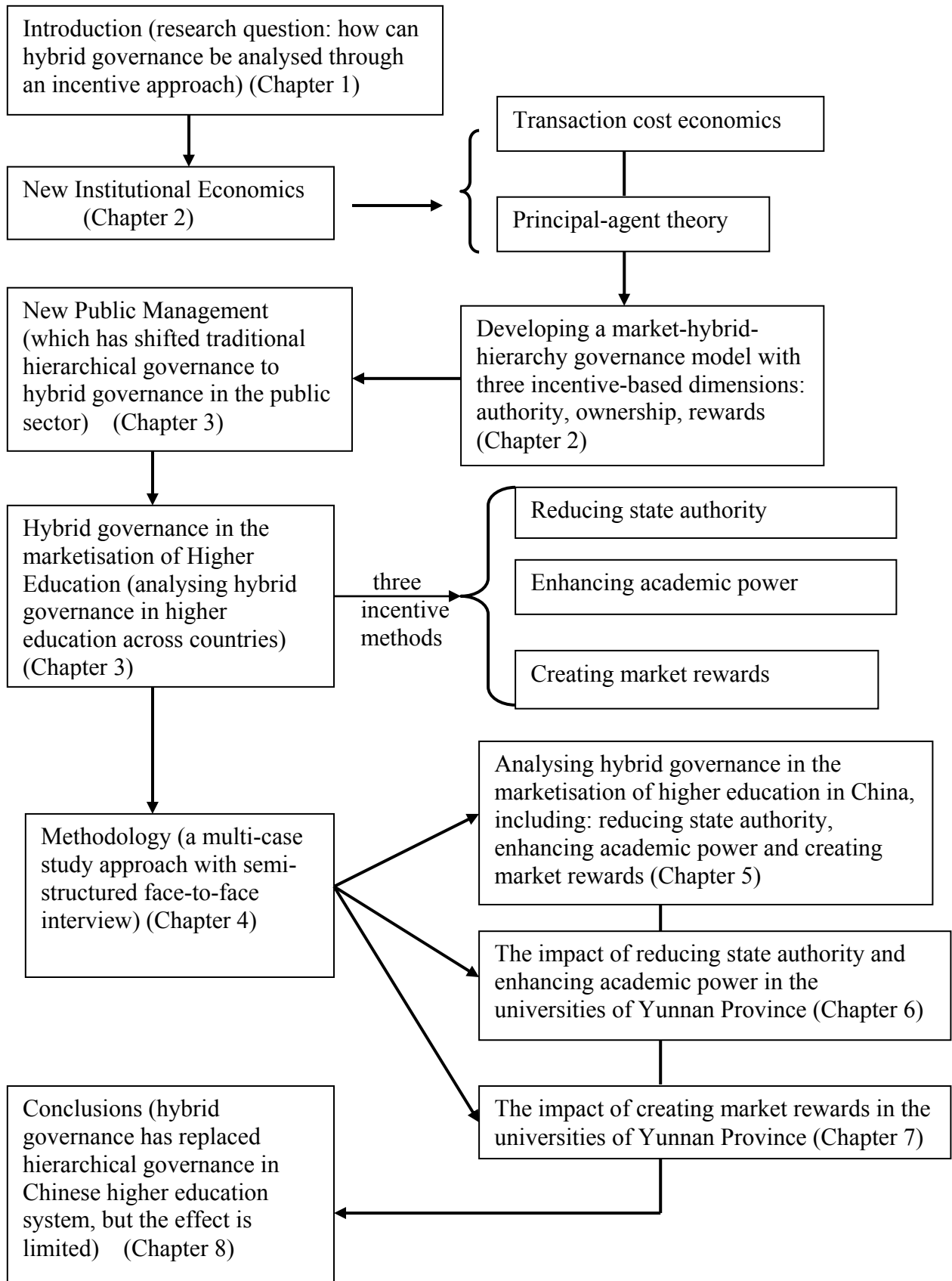
Chapter 1 ‘Introduction’ sets out the rationale of study, the key research questions, and the structure of the thesis;

Chapter 2 ‘Incentive instruments and hybrid governance’ provides a theoretical framework for analysing hybrid governance in this research based on transaction cost economics and principal-agent theory.

On the one hand, transaction cost economics is the first theory to discuss the market-hybrid-hierarchy governance structures and provides a basic rationale for advocating changes of governance structure as manifested in the New Public Management literature. As Williamson (1991) argues, tailoring governance structure according to the nature of transactions can minimise transaction costs and improve the efficiency of transactions.

On the other hand, principal-agent theory is the key theory used to analyse hybrid governance from an incentive approach in this study. The main issue examined in this theory is how to design an effective incentive system to motivate the agent to perform in the best way according to the principal’s wishes.

Figure 1.1 The Structure of the Thesis



According to the analysis of incentive instruments in principal-agent theory, this chapter has established a three-dimensional governance model to analyse hybrid governance in the context of incentives, and these dimensions are authority, rewards and ownership. Comparing three incentive instruments in different governance structures, it has been argued that, under certain circumstances, hybrid governance represents a much more efficient way to organise transactions than market governance and hierarchical governance.

Chapter 3 ‘New Public Management, hybrid governance and higher education’ analyses New Public Management and hybrid governance in the public sector and with particular reference to the marketisation of higher education.

The introduction of market-based mechanisms in the public sector has been witnessed recently in many countries and the process of New Public Management can be seen as a route to improving efficiency in the public sector. This thesis argues that hybrid governance has replaced traditional hierarchical governance in the public sector, which can be analysed along three dimensions: reducing state authority, creating market rewards and distributing asset ownership.

In common with other parts of the public sector, higher education institutions have been reforming in line with the same philosophy of New Public Management. In the higher education literature, this has been named as ‘the marketisation of higher education’. The practices of reducing state authority, enhancing academic power and creating market rewards in the marketisation reforms show that, hybrid governance has replaced traditional hierarchical governance in higher education institutions in many countries across the world.

Chapter 4 ‘Research methodology’ provides the explanation for the research methods used in addressing the research questions in this study. With the aim of achieving the reliability and validity, this research has selected a multi-case study approach and face-to-face interview with semi-structured questions to collect data, and a process of three-stage data analysis is applied to analyse the research data. In particular, a data triangulation approach is implemented as a critical technique to draw and verify research conclusions in this study.

In addition, the practical issues such as how to select the sample, how to conduct the interview and how to consider research ethics issues, are also discussed in this chapter.

Chapter 5 ‘Analysing hybrid governance in the marketisation of higher education in post-Mao China’ analyses hybrid governance in the marketisation reforms in Chinese higher education over the last two decades.

The marketisation reforms in Chinese higher education include the policy of decentralisation, developing quality assurance, reducing government funding, charging tuition fees and establishing private universities. It is argued that these changes show that the Chinese government has employed three incentive methods to restructure its higher education system, including reducing state authority, enhancing academic power and creating market rewards. After the reforms, the traditional hierarchical governance has been moved to hybrid governance in Chinese higher education.

Chapter 6 ‘The impact of reducing state authority and enhancing academic power in the universities of Yunnan Province’ examines the impact of reducing state authority and enhancing academic power on the management of Chinese universities.

Interview data is used to demonstrate that, compared to the pre-reform situation, university autonomy has shown some increase in Chinese higher education. For example, universities have more freedoms to make suggestions, and universities can design their own evaluation programmes under the broad guidance of relevant government policies. Nevertheless, the crucial internal management issues, such as, setting up academic courses, employing university staff, and deciding student enrolment, are still tightly controlled by the government. Therefore, the degree of centralised state control is still high and the level of academic power is still low in the university internal management in present-day Chinese universities.

Chapter 7 ‘The impact of creating market rewards in the universities of Yunnan Province’ examines the impact of creating market rewards on the management of Chinese universities and academics’ performance.

Based on the research evidence, it is argued that a variety of market reward systems have affected academics’ and universities’ behaviours in different ways. For example, the new multi-remuneration system and the pay-for-performance schemes have increased academics personal income dramatically and provided an effective stimulus for university academics to strive for improved performance. Reduced government funding has motivated universities to generate more revenues through various market-like activities, such as developing partnership with industry, enlarging student enrolment and commercialising academic research.

However, market rewards are to some extent a two-edged sword, and some negative effects have arisen in today’s Chinese universities. Cheating behaviours such as article plagiarism can be observed on some campuses and commercialising academic research has caused a conflict between academic interest and market interest.

Chapter 8 ‘Conclusions’ summarises the key findings of the research and examines the policy implications of the research and the opportunity for future research.

Based on principal-agent theory, this study demonstrates how hybrid governance can reduce cheating problems in market governance and mitigate shirking problems in hierarchical governance through three methods of increasing incentives: reducing state authority, enhancing academic power and creating market rewards. The analysis of research findings in this thesis shows that, the Chinese government has employed these three incentive methods to restructure its higher education system and that hybrid governance has replaced traditional hierarchical governance in Chinese universities over the last two decades.

However, the impact of this change of governance structure should not be overestimated. The Chinese government still retains a high degree of control on university internal management, and the influences of academic power and market rewards in Chinese universities are still relatively weak. Therefore, it is argued in this final chapter that future reforms should aim to seek a balance between state authority, academic power and market rewards, and to develop an optimal hybrid governance in Chinese universities.

CHAPTER 2 INCENTIVE INSTRUMENTS AND HYBRID GOVERNANCE

2.1 Introduction

2.1.1 The purpose of chapter

This chapter sets out a theoretical framework for answering one of the key theoretical research questions of this thesis: “how can hybrid governance be analysed through an incentive approach?”

There are two theories considered in this chapter to develop the analysis of hybrid governance. The first is transaction cost economics and the second is principal-agent theory. Together they constitute the key components of new institutional economics.

The reasons for discussing transaction cost economics at the beginning of chapter are: firstly, the market-hybrid-hierarchy governance structure was firstly classified by transaction cost economics; secondly, transaction cost economics provides a basic rationale for changes of governance structure.

The reason for introducing principal-agent theory is that the key issue of incentives analysed in this theory provides a foundation for the analysis of hybrid governance in this research. In particular, the three incentive instruments discussed in principal-agent theory have been adopted as three dimensions to establish a market-hybrid-hierarchy governance model, and

this governance model has been used to analyse hybrid governance in comparison with market and hierarchy governance.

Coupled with the discussion of hybrid governance, two theoretical sub-questions “what is hybrid governance?” and “how can hybrid governance control cheating problems in market governance and mitigate shirking problems in hierarchical governance” are also analysed in this chapter.

2.1.2 New Institutional Economics

New Institutional Economics (NIE) studies how formal and informal institutions affect economic activities. Apart from shaping the social environment, institutions can reduce transaction costs and make human exchange more efficient.

What are institutions? According to North (1991), institutions are defined as “humanly devised constraints that structure political, economic, and social interactions” (p. 97)

In contrast with standard neoclassical assumptions, New Institutional Economics assumes that individuals have incomplete information and limited mental capacity. As a result, transactions in an uncertain environment are not cost free. To reduce risk and transaction costs, humans create formal and informal institutions.

As North (1991) elaborates, formal institutions can take the form of constitutions, laws, contracts and regulations; informal institutions are mainly structured by norms of conduct, values, customs, taboos, beliefs and habits of thought.

There are two specific areas covered by the New Institutional Economics: “the rules of the game” and “the play of the game” (Coase, 1960; Williamson, 1971).

The field that focuses on the institutional environment--- “the rules of the game”, can be traced back to Ronald Coase’s 1960 paper on ‘the problem of social cost’. Along this line of argument, an important and influential element is the economics of property rights, which flourished in the 1960s. The system of norms governing the acquisition or transfer of property rights is one of the main interests of modern institutional economics (Furubon and Richter, 1991). Property rights are regarded as not only the conceptual key to understanding economic organisation, but also the means to understanding why economic performance works well. As Coase (1959) puts it,

“A private-enterprise system cannot function properly unless property rights are created in resources, and, when this is done, someone wishing to use a resource has to pay the owner to obtain it. Chaos disappears; and so does the government except that a legal system to define property rights and to arbitrate disputes is, of course, necessary” (Coase, 1959, p. 12).

The second field of New Institutional Economics is associated with the institutions of governance--- “the play of the game” (Coase, 1937; Williamson, 1971). Modern analysis of the institutions of governance, originates with Coase’s 1937 paper on ‘The nature of the firm’. The key idea of Coase’s paper is that organising through hierarchy can be cheaper than organising through a spot market--- a market with short term, non-regular and arms length exchange. The argument is that hierarchical arrangements can economise on the costs of searching, negotiating, monitoring and enforcing contracts found in spot markets.

Following on from Coase’s original ideas, transaction cost economics has been extensively developed in the work of Williamson (1975, 1976, 1981) and has exerted increasing influence over scholarly research.

Based on assumptions of bounded rationality and opportunism, transaction cost economics takes the transaction as a basic unit of analysis, instead of the commodity and examines how different governance structures can strongly affect the costs of exchanging goods and services. As Hesterley et al. (1990) suggest, transaction cost theory “provides an answer to the most fundamental question in organizational research: why do organizations exist?”

2.2 Transaction cost economics and governance structure

2.2.1 Transaction cost economics (TCE)

Coase (1937) is generally seen as the first economist to argue that the best way to understand an economic activity would be to consider the institutional context. More particularly, Coase was the first to point out that transaction costs could play a major role in determining whether economic transactions should be carried out in the market or inside the firm--- the make-or-buy decision. In his classic article ‘The Nature of the Firm’, Coase stated that hierarchy is often more efficient when it saves on transaction costs compared to the market.

In a complex environment, information gathering and evaluation is costly and the costs of preparing for, negotiating, and concluding separate contractual agreements for each transaction are costly too, such costs can often be

“eliminated or substantially reduced by shifting to an alternative, nonmarket arrangement that internalises some of the agent’s transactions with factor-owners and alters his contractual arrangements with them” (Moe, 1984, p. 742).

Therefore, in order to reduce transaction costs and produce more, the firm emerged, characterised by the authority relation and the hierarchical organisation of production (Barnard, 1938).

Oliver Williamson has further developed the notion of transaction costs and produced an operational framework for alternative modes of governance (markets, hybrid, firms, and bureaux). He argues (1985) that, given an aim of maximising the efficiency of economic exchange, organisations will endeavour to minimise transaction costs and this objective will determine the appropriate institutional framework or governance structure. Therefore, transactions will be efficient only if governance structure is tailored to the specific needs of each type of transaction (Williamson, 1981).

Transaction costs are the “costs of running the economic system” (Williamson, 1991, p. 269), including the costs of coordinating and the costs of motivating (Milgrom and Roberts, 1992). Coordination costs are mainly associated with costs arising from coordination problems through different coordinating forces in terms of resource allocation or information transmission. For example, under a market system, coordination costs are relevant to costs from exchanging price information, advertising and marketing expenditure, resolving disputes and the costs of failed transactions; while in a hierarchical system, coordination costs are concerned with the costs of communicating information, compiling plans, contract enforcement and the cost from imperfect transaction decisions.

Motivation costs are associated with the motivation problems due to information asymmetry. In reality, there is no perfect information for all parties involved with transactions, for example, a sales manager may have difficulty in determining whether a salesperson is devoting all his or her time and effort to the business. In order to guard against these

opportunistic behaviours, one party has to take costly actions, such as monitoring procedures, compensation schemes or pay for performance.

How can the transaction costs of economic activity be minimised? Two important issues are considered in transaction cost economics: one is the nature of transaction; the other concerns the attributes of the governance structure. These are examined in turn.

2.2.2 The nature of transaction costs

According to transaction cost economics, there are two basic behavioural assumptions: bounded rationality and opportunism. The concept of bounded rationality refers to the limited ability of individuals to deal with all the available information within a complex environment. This means that the decision-making process will be ‘intendedly rational’, but within limits. The concept of opportunism is defined as self-interest seeking with guile, which means that an individual may seek to maximise self-interests by intentional behaviours such as lying, cheating and stealing (Williamson, 1985).

In contrast with neoclassical economics (which assumes perfect information and rationality), transaction cost economics considers, when economic agents make the choice to use scarce resources, with limited information and knowledge and technology skills, the choice would be ‘intendedly rational’ (March, 1978). As a result of bounded rationality, contracts used in economic exchange are ‘incomplete’ (Windram, 2005). At the same time, economic agents are opportunistic; they are always trying to maximise their self-interests. Therefore, the problems of contracting are

“greatly complicated by economic agents who make ‘false or empty, that is, self-disbelieved threats or promises’, cut corners for undisclosed personal advantage, cover up tracks, and the like” (Williamson, 1981, p. 554).

Ex ante¹ and ex post² competition can often be used to overcome problems arising from incomplete contracts (Williamson, 1981). Ex ante competition can be achieved easily by involving more qualified bidders; however, effective ex post competition will depend on the characteristics of the transactions. This therefore leads to a question of defining a transaction.

There are five basic elements describing the nature of a transaction: asset specificity, frequency, complexity and uncertainty, measurement difficulty and transaction connectedness (Milgrom and Roberts, 1992). The critical dimensions for determining the nature of transaction costs are discussed as follows.

Asset specificity is defined as occurring when the value of investment is limited to a particular use --- relationship specific (Watt, 2005). Asset specificity includes three types: site specificity, physical asset specificity and human asset specificity. Site specificity “as when successive stations are located in cheek-by-jowl relation to each other so as to economize on inventory and transportation expenses; physical asset specificity, as where specialized dies are required to produce a component; and human asset specificity that arises from learning by doing” (Williamson, 1981, p. 555).

When an asset is specific to a particular use, the hold-up problem may occur. For example, after developing a specific railroad line to a car factory, the owner of the railroad line can easily be held up, because the railroad line in this case is specific to serving the factory and worthless in any other use, and the factory owner has bargaining power. If the railroad owner

¹ Before

² After

does not satisfy the demand of the factory owner, the factory owner can threaten to destroy the value of the railway line by ceasing to use it. Sometimes the possibility of hold-up effects may deter investment in highly specific assets.

Uncertainty and complexity denotes the situations in which the parties to a potential or actual transaction do not have all the relevant information needed to determine whether the items of agreement are acceptable or are being met. Coupled with opportunism, uncertainty and complexity this will require more complex contracts, renegotiation and economic resources, and hence can significantly increase costs.

Frequency means how often similar transactions happen and *duration* is the period of time between repetitions (Milgrom and Roberts, 1992). If similar transactions occur frequently over long period of time, low-cost routines will be developed with the aim of cost saving; also a less formal mechanism is needed to enforce agreements between parties.

To sum up, the key concept of Williamson's framework (1975, 1985, 1991, 1996) is that transactions will be organized efficiently in the market unless the costs of market exchange exceed those of internal production. Because a market transaction has scale and scope advantages, it can avoid bureaucratic costs, including administrative and incentive limits and agency costs in hierarchy. However, when specific assets are involved in the transaction, the market may fail due to opportunism and a hierarchical structure is proposed as a superior alternative to the market. The implications of these factors for governance structures are examined in following subsection.

2.2.3 The attributes and alternation of governance structures

Williamson (2005, p. 48) argues that there are three attributes of discussing governance structures: incentive intensity; administrative controls and the contract law regime. In general, spot markets provide high-powered incentives without control mechanisms. Hierarchy, by contrast, is full of hands-on administrative involvement with low-powered incentives. Disputes in markets rely on referral to the courts, whereas, in a hierarchy, disputes are settled by internal rules. In hybrid arrangements these three attributes lie somewhere between the extreme values they take in market or hierarchical arrangements (see Table 2.1).

Table 2.1 Attributes of Leading Generic Modes of Governance

	Governance Modes		
Governance Attributes	Market	Hybrid	Hierarchy
Incentives	high-powered	less high-powered	low-powered
Administrative support by bureaucracy	nil	some	much
Contract law regime	legalistic	contract as framework	firm as own court of ultimate appeal (fiat)

Adapted from Williamson (2005), 'Transaction cost economics', p. 49

The choice between market, hybrid and hierarchical governance can be seen as being determined by the degree of specificity of assets (Williamson, 1985). If assets are non-specific, driven by the price mechanism, markets will organize transactions efficiently. With 'perfect competition', the market will minimize both production cost and governance cost as a result of individuals' desires to maximise profits. When assets become more specific, as a result of increasing uncertainty and information asymmetry, governance costs under market arrangements will go up and internal procurement will gradually supplant external supply, and

intermediate or hybrid forms become more appropriate. Eventually, hierarchical arrangements will replace the market when assets take on a highly specific character.

Uncertainty also plays a part in determining appropriate modes of governance. In a hierarchical organisation, uncertainty will be removed through administrative processes, through the instructions given by superiors to subordinates, or by agreement within a work team or 'peer group' (Le Grand and Barlett, 1993). Therefore, when the degree of uncertainty in the future is high, bounded rationality becomes a limiting factor to design a complete contract, and the costs of contract formulation may rise dramatically in a market exchange. Decisions taken within an organisation will be more efficient than the market.

Although, according to transaction cost analysis, when assets become highly specific, a hierarchical arrangement is more efficient than market transactions, there is the problem that hierarchical arrangements also weaken the incentive system in comparison with market arrangements. Unfortunately, there is less attention paid by transaction costs theorists to the internal management within a firm, especially to internal incentive systems. But securing efficient management in a firm is also a vital issue, which would reduce costs and the total transaction costs would be minimized.

Also, there is difficulty in deciding the degree of asset specificity and the level of uncertainty in transaction cost economics. What kind of asset can be regarded as having high specificity in a transaction and what kind of environment can be considered as very uncertain for hierarchical governance? These questions are hard to answer from a transaction cost economics point-of-view, but are vital elements which affect the choice of governance structure when choosing between market, hybrid, and hierarchy governance.

In contrast with transaction cost economics, principal-agent theory focuses more on designing the incentive system in a hierarchical organization (a firm). The key issue addressed by principal-agent theory is how to motivate the agent to work more efficiently towards achieving the principal's objectives. Working from an incentive design perspective, principal-agent theory proposes a different approach to minimise transaction costs. This approach is discussed in next section.

2.3 Principal-agent theory and three incentive instruments

Principal-agent theory has been applied in various realms besides economics studies, for instance, in political science (Moe, 1984; Whitford, 2002); sociology (Kiser, 1999); organization research (Eisenhardt, 1989; Pollack, 1997) and even psychology (Kirby and Davis, 1998). As Ross argues, “the relationship of agency is one of the oldest and commonest codified modes of social interaction” and “examples of agency are universal” (Ross, 1973, p. 134).

In general, the agency relationship arises in a situation in which one party (the principal) delegates authority to another (as the agent) to perform the work. Examples of agency relationships are many: employee and employer, client and lawyer, patient and doctor, investor and broker, and citizen and politician.

The key feature of all agency relationships is that, agents have delegated authority and principals have difficulties in controlling agents due to the conflict of interest and information asymmetry between themselves and the agent (Olson, 2000). The problem is how to motivate the agent to act in the best interest of the principal (Berle and Means, 1932).

2.3.1 Agency problems

Adam Smith (1776) was well aware of agency problems in the analysis of organizations, those arising from the separation of ownership and control. As he put it,

“The directors of such companies, however, being the managers rather of other people’s money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own...Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company” (Adam Smith, 1776, p. 700)

The initial work on principal-agent theory in economics was done by Arrow (1964), Ross (1973) and Jensen and Meckling (1976). The key concern of these studies is how to design effective controlling and incentive systems in a principal-agent model.

When the principal delegates power to the agent, there is likely to be a conflict of interest between the principal and the agent. In addition it is likely that, information asymmetry will exist, because the agent has more information on his own activities and the principal cannot cheaply monitor the agent’s activities. The agency problem arises as a result of conflict of interest and information asymmetry.

There are two key problems arising from information asymmetry: adverse selection and moral hazard.

Adverse selection relates to problems about the agent’s suitability for the task due to imperfect information. The principal knows the nature of tasks that the agent has to perform successfully. However, in the situation of adverse selection, the principal has no complete information on the agent’s interests, ability or other capabilities, therefore, the agent may be

‘adversely selected’ due to deliberate misrepresentation of the agent’s characteristics (Barney and Ouchi, 1986).

For example, in the relationship between the government and higher education institutions, the problem of adverse selection may be produced when the government wishes to select a university to carry out a research program. In this situation, higher education institutions have to compete against each other for scarce governmental funding. As a result, they might be tempted to act opportunistically and deliberately exaggerate their true abilities. Due to information asymmetry, the government cannot detect easily these behaviours and may not manage to select the best university to carry out the research.

Agency theorists have proposed two approaches to mitigate the problem of adverse selection. One is through different forms of pay (Milgrom and Roberts, 1992). Principals can affect the type of agents by the form of contract they offer, because agents, who know their own ‘type’, will select the contract most beneficial to them.

For instance, low productivity agents will choose fixed salaries, whereas high productivity agents will choose piece-rate contracts. In the higher education scenario, individual academic staff will choose contracts differently. A high ability member of staff may choose a piece-rate research workload contract and get more pay, in contrast, a poor ability member of staff may choose a fixed research workload contract and get less pay.

The other approach is through ‘signaling’— a situation in which the principal can distinguish true information by receiving a ‘signal’ from the agent (Spence, 1973). For example, in a product market, a long and inclusive warranty can be regarded as a signal of selling a good quality product. And employers pay higher wages to holders of higher qualifications because

they expect these people to be of higher intelligence and diligence than those without them; for instance, the MBA certificate is a signal that the employee with MBA has more intelligence and diligence than others without one (Maglen, 1995).

In terms of higher education institutions, universities as agents may provide signals to their principals (the government) to indicate the university's academic quality. Signals of academic quality include research output, student enrolments, the number of senior academic staff, teaching facilities and infrastructure on the campus, and the position in league tables, which provide important information to convince the government that the university has high quality.

The other important problem caused by information asymmetry is *moral hazard*. *Moral hazard* refers the situation where the principal suffers from information difficulties in knowing how well an agent is working. The key causes of moral hazard are the divergence of interests between the agent's self-interest and the principal's preferences and the cost of monitoring the agent or verifying reported information.

As a result, the agent may not make a full effort to do the job as agreed in the contract or they may provide distorted information on work done with the aim of pursuing their own private interests at the principal's expense. Such a problem is also known as the agency shirking problem.

Agency shirking is also called agency loss, or bureaucratic drift. Shirking denotes any form of noncompliance by the agent and results from a conflict of goals (Elgie, 2002). For instance, in the higher education paradigm, due to information asymmetry, higher education institutions (agents) may shirk their responsibilities to the government (the principal), resulting for example, in inefficient utilization of government funding, bad performance in terms of

national tasks on teaching or research; also academics may shirk their responsibilities by providing poor quality teaching, or being late for lecturing.

There are almost always some conflicts between the interests of the principal and the agents, because of diversified interests and scarce resources. As Kiewiet and McCubbins (1991, p. 5) argue, agents “behave opportunistically, pursuing their own interests subject only to the constraints imposed by their relationship with the principal”.

Whilst the adverse selection problem is perhaps less important, the problem of moral hazard is a more frequently encountered problem for the principal. The question of how to overcome moral hazard is discussed next.

2.3.2 Three incentive instruments

Faced with the agency problem of moral hazard, one solution is to design an optimal contract to provide the best incentive for the agent on its ‘effort, creativity, care, diligence, loyalty’ (Milgrom and Roberts, 1992).

However, in the absence of perfect information and bounded rationality, the principal is unable to specify all obligations of the parties in any circumstance; therefore, the contract is incomplete (Windram, 2005).

There are two basic options for the principal to control moral hazard according to the agency literature: the principal can either try to obtain information on the agent’s behaviours by investing in controlling procedures or they can contract on the outcomes of the agent’s behaviours (Eisenhardt, 1985; Kivistö, 2005). In general, there are three key incentive instruments used to mitigate moral hazard as follows:

1) Authority

Based on rewards or penalties, the principal applies a monitoring procedure with the intention of decreasing the agent's probability of getting away undetected with self-interested behaviours. So, various administrative and oversight procedures can be adopted by the principal to limit the scope of an agent's activities and control the frequency of the agent shirking (Pollack, 1997).

Administrative procedures can exert an ex ante control of the agent's behaviours. This can be done by defining the legal instruments to the agent and the procedures which the agent must follow. For example, the principal can specify the job as they wish and make various policies on working rules, working hours and other specifications to restrict the agent's work freedom, and reward obedience.

Oversight procedures are an ex post control of agent's behaviours associated with oversight such as checking-out records, reporting requirements or 'red-tape' procedures, and sanctions including budget control, legislative actions against the agent and the power to dismiss the agent (McCubbins and Schwartz, 1984; Elgie, 2002).

But sometimes granting autonomy to the agent can provide vital motivation for the agent when the agent has the best information and expertise concerning what to do and how to do it (Baron and Kreps, 1999). For example, the government gives more freedom to universities, because universities have on-the-spot information and they can react quickly in response to the needs of student or society.

Also, autonomy on the job can make the agent feel more in control of the work and increase job commitment. Therefore, providing substantial autonomy to the agent is an effective incentive method.

2) Rewards

Where monitoring the agent's behaviour is impossible or too costly for the principal, the principal can reward the agent according to outcomes as a proxy of the agent's behaviours.

The rationale of applying outcome-based contracts is that, the amount and quality of the agent's efforts are difficult to monitor directly, whereas the results of these efforts may be easily observed or measured directly. Therefore, the principal can motivate the agent to work harder or better by means of rewarding these outcomes.

Pay for performance is a very effective and powerful approach to provide incentives for the agent's best efforts, when outcome-based performance can be measured easily and accurately reflects these efforts. There are various reward schemes designed to motivate the agent based on his or her performance, such as using piece-rate compensation in the factory or sales production, where the agent is paid a fixed wage plus a certain amount per item produced. As Baron and Kreps (1999) argue, piece-rate is one of the most common and important examples of pay for performance.

Also, pay for performance includes incentive programs like gainsharing in which the agent is given rewards or a bonus according to cost reductions or productivity increases; efficiency wages, in which the agent is paid more than market-wage and pay for skill or knowledge, in which the agent is paid according to their valuable skills or knowledge (Baron and Kreps, 1999).

Performance evaluation is one of important issues in relation to pay for performance, which provides the necessary measurement for the agent's performance. Based on these evaluation results, the principal can reward the agent who produces better performance, and performance rewards become possible.

3) Asset ownership

The concept of asset ownership refers to the legal right to make any decisions concerning the asset's use and receive any net income from the use of assets (Milgrom and Roberts, 1992). Changing asset ownership patterns can produce very effective incentives to create, maintain and improve assets. As North and Thomas (1973) argue,

“Economic growth will occur if property rights make it worthwhile to undertake socially productive activity” (North and Thomas, 1973, p. 8)

There are many examples of the effectiveness of ownership. For instance, people usually take better care of their own cars than rental cars. Therefore, when the agent uses a non-specific asset to produce marketable output, ownership of the asset can motivate the agent to maximize the value of asset, as long as the risk of managing the asset is not too costly to bear. Hence builders usually own their own small items of equipment such as trowel and in consequence look after them carefully. But if the asset is highly specific, unified ownership is a better way to cope with hold-up problems arising from information asymmetry. The extreme example of this is where the principal eliminates the agent to do the work himself.

The ownership incentive is often associated with the use of performance-based pay. For example, when the principal owns the asset and performance is easy to measure, if the principal uses outcome-based pay to motivate the agent to work hard, the value of the asset

can be rapidly reduced because the agent will overuse the asset to produce more products and gain more pay.

By contrast, when the agent owns the asset, pay for performance cannot be an effective motivation method, because the agent may use the asset very cautiously and pay much attention on asset care and improvement, instead of producing more products.

Therefore, the question arises of how to choose the best incentive method to motivate the agent to act in accordance with the principal's wishes?

A multi-criteria incentive scheme is a solution that enables the principal to design an optimal contract (Baron and Kreps, 1999). In the analysis of multi-task principal and agent model, Holmstrom and Milgrom (1994) point out that there is a danger of relying on only one incentive method for the agent, because

“Increasing the incentive for just one task could cause a worker to devote too much effort to that one task while neglecting other aspects of the job, and that increasing incentives for all of the agent's activities avoids that cost” (Holmstrom and Milgrom, 1994, p. 973)

As a result, the principal might design a multi-task-based incentive contract, including job freedom, contingent rewards and asset ownership. The optimal incentive scheme should make the agent balance their attention across different tasks in a way the principal wishes (Holmstrom and Milgrom, 1994).

For example, weak incentives for maintaining asset values will go with weak incentives for narrowly measured performance and significant restrictions on worker's freedom, which indicates hierarchical arrangements; on the other hand, market arrangements will use strong

incentives for maintaining asset values, strong incentives to productivity and a high level autonomy.

To sum up, compared to transaction cost economics, principal-agent theory directs more attention towards incentive costs instead of coordination costs with the aim of minimizing transaction costs in economic activities and different incentive schemes will provide various incentives for the agent to work efficiently. The consideration of minimizing incentive costs among different incentive instruments will also have implications for governance structure.

2.4 Hybrid governance and a three-dimensional governance model

The analysis of hybrid governance has become of intensive interest for many scholars since the 1990s. The main reason for this is an increasing awareness of the existence of unconventional organisational forms, which do not fit neatly into traditional dichotomy of market versus hierarchy, for example, supply chain systems, franchising and partnership. Therefore, the question of how to categorise these structures in relation to market and hierarchical forms of organisations has led to a range of analyses of hybrid governance by many researchers around the world.

2.4.1 Empirical studies on hybrid governance

Regarding the analysis of hybrid governance in the literature, there is an argument about whether hybrid governance is simply “a matter of difference in degree or a more fundamental difference in type” in comparison with market and hierarchy (Makadok and Coff, 2006, p. 3).

In order to draw comparisons between different governance structures, the relevant attributes of governance structures have first to be identified. As Makadok and Coff (2006) have argued, markets and hierarchies can be seen as differing in several dimensions. Authority, incentive and contract law are the three attributes of governance structure in the analysis of Williamson (1991), and asset ownership, contingent rewards and job restrictions are the three incentive-based elements of governance structure in the analysis of Holmstrom and Milgrom (1994). Given these dimensions, distinguishing the forms of market and hierarchy from each other, hybrid governance can be analysed from different perspectives.

In discussing how hybrid governance could be distinguished from other forms of governance Makadok and Coff (2006) contrasted a difference in degree with a difference in type. As they suggested, if hybrid governance is seen as a difference in degree along a market-hierarchy dimension, then all the attributes of governance structure would change in the same direction together with movements along this dimension. Hybrid governance is then located within the same structure as market and hierarchical governance, and the key difference between market, hybrid and hierarchy is the levels of all dimensions in the governance model. Many theoretical studies on hybrid governance take this approach, for instance, Williamson (1991) and Hennart (1993).

The first and influential studies on hybrid governance are from Williamson (1991, 1996). From a transaction cost economics viewpoint, Williamson discusses how to alter governance structures so as to minimise transaction costs and improve efficiency of transactions. In his paper *Comparative Economic Organization: the analysis of discrete structural alternatives*, he first pointed out that markets and hierarchies are “polar opposites” and “the hybrid mode is

located between the two of these” (Williamson, 1991, p. 281). The main characteristics of the hybrid form are,

“semi-strong incentives, an intermediate degree of administrative apparatus, displays semi-strong contract law regime... As compared with the market, the hybrid sacrifices incentives in favour of superior coordination among the parts. As compared the hierarchy, the hybrid sacrifices cooperativeness in favour of greater incentive intensity” (Williamson, 1991, p. 281-283).

Some agency-theoretic scholars drew similar conclusions on hybrid forms. Hennart (1993) identified hybrid institutions as “in a swollen middle between markets and firms” to minimise ‘cheating costs’ and ‘shirking costs’. Likewise, Holmstrom and Milgrom (1994) developed the multi-task model and argued that governance structure would be altered according to the movements of three incentive instruments: asset ownership, contingent rewards and job restrictions.

According to Homstrom and Milgrom’s (1994) analysis, when the performance of the agent is easy to measure, a more market orientated governance structure will be preferred with strong output-based incentives. When the performance of the agent is hard to measure, the agent’s optimal incentives will go with a hierarchical governance structure. In addition, Homstrom and Milgrom emphasised, “theories...that explicitly recognise connections between [incentive] instruments and activities, offer new promise to explain the richer patterns of actual practice” (Holmstrom and Milgrom, 1991, p. 51).

Mokadok and Coff (2006) contrast the above difference in degree with a difference in type that suggests that, hybrid governance is a substantially different structure compared with market and hierarchy, and that the attributes in hybrid governance can move in different

directions instead of changing together in the same direction with movements along a broad market-hierarchy dimension.

The theoretical work on this kind of hybrid form is scarce. Most analyses derive from empirical studies. For example, Powell (1990) regards the network form of organization as one distinct hybrid form, including publishing, Silicon Valley, commercial aircraft, and outsourcing. These organisations cannot locate simply on the market-hierarchy continuum. Franchising is another example, studied by Dnes (1996), which is a different arrangement from market and hierarchical arrangements, and which brings hierarchical characteristics to market type of transactions.

More recent and comprehensive theoretical analyses on hybrid forms are developed by Ménard (1996, 1998, and 2004) and Makadok and Coff (2006), which are illustrated as follows.

Based a number of empirical studies on multilateral structures without unified ownership, Ménard (2004, p. 368) argues that hybrid organisations “form a specific class of governance structures”, including subcontracting, franchising, networks, cooperatives, alliance and the like. More importantly, he identified the key characteristics of hybrid arrangements as ‘pooling’, ‘contracting’ and ‘competing’. Although these features are all presented in markets and hierarchical arrangements, hybrid arrangements are “rooted in *a mix of competition and cooperation* that subordinates the key role played by prices in markets and by command in hierarchies” (Ménard, 2004, p. 353, emphasis added)

Along the same line with transaction cost economics, Ménard points out that mutual asset-specific investment and uncertainty are key determinants of hybrid arrangements, and the

specific form of hybrid arrangements need to be “aligned with the properties of the transactions they are dealing with”. As he summarised,

“hybrid arrangements develop when specific investments can be dispatched among partners without losing the advantages of autonomous decisions, while uncertainties are consequential enough to make pooling an advantageous alternative to markets...Thus the combination of specific assets and of consequential uncertainties generates opportunistic behaviour and miscoordination, determining the mode of hybrid chosen.” (Ménard, 2004, p.360)

Although Ménard in his work makes significant progress in understanding the nature and characteristics of hybrid forms, there are some flaws with his analysis.

Firstly, Ménard considers hybrid forms as a mixed structure of markets and hierarchies and develops a theory to explain when a particular hybrid form might be selected, but the theory is derived mainly from a range of case studies and some special cases might be missed out, which indicates the whole theoretical analysis is incomplete, as he says “the typology of hybrid forms is not well established yet” (Ménard, 2004, p. 370).

Secondly, Ménard’s analysis of hybrid forms is built on cases ‘with ownership remaining separate’, and so it is unclear whether hybrid forms would exist with unified ownership. If this is so, this also means some hybrid forms would be ‘ignored’ in his analysis.

Thirdly, Ménard supports the view that asset specificity is important variable for selecting the type of hybrid arrangement, and however, the issue of how to decide specific hybrid form in accordance to the level of specificity of assets is still an open question in Ménard’s analysis.

As well as the analysis of hybrid forms from Ménard, Makadok and Coff (2006) also treat hybrid governance as different type compared to market and hierarchy, as noted above, and

they develop an analysis of hybrid forms with a multi-task synergy theory, which provides a different approach to understanding hybrid governance.

In Makadok and Coff's analysis, hybrid forms are defined as "strongly market-like on some dimensions while also being strongly hierarchy-like on others" (2006, p. 5). Borrowing ideas from Holmstrom and Milgrom's multi-task principal-agent model, Makadok and Coff (2006) argue that varying the level of incentive instruments independently will generate different governance forms, and the optimal governance structure will produce a better balance across these instruments. In particular, asset ownership, incentives for productivity and formal authority towards the job are highlighted as key dimensions of governance structure in their analysis.

Taking these incentive instruments as three dimensions, Makadok and Coff (2006) establish a cube model to classify different forms of governance structure, including: pure hierarchy; empowerment/self-governance; piece-rate/profit-sharing; autonomous profit centres; relational contracting; consortium/open-source; franchising; and pure market, each is separately represented by eight angles of a cube (p. 14-17).

The model represented in Makadok and Coff's analysis investigates hybrid governance plausibly and practically, as Makadok and Coff argue, "they offer a clear distinction between hybrid forms and intermediate forms which was blurred in the literature" (p. 35). More importantly, it emphasises the importance of considering cross-task synergies as a key factor in choosing the type of governance form. For example, a hybrid form of *empowerment* or *self-governance* can be seen as combining weak productivity incentives with high autonomy and principal-owned assets (Makadok and Coff, 2006, p. 33).

However some questions can be raised in relation to Makadok and Coff's analysis. Firstly, there are only six hybrid forms in the analysis of Makadok and Coff (2006), and it can be argued that the range of hybrid forms could be extended to reflect the complexity of the reality. Secondly, there is no clear explanation for the use of three instruments in Holmstrom and Milgrom's (1994) approach to conduct the analysis of hybrid forms, and the question may arise, why not select the three attributes of governance structure in the analysis of transaction cost economics?

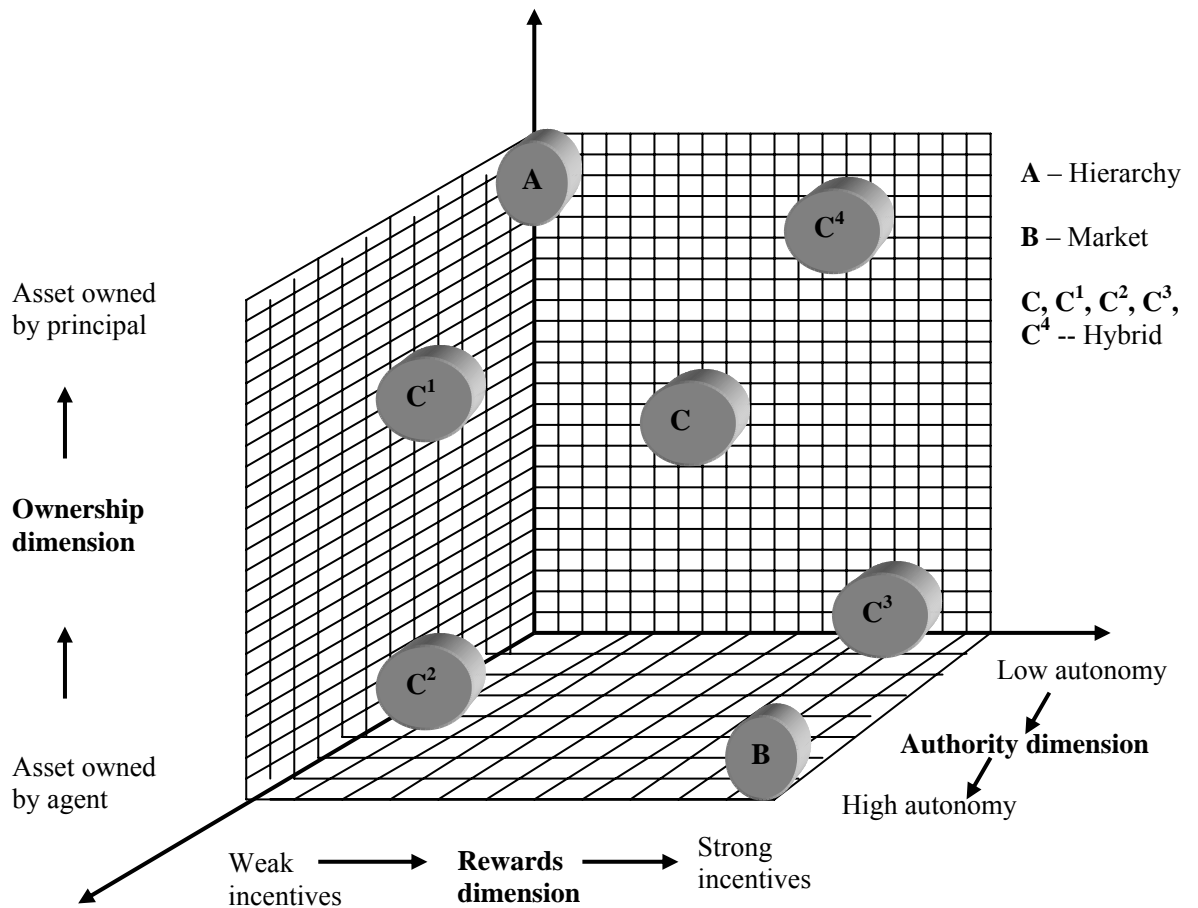
2.4.2 A three-dimensional governance model

Based on these empirical studies above, a more generalised model of governance structure is developed from an agency approach in this research. The reason for applying principal-agent theory to analyse governance structure is that, on the one hand, incentives are the key problem of traditional hierarchical governance in the public management, on the other hand, the model developed will be used to analyse public sector practice. As a result, it is reasonable to use the incentive-based agency approach, instead of transaction cost approach to analyse governance structures in this study.

Building on the analysis of incentive instruments in principal-agent theory and Makadok and Coff's model, a three-dimensional governance model is therefore established by this thesis to analyse market, hybrid and hierarchy governance structures in the public management. The model is illustrated in **Figure 2.1**, which is essentially the same as Makadok and Coff's (2006, p. 43) Figure 1 model. However, in Chapter 3 this thesis modifies the model to apply to higher education sector by replacing the ownership dimension with an academic power dimension. The three dimensions of governance structure are:

The *authority dimension* is associated with a behaviour-based contract, which mainly reflects the extent to which the principal sets and enforces rules for the agent's activities including working hours, working methods, or the agent's outside activities. In this model, at one extreme, the principal has complete control over the agent's activities when the agent works as employee of the principal; at the opposite extreme, the agent can freely work without supervision, as an arms' length market contractor.

Figure 2.1 Market-Hybrid-Hierarchy Governance Model



The *rewards dimension* is associated with an outcome-based contract, which indicates how strongly the incentive system rewards productivity output. Different rewards systems produce different levels of motivation. Very weak incentive systems will use a fixed wage or standard

salary with no contingent compensation for productivity. On the other hand, very strong incentive compensation schemes will engage in different approaches of pay for performance, such as piece-rate payment, pay for skill and knowledge, efficiency wages or gainsharing. Funding reductions and market competition for Chinese universities can be seen as elements of market rewards system to provide very strong incentives.

The ownership dimension is associated with distributing asset ownership, which refers to whether the key assets used for production are owned by the principal or by the agent. Different asset ownerships provide different incentives for production. For instance, people take better care of their own home than a rental property. In this model, at one extreme, productive assets can be completely owned by the agent, when the agent is an independent contractor; at the opposite extreme, productive assets can be totally owned by the principal, when the agent is an employee of the principal.

In **Figure 2.1**, the top-left-rear side ball **A** represents the hierarchical model; the low-right-front side ball **B** represents the market model; and apart from these hierarchy and market structures, any location within the graph is a form of hybrid governance. For example balls **C**, **C¹**, **C²**, **C³**, and **C⁴** are different forms of hybrid governance.

In this three-dimensional governance model, market governance is characterised by strong productivity incentives, agent-owned assets and high level autonomy; on the other hand, hierarchy governance is characterised by weak productivity incentives, principal-owned assets and low autonomy. Apart from these two traditional governance forms, hybrid governance is a mixture of different level of authority, rewards and asset ownership. Any structures in the governance model with different level of productivity incentives and autonomy, and sharing ownership of assets between the agent and the principal, are all hybrid forms of governance.

The difference between the new governance model presented here and Makadok and Coff's model is that the model in this chapter views all mixes of different levels of authority, rewards and ownership as being forms of hybrid governance, including the six forms in Makadok and Coff's model, therefore, this model takes a more extensive view of hybridity.. Also, hybrid forms in this new governance model are more complex than those in Ménard's studies, because hybrid forms can have unified ownership or separate ownership, and comprise more cases which may not be included in Ménard's analysis.

As discussed in the introduction chapter, market arrangements contain very strong productivity incentives, but cheating behaviours persist; and hierarchical arrangements have very strong authority to control cheating problems, however bureaucratic shirking and incentive problems may increase; as the mixture forms, hybrid arrangements have both the advantages of market and hierarchy, and hybrid forms can also overcome both the problems of cheating and shirking.

Compared to market arrangements, hybrid arrangements can mitigate problems of cheating behaviours by employing certain administrative controls, for example, setting up job responsibilities, and sanctions; compared to hierarchy arrangements, hybrid arrangements can mitigate problems of incentives and shirking behaviours through three key incentive methods, including distributing ownership of asset, reducing authority or increasing autonomy and creating rewards system. Therefore, under certain circumstances, hybrid arrangements can offer a much more efficient way to organise transactions than market and hierarchy arrangements.

The basic principle for selecting a hybrid model of governance is to minimise transaction costs and improve the efficiency of transactions in the best way, which is consistent with the

analysis of transaction cost economics. As Holmstrom and Milgrom (1994) suggest, the optimal governance form would be the better location of the agent's attention across incentive instruments with the aim of minimising transaction costs as a whole.

2.5 Conclusion

The transaction cost is the basic unit discussed in transaction cost economics, which is associated with coordination costs and incentive costs. From a coordination cost perspective, transaction cost economics provides an analysis on the issue of how different governance structures affect the costs of transactions. And it has been argued in transaction cost economics that changing the governance structure according to the nature of transactions can minimise transaction costs and improve efficiency in transactions (Williamson, 1985).

In contrast, principal-agent theory provides an analysis of governance structure from an incentive cost perspective. The key issue addressed in principal-agent theory is that of how to design an effective incentive system to motivate the agent to act in the way which best meets the principal's interests.

Principal-agent theory suggests that the way of locating different incentive instruments can change governance structure correspondingly (Holmstrom and Milgrom, 1994). There are three key incentive instruments recommended by the agency literature, including authority, rewards and asset ownership.

Based on the analysis of incentives in principal-agent theory and the empirical studies on hybrid governance, a more generalised three-dimensional governance model is established in

this chapter to analyse market, hybrid and hierarchy governance in relation to three incentive instruments in the public management. In this governance model, hybrid governance is defined as a mixture of different levels of authority, rewards and asset ownership, which is a different type of governance structure from market and hierarchy.

Combining both the advantages of market and hierarchical governance, hybrid governance uses three incentive methods to control cheating problems in market governance and to overcome incentive and shirking problems in hierarchical governance. These three incentive methods are reducing authority, creating rewards and distributing asset ownership. Therefore, under certain circumstances, hybrid governance can organise transactions in a much more efficient way than market governance and hierarchical governance.

New Public Management has become a world-wide movement in the public sector across countries since 1980s. The key theme advocated by New Public Management theorists is to employ market-based approaches to restructure the public sector (Hood, 1991). The questions of how this incentive-based governance model can be used to analyse hybrid governance in the NPM reforms in the public sector and in the marketisation reforms in higher education institutions are the key issues discussed in next chapter.

CHAPTER 3 NEW PUBLIC MANAGEMENT, HYBRID GOVERNANCE AND HIGHER EDUCATION

3.1 Introduction

The previous chapter provided a theoretical analysis of hybrid governance through an incentive approach and established a three-dimensional governance model based on three incentive instruments: authority, rewards and asset ownership. This chapter will present an analysis of changes of governance structure in the public sector in the New Public Management and in the marketisation of higher education in particular.

The first part of this chapter focuses on the issue of how hybrid governance replaces traditional hierarchical governance through incentive-based reforms in the New Public Management, including reducing state authority, creating market rewards and distributing asset ownership.

The second part of this chapter discusses a three-dimensional governance model in the higher education sector and provides an analysis of hybrid governance in the marketisation of higher education, which is associated with the three incentive methods: reducing state authority, enhancing academic power and creating market rewards.

Chapter 3 provides an important component of the whole thesis. It establishes not only a link from a pure theoretical work to the empirical experience of public sector reforms, including higher education institutions, but also a link from a general analysis of higher education changes to the analysis of Chinese higher education reforms.

3.2 Hybrid governance in the public sector

3.2.1 New Public Management in the public sector

Through the 1980s to the present, public sectors in most industrialised countries have been experiencing significant reforms around a trend known as ‘New Public Management’ (Hood, 1991) or managerialism (Pollitt, 1990), ‘New Public Financial Management’ (Guthrie, et al., 1999) and ‘Performance Management’ (Bouckaert and Halligan, 2006).

By introducing a heavy dose of economic models and tactics into public management, NPM has been seeking an appropriate way to replace bureaucratic authority with economic incentives, which is often regarded as ‘a transformation of public sector’ (Hughes, 1994). More importantly, NPM suggests a new approach to manage public service and presents a new model of governance in the public sector.

Hood (1991,1994,1995) identified seven underlying doctrines of NPM as follows: (1) unbundling of the public sector into corporatized units organized by product; (2) more contract-based competitive provision, with internal markets and term contracts; (3) stress on private-sector styles of management practice; (4) more emphasis on visible hands-on top management; (6) explicit formal measurable standards and measures of performance and success; and (7) greater emphasis on output controls (Hood, 1995, p. 96).

As discussed earlier, the traditional pattern of public service delivery is only by the state through large bureaucratic organizations. The main arguments against state provision of public services focus on the incentive problem and the resource allocation efficiency problem (Hughes, 1994; Walsh, 1995). As Jones and Kettl argued,

“governments are inefficient, ineffective, too large, too costly, overly bureaucratic, overburdened by unnecessary rules, unresponsive to public wants and needs, secretive, undemocratic, invasive into the private rights of citizens, self-serving, and failing in the provision of either the quantity or quality of services deserved by the taxpaying public” (Jones and Kettl, 2003, p. 1).

Although market-driven solutions and business techniques are strongly encouraged by New Public Management, through competition and price mechanisms, free market is not perfect, there is ‘market failure’. Therefore, public services have not moved entirely to free market provision, instead the public service market is ‘managed’ (Hoggett, 1994). As Dollery put it,

“Rather than being a pure choice between markets and governments, it is often a choice between different combinations of the two, and different degrees of one or another mode of allocating resources” (Dollery, 1994, p. 229).

Has the movement towards market approaches changed the traditional hierarchical structure in the public sector? What are main characteristics of new governance structure presented in NPM? And what are differences of this new governance from traditional hierarchical governance and market governance?

Before answering these questions, it is necessary to know firstly what the new role of the government is in the New Public Management, because this is the key to understanding what kinds of actions have been taken by the government to reform the public sector. In this part, the new role of the government is discussed and main reforms will be explored in following part and then based on the analysis of governance literature (see Chapter 2), the location of the new governance structure during New Public Management will also be delineated in the next section.

In contrast to the old welfare state model characterised by hierarchy, planning, direct control, centralisation and self-sufficiency (Walsh, 1995), New Public Management advocates have argued that bureaucratic government needs to be ‘reinvented’ (Osborne and Gaebler, 1992), but ‘what governments do’ is more complex than it seems (Minogue, 1998).

‘Entrepreneurial government’ is the most distinctive model identified by Osborne and Gaebler (1992) in *New Public Management*, which emphasises government ‘steering rather than rowing’, in other words, separating policy decisions from service delivery. Under limited resources and competing demands, government steering aims to consider the whole range of relevant issues and possibilities and seeks the best way to achieve targets. On the other hand, rowing puts more focus on one specific mission and aims to perform this mission well with minimum costs.

As Osborne and Gaebler summarised, there are ten characteristics of entrepreneurial government as following:

“Most entrepreneurial governments promote competition between service providers. They empower citizens by pushing control out of the bureaucracy, into the community. They measure the performance of their agencies, focusing not on inputs but on outcomes. They are driven by their goals--- their missions--- not by their rules and regulations. They redefine their clients as customers and offer them choices... They prevent problems before they emerge, rather than simply offering services afterward. They put their energies into earning money, not simply spending it. They decentralise authority, embracing participatory management. They prefer market mechanisms to bureaucratic mechanisms. And they focus not simply on providing public services, but on catalysing all sectors-- - public, private and voluntary--- into action to solve their community’s problems” (Osborne and Gaebler, 1992, p19-20).

Hoggett (1994) made a similar point. He argued the role of government would shift from direct control to 'steering at a distance' or 'remote control'. As he put it,

“It’s not so much devolved control as ‘remote’ control which appears to be superseding bureaucratic control as the preferred method of regulating institutional life....Wherever you look now in the welfare state, semi-autonomous units appear to be springing up. Give managers and staff control over resources, make them accountable for balancing the books, add a framework of performance targets, and perhaps a few core values and mission statements, finally add a dash of competition and there you have it--- a disaggregated, self-regulating form of public service production” (Hoggett, 1994, p. 45).

3.2.2 Enhancing incentives in the public sector

As discussed in principal-agent theory in Chapter 2, in a complex environment and in the presence of information asymmetry, the incentive problem is a key problem in traditional hierarchical arrangements for public service. Therefore, the question of how to motivate public managers to act as the government requires is a key issue considered in New Public Management.

Based on the principal/agent literature, there are three key incentive instruments to motivate public managers, namely, reducing state authority or increasing institutional autonomy; creating market rewards and distributing asset ownership. These methods have been discussed in detail in Chapter 2. New Public Management has used each of those three instruments to restructure public sector and provide strong incentives for public managers with the aim of improving efficiency and accountability in the public sector. The main incentive-based reforms taken in NPM are demonstrated briefly as follows:

Reducing state authority through decentralisation

Decentralisation in public management and increasing institutional autonomy, as a means of effectively and efficiently managing the public sector, constitutes one of the essential aspects under the NPM. As Rhodes (1997) asserts that a large degree of autonomy from the state is one distinctive feature in NPM.

Poor government performance has been argued to be the result of the traditional bureaucratic system with burdensome rules, controls and procedures. Hence, to improve public services and achieve better results, it is suggested in NPM that public managers must be freed from senseless red-tape and allowed to manage internal issues freely, for instance, procurement, human resources management and budgeting (Walsh, 1995).

In practice, because the new environment has become more complex and competitive than before, and the government is not capable of evaluating all conceivable consequences and alternatives objectives in time, as a remedy, the best solution for the government is to empower public managers with operational freedom to self-manage, and at the same time employ various market approaches, such as, contract, competition, performance monitoring, and regular evaluations to 'steer' independent institutions. These new ways will help government deliver public service and operate public sectors in a much more efficient way.

Deregulation is a vital tool to free tight control over the public sector, and is associated with three aspects with regard to public service in NPM, including delegating more decision-making power to public managers, increasing customer choice and allowing private sector to compete with public sector (Minogue, 1998).

On the other hand, new forms of regulation are required which are compatible with the new 'steering' role of government in the course of public management reforms, for instance, setting quality standards for public services, exercising financial audit, and writing performance contracts (Hughes, 1994). The key concern of new regulations in NPM is to establish a link between spending and performance, 'value for money', which is generally labelled as 'performance auditing' (OECD, 1996).

Creating market rewards through competition

In order to improve public performance and provide result-oriented accountability, New Public Management strongly advocates restructuring public service by means of the application of market-based logic and the private sector management to the public management.

Bringing competition into public service is at heart of New Public Management, as Peters and Pierre (1998) argues, without competition there is little point to changing managerial style in the public sector (p. 230).

Based on the neoclassical belief in the efficiency of the market, NPM developed competitive markets between the public and the private sectors and within the public sectors, to promote efficiency in the public sector and make public sector agencies more consumer-responsive. As Terry (2005) asserts, in the realm of market-driven management, competition is a proven strategy to make managers manage.

Borrowing managerial skills from the private sector and employing professional managers are the main practical methods used in New Public Management, with the aim of increasing

continuous efficiency (Pollitt, 1990) and allowing the public sector to ‘do more with less’ (Hood, 1991).

In a competitive market, managers in the private sector need more skills to promote the survival and advancement of their organizations to survive. Therefore, learning from private counterpart, public managers are expected to be ‘enterprising modern managers’--- innovators and risk-takers (Minogue, 1998).

At the same time, market mechanisms such as reducing government funding, charging fees, privatisation, and contracting out public service are adopted widely in the reforms of state bureaucracy and to create competition pressures and provide strong incentives for public managers (Walsh, 1995).

One thing worthy of note is that the adoption of privatisation, which involves the transfer of ownership of assets and production of goods and services from the public to the private sector (Starr, 1990), has not only become a vital government strategy to create competition for the public sector and to improve public service, but also it has shifted the public service boundary away from the state and towards the private sector, and redistributed ownership of the previous state-owned assets between the public and the private. For example, the sale of public assets or services like electricity and telecommunication, the introduction of corporate management in the public sector or out-sourcing of public service to the private sector (Meek, 2000).

Strengthening state quality control through performance management

Under decentralised operational management, there are some potential dangers, such as organisational narrowing behaviours, lower level of performance, and cutting links between

related activities through resource and purchasing contracts. Therefore, many governments have extended the development of performance management to exert quality control and make public sector managers accountable in New Public Management.

Performance management has become a key factor in public sector reforms in many OECD countries over the last decade. As Radin (2000) describes, “if there is a single theme that characterises the public sector in the 1990s, it is the demand for performance. A mantra has emerged in this decade, heard at all levels of government, that calls for documentation of performance and explicit outcomes of government action” (p. 168)

The implementation of performance management varies in different countries. In Finland, the development of performance management is very decentralised with few or no formal requirements from the ministries, but New Zealand on the other hand, is a rare example of strictly top-down approach to exerting planned and comprehensive change in performance management. In Canada, within an environment of severe budget cuts, departments have become more involved in self-assessment by evaluating their performance. By contrast there are numerous and complex reporting systems developed in the performance auditing management in Australia. The UK approach to performance management is more comprehensive and covers a large part of public sector. Through the Next Steps (1988) and the Citizen’s Charter (1991) reforms, the British government has initiated centrally performance management to the independent institutions (OECD, 1997).

Coupled with performance management reform, developing rewards-based incentives and sanctions schemes to improve performance were strongly encouraged in the New Public Management too (Hoggett, 1996). As Hood demonstrated,

“We might try to design a framework of rules that reward public service producers for meeting the preferences of consumers and punish them for not doing so, rather than giving the producers the job of deciding as trustees what beneficiaries ought to want in the way of quality, quantity and cost of services provided” (Hood, 1986, p. 170).

Performance-related pay, non-pay benefits such as private medical insurance, company cars and individualised contracts of employment all are effective methods applied to the new public management with the aim of motivating public services managers efficiently. There is a strong belief advocated in NPM that rewards high performance by paying them more, and giving them larger salary increases and bonuses than other staff, helps focus attention on achieving objectives, improves performance and encourages “a more decisive, competitive and perhaps aggressive and entrepreneurial spirit” (Murlis, 1987, p. 29).

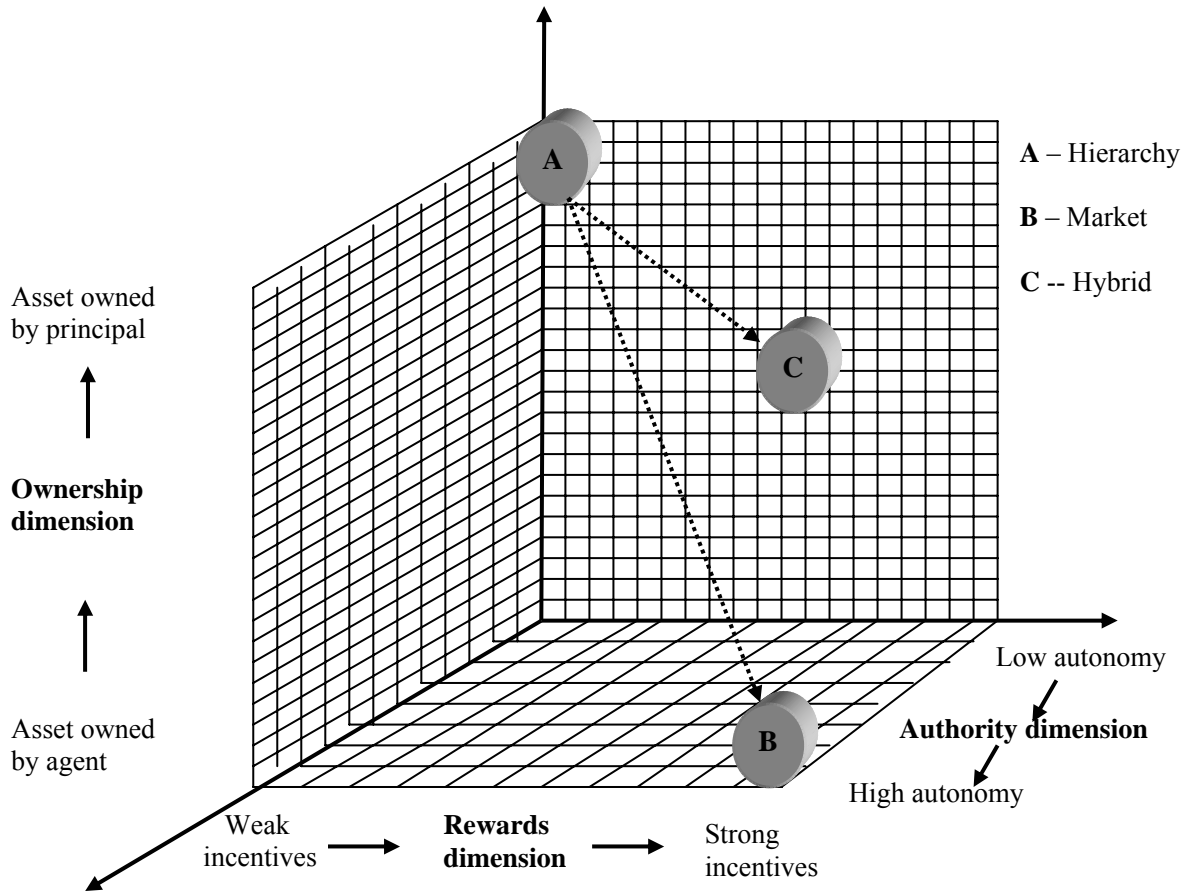
Two-thirds of OECD countries have developed performance-related pay to provide financial rewards for improving public service in their performance management systems. Examples include, Denmark where employees share productivity surpluses, there is performance-related staff awards in Australia, the Ministry of Finnish has developed a group-based productivity bonus system which is closely linked to performance, and various performance pay arrangements have been used in United States, including cash rewards, merit pay, bonuses and sharing of productivity gains (OECD, 1997).

3.2.3 Changing hierarchical governance to hybrid governance

According to the market-hybrid-hierarchy governance model elaborated in Chapter 2, after incentive-based reforms, New Public Management has shifted governance structure in the public sector from traditional hierarchical governance to the new hybrid governance shown in

Figure 3.1.

Figure 3.1 The Movement towards Hybrid Governance in NPM



As **Figure 3.1** shows, the top-left-rear ball **A** locates a traditional hierarchical governance structure, which is characterised by weak incentives and strong authority, assets are owned by the government. The bottom-right-front ball **B** locates a market model with strong incentives, strong autonomy and assets owned by the agent. Apart from these two traditional models, any form with different levels of authority and incentive, sharing assets between the principal and the agent is the hybrid governance. For example, the middle ball **C** represents one of hybrid governance.

There are two points worthy of note in relation to hybrid governance in New Public Management. The first is that the term ‘hybrid governance’ refers to the typical hybrid

governance form, which combines different levels of state authority and market rewards and sharing asset ownership between the principal and the agent, shown as ball C in the governance model.

Secondly, when public ownership has been transferred from the public to the private (privatisation), the market model is produced. Outsourcing service to outside firms is another market-model example (Weikart, 2001). Also, combining authority, rewards and sharing assets ownership at different levels are the main characteristics of hybrid forms, and semi-private and semi-public organisations, public-private partnership are included in this type. However, some public organisations with pure public goods provision are still controlled by the state authority, for instance, national defence.

Therefore, there are three different governance forms working within New Public Management at the same time: the market model, the hybrid model and the hierarchical model, which is a picture of hybrid governance in the public sector. In line with transaction cost economics, the key purpose of selecting an optimal governance form is to minimise transaction costs as a whole.

3.3 Hybrid governance in the Marketisation of Higher Education

3.3.1 The three-dimensional governance model in higher education

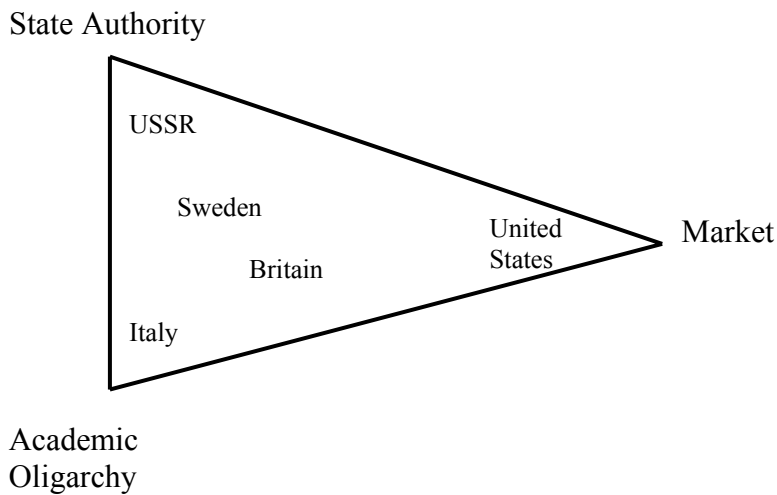
The governance of higher education institutions has been a topic of much debate and controversy in the West. Related to this, many questions have been discussed widely, for example, the purpose of higher education, the balance of government control and self-regulation, the tension between university autonomy and public accountability, and the nature of academic freedom, but the governance of higher education is a key issue.

Among the empirical studies on governance in higher education, most of them have analysed governance systems in general in relation to issues such as who determines the use of the resources in the universities in one specific country and how this is done, see Fisher, 1998; Meek and Wood, 1998; Marginson and Condine, 2000; Lyall, 2001; Dearlove, 2002. The discussion on different governance structures in higher education is very limited and this has provided a key drive for this research. The more influential works on modes of governance comparing systems across countries are illustrated here. First of all, it is the most often cited work: Clark's classic 'triangle' (1983a, see **Figure 3.2**).

As Clark has shown, the higher education system can be located within the three axes of market-like coordination, state-induced coordination, and academic/professional coordination. According to this model, there are three coordination forces: state authority, market and academic oligarchy.

State authority is engineered by government regulation, and it mainly refers to the efforts of government to steer the decisions and actions according to the objectives set up by the government (Neave and van Vught, 1994); academic oligarchy refers to the

Figure 3.2 The Triangle of Coordination



Adapted from Clark (1983), *The Higher Education Academic System, Academic Organization in Cross-National Perspective*, p. 143

situation where the chair-holding professors or a small-group of academics hold the main responsibilities of decision-making on finance, personnel, curriculum and research; as a mechanism of coordination, the market

“works without benefit of a superstructure: unregulated exchanges link persons and parts together.... Exchange is a basic form of interaction that stands in contrast to authoritative command; it can be seen as a method for organizing cooperation among people” (Clark, 1983a, p. 161).

Based on these mechanisms, Clark developed a triangular model that enables the location of different countries' higher education systems according to the way in which they combine the three mechanisms to different degrees. For example, the United States is a more market-like coordination system; the former Soviet Union is a more state-induced coordination system; the United Kingdom is more an academic oligarchy coordination system (Clark, 1983a).

Clark's triangle is a static model and provides a very useful approach to compare the higher education systems across countries (Williams, 1995). However, there is a much more

complicated situation in reality than Clark's analysis. For example, according to Van Vught's analysis (1989) on the state control model, coupled with strong state authority, there is a strong academic oligarchy deciding internal issues on university management, so it will be difficult to locate this system in Clark's model.

A more recent and widely referenced study of governance model in higher education is presented by Van Vught (1989). Van Vught presents two main models classified for different higher education systems across countries: the state control model and the state supervising model.

The state control model is also called the 'continental model', since it applies in higher education systems of the European continent and higher education systems in Africa too. In this model, the government takes charge of the behaviour of different actors involved in higher education system and at the same time supports them financially.

Through government regulation, state bureaucracy has strong explicit power and controls over nearly every aspect of higher education, including "the access conditions, the curriculum, the degree requirements, the examination systems, the appointment and remuneration of academic staff, etc." (Neave and Van Vught, 1994, p. 9).

In the state control model, there is a combination of powerful actors at the state level and in the academic community, the latter having considerable authority in the regulation of internal university affairs. Therefore, the power distribution of the state control model is characterised by a strong top (the state), a weak middle level (the institutional administration) and a strong bottom (the senior chair holders) (Clark, 1983a). Nevertheless, if the chair holders are

appointed by the government, it is obvious that state can exert a major influence on the higher education system (Neave and Van Vught, 1994).

The state supervising model is also called as ‘Anglo-Saxon’ model or ‘the American and British models’ (Clark, 1983a), because it applies in the U.S. higher education system and the British higher education system. In this model, government has much less influence on higher education than in the state control model. The main task for the state is to strategically control or supervise the higher education development, in order to assure academic quality and achieve accountability.

In contrast with the state control model, in the state supervising model, higher education institutions are entitled to more power and autonomy over decisions on internal affairs (Van Vught, 1989). And authority is divided between “a strong academic community and the internal administration of universities” (Braun and Merrien, 1999, p. 17). University presidents, deans and the Board of Trustees all have strong influences on university management. More importantly, each individual university and college is able to decide on its admission, curricula and hiring faculty issues.

‘Steering at a distance’ is a new strategy for the government to manage higher education in the state supervising model. There is no detailed regulation and strict control of government in higher education management, the government acts more like a supervisor and is “the actor who watches the rules of a game played by relatively autonomous players and who changes these rules when the game is no longer able to satisfy results” (Van Vught, 1989, p. 2).

With respect to Van Vught’s analysis, state and academics are the key players in the governance model in higher education system; there is less attention on the role of market

force. However, as shown by the United States' experience, the market does play a vital part in higher education management. Therefore the completeness of Van Vught's typology could be questioned.

Also, the United States and United Kingdom higher education systems are both seen as belonging to the state supervising model according to Van Vught's classification. However these two systems are different in that the US has a more market demand-driven system, and UK has a more academic interest-driven system.

Most governance analyses stay at the macro level; however, McDaniel puts more attention on different levels of governance in higher education internal management (McDaniel, 1996). McDaniel points out that the state, intermediary bodies or academic bodies may have various influences on five key issues in terms of internal management of universities.

These five issues are as follows: (1) finance issues: whether higher education institutions are allowed to borrow money; (2) general aspects of management: whether universities have freedom to sign contracts or the legal position of the university; (3) education matters: whether universities are free to decide the content of the courses; (4) personnel policy: whether universities are free to decide academic staff employment; (5) student affairs: whether universities can set up access criteria, and determine tuition fees.

Factoring university power with key internal issues, McDaniel provides five governance models: decentralised; predominately decentralised; intermediate; predominately centralised; and centralised. In this way McDaniel classifies the United Kingdom, the Netherlands and American States as the most decentralised countries; Italy, Switzerland and France are

predominantly decentralised countries; Germany is more centralised in determining university issues.

McDaniel's analysis not only provides a general classification of governance model through centralisation or decentralisation, but also takes different university practices into account. By doing so, anyone can see whether the decentralisation trend can be applied to all categories of university issues or whether there are diversities. Therefore, the whole picture of governance in each country can be delineated more precisely and the over or under-estimation of institutional autonomy would be avoided. However, this typology has the same weakness as most governance analyses, involving only two parties: state and academics. The role of market forces is missing in this analysis.

Braun and Merrien (1999) add the new managerialism as a new model in the governance account. Basing their analysis on Clark's triangle, Braun and Merrien develop a cube governance structure with three dimensions: a procedure dimension (tight or loose administrative control of universities by policy-makers); a substantive dimension (tight or loose government concern on academic issues); a belief dimension (university as a cultural institutions or public service institutions).

As a result, six governance models are constructed according to three dimensions: Collegium; Bureaucratic-Oligarchic; Market; New Managerialism; Corporatist-Statist; Bureaucratic-Etatist. In particular, the new managerialism model is characterised as "the mix of a considerable procedural freedom, a state which adheres to a more utilitarian stance and the willingness to direct more actively educational and research affairs in universities" (Braun and Merrien, 1999, p. 23). Braun and Merrien point out that the new managerialism has become the predominant model in the 1990s across most countries.

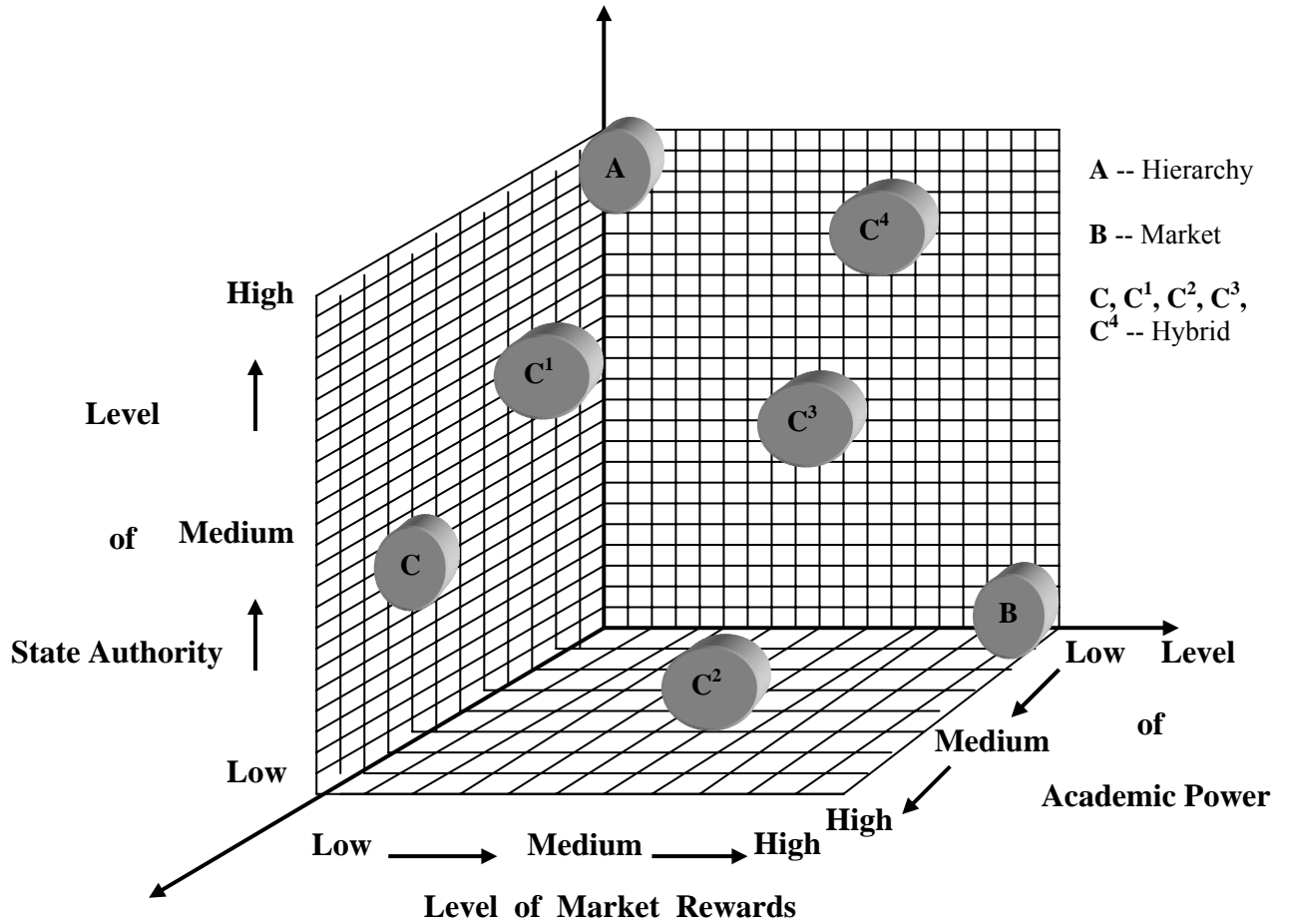
Braun and Merrien's taxonomy does provide a comprehensive picture to capture the real feature of governance structure in different higher education systems. However, in Braun and Merrien's model, strictly speaking, the procedure dimension and the substantive dimension still are the same dimension regarding state authority on different university issues. And the belief dimension on university function is not universal and strong enough as a coordinating force to classify university systems. Therefore, the basic logic of this typology is controversial.

But the focus of Braun and Merren's analysis on the new managerialism has shed light on reshaping a new model of governance structure on higher education institutions. As we know, the original meaning of governance is a co-ordination system and focuses on how to organise exchange efficiently among different parties. The new managerialism does not provide such a new coordination system, but it provides a new insight to put market forces into the state-oriented higher education governance structure.

More importantly, the new managerialism indicates a new way to coordinate higher education institutions-- a mixture of state authority and market force, and that is how hybrid governance works according to the analysis in this research.

Overall, most analyses of governance model above involve one dimension of state authority, see Van Vught (1989); McDaniel (1996); Braun and Merren (1999). There are three mechanisms in Clark's triangle, but a static analysis only. Based on the analysis of market-hybrid-hierarchy governance model in Chapter 2, and considering the effective elements of the Clark's triangle and McDaniel's decentralised analysis on internal university management, a new three-dimensional model on governance structure is developed for higher education institutions in this research (see **Figure 3.3**).

Figure 3.3 Market-Hybrid-Hierarchy Governance in Higher Education



In this governance model of higher education, there are three dimensions: *the state authority dimension*, which measures to what level, the government has power to decide university internal management issues; *the academic power dimension*, which measures the level of decision-making by university academics on internal management issues; *the market rewards dimension*, which measures how strongly market-like incentive system rewards university performance. Generally, these three dimensions are measured as a roughly, comparative approximation of the reality.

In the governance model, the top-left-side ball **A** represents the hierarchical structure with extremely high centralisation, weak incentive and low level of academic oligarchy; the bottom-right-side ball **B** represents the market structure with extremely high decentralisation, strong incentives and low level of academic oligarchy; inside the graph, all are hybrid modes of governance, which represent the combination of state authority, academic power and market rewards at different level. Balls **C**, **C¹**, **C²**, **C³** and **C⁴** represent different hybrid governance forms.

In line with the conclusions summarised in Chapter 2, hybrid governance in higher education is using three incentive methods to control cheating problems in market governance and to mitigate incentive problems in hierarchical governance, including reducing state authority, enhancing academic power and creating market rewards. Therefore, under certain circumstance, hybrid governance can organise transactions in a much more efficient way than market and hierarchical governance.

Besides that, there are three things worth noting about this three-dimensional governance model in higher education as follows:

Firstly, the academic oligarchy dimension replaces the ownership dimension in the market-hybrid-hierarchy governance model analysed in Chapter 2. The reason for focusing on academic power instead of ownership is that, in most countries, the ownership of public universities has either not been changed or is not the main action taken by the government in the course of marketisation in higher education across countries; A second reason is that, as members of professional organisations relying on standard skills and knowledge, academics in universities enjoy high levels of control over their own work and always play a substantial role, sometimes vital role in university internal management for example, in the experience of

United Kingdom, as Mintzberg (1983, p. 192) argues, “the power of expertise”. Given its importance in university governance, academic power is usefully taken as one dimension of the governance model.

Secondly, the rewards dimension measures how strongly the incentive system rewards university performance. In many countries, charging tuition fees, pay for performance, a performance-based funding system or ranking system for universities are often used to provide market-like incentives for universities, for example, United States, Australia and United Kingdom. As a result, these aspects are regarded as key variables to qualitatively measure the rewards dimension in this research.

Thirdly, there is a power distribution between the state authority and academic committee with regard to university internal management issues. Based on McDaniel’s (1996) approach, there are five key issues selected to represent university internal management in this research, which are used as a basis for developing interview questions in the late of research.

The finance issue: whether universities are free to borrow money from bank and decide how to spend money. The student issue: whether universities are free to set up tuition fees and enrolment requirements. The education issue: whether universities are free to decide the content of courses and the system of quality assurance. The staff issue: whether universities are free to decide staff employment and salaries. The general management issue: whether universities are free to determine administrative structure and external contact (McDaniel, 1996, p. 157-158).

3.3.2 Marketisation and hybrid governance

Higher education institutions around the world have undergone a series of reforms since 1980s, one distinctive trend is that many governments have used market methods to restructure traditional university management with the aim of providing strong incentives for universities towards better performance. This process is normally termed as marketisation in the higher education literature (Williams, 1995; Jongbloed, 2003).

There are number of rationale for the employment of market mechanisms to restructure hierarchical higher education system as managerial theorists have suggested in the New Public Management literature. Foremost is a desire for economic efficiency understood as ‘value for money’, especially the efficient allocation of scarce public resources (Williams, 1996); Also important is a desire to use market competition as an incentive to improve quality, rather than relying solely on state authority and professional power (Dill, 2003). Methods like establishing private higher education and charging tuition fees are pursued in many countries to create strong competition in higher education market (Williams, 1996).

The key actions taken by the government to enhance incentives in the marketisation are discussed as follows,

Reducing state authority and enhancing academic power

In higher education institutions, direct management by government is ‘no longer appropriate’ (OECD, 2003), because it led to ‘mushrooming bureaucracy’ (Bok, 1986). As Hines elaborates,

“Governments have long been subject to criticism about being overly bureaucratic... and have been identified as apprehensive of mistakes,

consummate rational planners, unreceptive to innovation, antithetical to the process of change, distrustful of those capable of innovation, and conservative in use of data” (Hines, 1988, p. 2)

Therefore, over the last two decades, governments have begun to rely on more indirect methods and to encourage universities to act under their own initiative (Goedegebuure, et al. 1993). Many countries have been making vigorous policies to push back government influence and to increase university autonomy, ‘steering rather than rowing’.

For example, in the Netherlands, the government has officially launched a new steering conception in the White Paper Higher Education Autonomy and Quality (‘HOAK’, 1985). In this paper, the government stated that it will step back from its strategy of detailed rational planning and control and will only exercise ‘remote control’ function. The self-responsibility and the autonomy of universities in the Netherlands are strengthened to a great extent.

In Norway, there is also a general trend towards more discretion for the institutions with respect to internal management, although from a relatively interventionist perspective. A new law on universities came into effect in 1990, which enables the universities to appoint all staff including full-time professors and top administrators. In addition, the universities have obtained increased autonomy to use budget funding on their own purpose.

As Goedegebuure, et al. (1993) pointed out, the new relationship between the government and higher education institutions is characterised as,

“the trend for national governments to retain the prerogative to set broad policies, particularly budgetary ones, while increasingly transferring the responsibility for growth, innovation, and diversification in higher education to individual institutions” (Goedegebuure, et al., 1993, p. 1).

In essence, increasing institutional autonomy means having the power to govern without outside controls (Neave and Van Vught, 1994), which is the prerequisite of university self-management, because this helps the university rapidly adjust the management in response to market needs without government multi-interference.

Besides deregulation, the delegation of more powers of decision on internal management is a key approach employed by many governments to increase university autonomy, but the pattern of autonomy differs between countries (Dill, 1997).

Recent empirical studies of management arrangements among public universities shows that the degree of government control differs substantially between countries (McDaniel, 1996) **Table 3.1** shows a diversified picture of decentralisation and centralisation with regard to university internal management across countries. A score of 5 denotes there is highly centralised state control on university internal management, and a score of 1 denotes that the university has fully decentralised power to decide every internal management issue. Therefore, higher scores in the **Table 3.1** means university internal management is more controlled by the government.

For example, in United Kingdom, universities have more power to decide on the five key internal issues, including finance, general management, course setting, staff employment and student enrolment; universities in Denmark have less freedom to decide finance, staff employment and student enrolment; universities in United States have more power to decide staff employment and student enrolment; In Australia, universities have more freedom to decide internal management issues except student enrolment.

Table 3.1 Comparative Average Scores by Selected Countries

(1=fully decentralised, 5=fully centralised)

Region	Finance	Management	Education	Staff	Students
United Kingdom	1.6	1.33	1.25	1.0	1.33
Denmark	2.2	1.66	1.75	2.25	2.66
France	1.2	2.66	3.0	5.0	3.66
Spain	1.2	2.0	2.0	2.75	4.0
The Netherlands	1.4	2.0	1.75	1.5	4.0
Western Europe	2.476	2.376	1.903	3.096	3.307
U.S. states	2.618	2.035	2.532	1.710	2.298
Canadian provinces	2.607	1.333	1.821	1.285	1.809
Australia	1.400	1.300	1.500	1.500	2.000
German states	3.484	2.562	2.765	3.906	4.645

Adapted from McDaniel (1996), 'The paradigms of governance in higher education systems', p. 147, 153

Along the same lines as McDaniel's analysis, there is a similar picture of university autonomy in the OECD (2003a) report. In this report, universities in United Kingdom, Netherlands and Poland, have more freedom to control student admission, set academic courses and decide staff salaries and student tuition fees. In Japan and Korea, Turkey, universities has a little autonomy, the state decides most internal issues, for example, staff employment, student enrolment and tuition fees (See **Table 3.2**).

With increased institutional autonomy, governments in most countries are not totally "setting higher education free", and autonomy for universities has not been offered "with no strings attached" (Neave and Van Vught, 1994, p. xiii). Instead governments have shifted the focus from central hierarchical control to placing more attention on monitoring higher education quality and accountability. The emphasis has been put on the achievement of national targets through powerful performance management, such as the regulation of standards, quality assessment and assurance systems (Middleton, 2000).

Table 3.2 Extent of Autonomy Experienced by Universities

Countries	Own their buildings and equipment	Borrow funds	Spend budgets to achieve their objectives	Set academic structure/ course content	Employ and dismiss academic staff	Set salary	Decide Size of student enrolment	Decide level of tuition fees
Mexico	*	Δ	*	*	*	Δ	*	*
Netherlands	*	*	*	Δ	*	*	*	Δ
Poland	*	*	*	*	*	Δ	*	Δ
Australia	*	Δ	*	*	*	*	Δ	Δ
Ireland	*	Δ	*	*	*	Δ	*	Δ
United Kingdom	*	Δ	*	*	*	*	Δ	Δ
Denmark	Δ	*	*	Δ	*	Δ	*	Δ
Sweden	Δ	Δ	*	*	*	*	Δ	
Norway	Δ		*	*	*	Δ	*	
Finland	Δ		*	Δ	*	*	Δ	
Austria	Δ		*	*	*	*		
Korea (national-public)			Δ	Δ		Δ	*	
Turkey				Δ	Δ		Δ	
Japan (national-public)				Δ	Δ			

Note: * have autonomy; Δ have autonomy in some respects

Adapted from OECD (2003), *Education Policy Analysis*, p. 63

Strengthen state quality control through developing quality assurance system

The introduction of quality assurance into university teaching and research has become a worldwide phenomenon over the past decade (Harvey and Knight, 1996). In essence, quality assurance, is defined as a “systematic management and assessment procedures adopted to ensure achievement of specified quality or improved quality and to enable key stakeholders to have confidence in the management of quality and the outcomes achieved” (Harman, 1998, p. 346).

Based on empirical studies across countries (Harman, 1998; Billing, 2004; Hodson and Thomas, 2003), a specialised unit or agency set up by the government is the most common way of taking administrative responsibility for quality assurance at national level. France, Finland, Denmark, United Kingdom, Korea and Thailand provide examples of this approach.

In general, there are three key elements of quality assurance across countries: self-evaluation, peer review and report (Van Vught and Westerheijden, 1994). Developed firstly in United States, self-study or self-evaluation have become very popular methods of quality assurance systems over many years because of positive features, such as, cost effectiveness, appearing less threatening, and generating substantial improvements. Peer review by outside experts is a well-established academic process, particularly in the research area. Many evaluation programmes combine self-study with statistical information and survey results of students, graduates and employers.

Peer review is the common form of assessment, including regular reviews of faculties and departments; reviews of academic courses and specialities; reviews of administrative and service units; teaching reviews and research reviews or both. In particular, self-study or self-evaluation associated with peer review plays a big part in the national evaluation, because it provides basic and comprehensive information about institutions. Normally, peer review includes some senior academics and experts from the relevant profession or from industry.

Reporting and follow-up activities are vital parts of any worthwhile quality assurance programme. There is wide use of reports on assessment. National level reports for institutional evaluations or disciplinary reviews are now frequently provided to Ministers, and Ministries and funding agencies. Sometimes reports are publicly announced, and also based on the reports, a ranking list of institutions is published. While a ranking system might be helpful in relation to accountability arguments, on the other hand, it can do major damage to weaker institutions or departments. Therefore, how to devise fair and effective methods to make improvements (rather than damage to morale) is the big challenge for higher education institutions all over the world (Harman, 1998).

Creating market rewards

In the process of marketisation in higher education, there are four major approaches designed by many governments to create strong market rewards for universities towards better performance as follows,

1. Reducing government funding

Despite a varied pattern of university support from the government, there is a general trend in the decline of governmental funding over the last two decades. As **Table 3.3** shows, public expenditure per student in relative to gross domestic product (GDP) per capita, which is an indicator of national effort devoted to higher education, fell between the mid-1990s and early 2000s in most of OECD countries such as Canada, United States, Japan and United Kingdom.

Table 3.3 Public Expenditure per Student in relative to GDP per Capita

Country	1992	2000
Canada	63.3	53
United States	88.9	59
Japan	61.5	42
Ireland	56.9	39
Netherlands	51.5	44
United Kingdom	95.2	39
Czech Republic	50.2	39
Finland	59.7	33
Norway	49.4	37

Sources: OECD (1995) and (2003b): *Education at a glance*

2. Charging tuition fees

In response to the increasing costs of higher education and the growth of student numbers, many governments have charged student tuition fees to subsidise university expenditure from 1980s. Although student support mechanisms differ, in the United States, Canada, Australia

and New Zealand, tuition fees are well entrenched to fund higher education institutions. Generally speaking, households cover about forty percent of the cost of tertiary education in US; student tuition fees contribute exceeds fifty percent in Korea and Japan, and Australia is about one-third of the cost of higher education covered by fees (OECD, 1998).

As **Table 3.4** shows, all students at present have to pay for their higher education in most OECD countries, including Australia, Italy, Netherlands, New Zealand, Switzerland, United Kingdom and United States. Finland and Sweden are the only countries which provided free higher education for students in 1997.

Table 3.4 Percentage of Students in Institutions that Charge Tuition Fees at the Tertiary Level of Education (1997)

Country	Percentage of Students in institutions that charge tuition fees	Percentage of students in the institutions without tuition fees
Australia	100	--
Canada	88	12
Czech Republic	4	96
Denmark	18	82
Finland	--	100
France	73	27
Italy	100	--
Netherlands	100	--
Norway	11	89
New Zealand	100	--
Sweden	--	100
Switzerland	100	--
United Kingdom	100	--
United States	100	--

Source: OECD (2000): *Education at a glance*

One thing worth noting is that, in many European countries, in addition to paying no or comparatively low tuition fees, students are assisted by grants, low-interest loans, or family allowance, for example, the Nordic countries, Germany and Greece; even countries which charge relatively high fees, for instance, United Kingdom, students are charged a fee

dependent on their parent income, and the poor students are provided with free university education and also are entitled to a subsidised loan (Biffl and Isaac, 2002).

3. Developing private higher education

The policy of mass higher education puts intense pressure on public budgets, and at the same time, a variety of students under mass higher education are seeking wider educational opportunities. Despite continued expansion of public higher education institutions, higher education supply still lags behind high demand.

Also, based on the principles of the market, governments in many countries are using market competition as an important incentive to improve the quality of public higher education, therefore, the establishment of private higher education institutions has been encouraged all over the world since 1980s (Meek and Wood, 1997; Arimoto, 1997).

In Latin America, countries such as Brazil, Mexico, Colombia and Venezuela now have at least half of their students in private universities (Gonzalez, 1999); in Central and Eastern Europe, private higher education is the fastest-growing sector in many countries, for instance, Hungary, Poland, Romania, and Estonia (Slantcheva, 2005); in Asia, aside from the traditional domination of private higher education in the Philippines, South Korea and Japan, private higher education has also developed rapidly in countries like Thailand, Malaysia and Indonesia (Lee, 1999).

4. Developing performance-based funding system

As part of a quality assurance programme, performance funding has become a mechanism to provide incentives for universities or academic staff towards excellent performance (Geuna

and Martin, 2003). But in practice, there are not many examples where there is a direct impact of assessment on university funding, financial impacts are more often indirect through operating the impact of the reputational gains or losses on the markets for students, employers and the research funders (Brennan and Shah, 2000).

In some cases, a system of ranking based on performance in relation to established criteria is used to provide incentives for university achievement. The key role of performance-based ranking systems is to deliver public information on quality and standards for higher education institutions. Universities with higher scores in the rankings list will attract more students in the market.

Based on international comparisons in external quality assurance of higher education, there is no universal pattern of relationship between performance funding and quality assurance. The main countries where such systems are used are summarised in **Table 3.5**. In United Kingdom, the Research Assessment Exercise (RAE) was established in 1986, the key function of RAE is to assess university research activities and determine the amount of future research funding in accordance with the assessment results (Kivistö, 2005).

Table 3.5 Main Countries with Performance-based Funding and Ranking System

Country	Performance-based funding system	Performance-based ranking system
Denmark	✓	✓
Japan	✓	✓
Korea	×	✓
United Kingdom (mid-1980s)	✓	✓
Australia	✓	✓
United States	✓	✓

Also, according to Frazer's reports (1997), there were only five of the twenty-four countries which he surveyed, Frazer claimed a direct funding link to evaluation grades in quality assurance program; Harman (1998) also found the use of performance funding as part of quality assurance system in Australia, United States and United Kingdom.

There is a similar picture of the ranking system, where some countries such as United Kingdom, Australia, United States, Japan have the experience to provide a performance ranking list in terms of university teaching and research.

3.3.3 Hybrid governance in higher education across countries

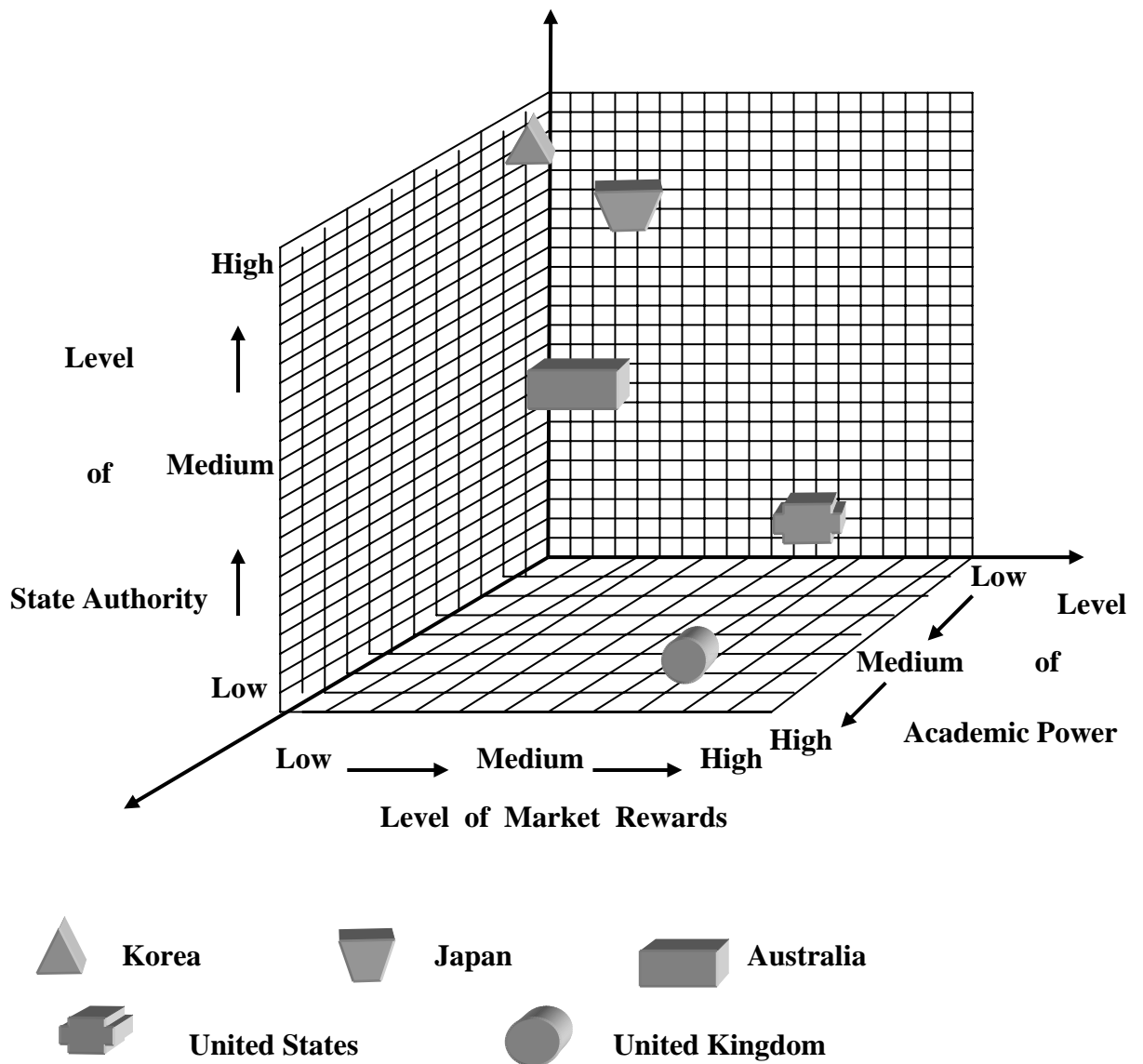
Based on the market-hybrid-hierarchy governance model and limited empirical studies analysed above, the hybrid governance picture in higher education across countries is delineated as following (see **Figure 3.4**).

In this three-dimensional governance model, the location of hybrid governance in higher education in each country is not precisely measured. Instead, because of the lack of quantitative data is used, most empirical studies in higher education are based on qualitative analyses in terms of performance management and its related issues.

Therefore, roughly speaking, universities in the United States experience more strongly the influence of market incentives and a lower level of state authority and academic power; universities in the United Kingdom have strong academic power, and to the medium level state control and market incentives have been put into effect on university internal management. Compared to United States and United Kingdom, there are medium levels of state authority, academic power and market rewards in the higher education system in Australia.

On the other hand, there is still strong government control and less academic power and market incentive in Japanese and Korean hybrid governance of higher education systems. Compared with Korea, Japan has slightly stronger academic power and market incentives.

Figure 3.4 Hybrid Governance in Higher Education across Countries



3.4 Conclusion

To overcome the incentive problems in hierarchical governance, the public sector in modern industrial countries has been reformed towards a New Public Management model, which employs three incentive-based methods to restructure the public sector in an effort to enhance its incentives and to improve its efficiency and accountability. These methods include reducing state authority, creating market rewards and distributing asset ownership.

During the introduction of New Public Management, policies such as increasing institutional autonomy, creating competition and privatisation, employing performance management and designing incentive schemes have been developed by governments to reduce state authority, create market rewards and distribute asset ownership in the public sector, which have shifted traditional hierarchical governance to the new models of hybrid governance.

Based on the philosophy of New Public Management, governments in most countries have set up reform schedules to improve higher education provision and marketization in higher education has taken place across countries since 1980s.

In the process of marketisation, deregulation of government control and increased institutional autonomy in higher education have strongly manifested the new role of the government as ‘steering at a distance’, and this has reduced state authority and enhanced academic power in the management of university internal issues to certain extent.

In applying the new strategic role, governments have developed quality assurance systems to monitor universities’ and academics’ performance, and state authority has been strengthened in the management of higher education institutions. At the same time, market rewards have been created by the government to provide strong incentives for higher education institution

through developing private higher education, reducing government financial support, charging tuition fees and developing performance-based funding system.

As a result of these reforms, hybrid governance has replaced traditional hierarchical governance in higher education sector in many countries, by way of reducing state authority, enhancing academic power and creating market rewards.

CHAPTER 4 RESEARCH METHODOLOGY

4.1 Introduction

This chapter provides a description and explanation of the research methods employed in this study. The primary method of research used is a qualitative case study approach. Sixty-six semi-structured face-to-face interviews were conducted in six case study sites and recorded by tape and by note-taking. The main practical issues of research methodology such as why choose a case study approach, how to collect the data and how to analyse these data are discussed in this chapter.

The research reported in this thesis broadly follows the pattern of most PhD researches as set out by, for example, Dunleavy (2003). In such a pattern, research begins with a literature review before moving linearly through the derivation of a methodology and its application, then proceeding to analysis and writing up.

However, there is a slightly more extensive path in this thesis. A brief literature review led to early pilot fieldwork. This initial fieldwork, led on to further literature review and the development of the main theoretical framework on alternative structures of governance and an extension of the research towards the use of incentive schemes to enhance performance. Follow-up interviews and a further extensive set of case study interviews were then pursued in the light of the extended theoretical framework. This was then followed by data analysis and writing up.

4.2 A case study approach

4.2.1 Developing research questions

The research questions were subject to considerable reformulation as a result of analysis of the first set of interviews conducted in the first fieldwork visit to China. The process of research can be said to have taken both a deductive and an inductive approach. The initial fieldwork was based on what seemed to be a simple research question: why have the Chinese universities moved towards market arrangements over last two decades (charging tuition fees, establishing private universities)?

Inductive analysis of the initial findings led to the view that an explanation of the reality of changes in Chinese higher education might be better approached through an analysis of how marketisation has been applied to higher education institutions. More importantly, the initial research findings indicated that the Chinese government has exclusive power to decide what universities should do. Therefore, the examination of changes of governance structure would be the best way to explore what is really happening in university management in China.

With the help of a further literature review, the analysis of incentive-based governance structures has become a key approach in this research. Guided by the deductive analysis on principal-agent theory and marketisation literature review on higher education, the main incentive instruments such as reducing state authority (policy decentralisation), enhancing academic power (increasing institutional autonomy) and creating market rewards (charging fees, establishing private universities, designing rewards systems) have been selected by the government to enhance incentives in higher education institutions in many countries. Based on these analyses, research questions and sub-questions in this research were reshaped and the follow-up interview questions were developed.

In essence, there are two core research questions raised in this research: How can hybrid governance be analysed through an incentive approach? And how can hybrid governance in Chinese higher education be analysed in the marketisation reforms in post-Mao China?

Choosing an appropriate method to address these research questions was considered to be very important. As Robson (1997) notes “the research strategy, and the methods or techniques employed, must be appropriate for the questions you want to answer” (Robson, 1997, p. 38). Bell (1987) further argues that “understanding the major advantages and disadvantages of each approach is likely to help you to select the most appropriate methodology for the task in hand” (Bell, 1987, p. 19). These tenets are kept in mind in the following section, which explains and justifies the research methods used.

Social science research can employ both qualitative and quantitative methods of research. The research presented in this thesis in principle employs a qualitative approach, although at an early stage of the research, there was a consideration of whether a mixed methodology could be used by means of quantitative postal questionnaire and qualitative face-to-face interviews. In the end, a qualitative approach proved to be more suitable than a quantitative approach for this research. There are several reasons for this.

The most important reason for preferring the qualitative approach in the work presented here is that the research questions examined need rich information which cannot be achieved through quantitative means (Denzin and Lincoln, 1998). Strauss and Corbin (1998) provide a helpful definition of qualitative research,

“By the term ‘qualitative research’ we mean any type of research that produces findings not arrived at by statistical procedures or other means of quantification”
(Strauss and Corbin, 1998, p. 11)

In this research, uncertainty was the key problem. Little relevant data was available, and the literature on governance structure in Chinese higher education is sparse. To have a clear picture of Chinese university development, it was necessary to gain in-depth information from a number of different universities to answer such questions as “why have Chinese universities been subject to marketisation?” “what are the impacts of these marketisation reforms?” And a qualitative approach is helpful in answering these sorts of questions.

Secondly, flexibility is the key advantage of a qualitative approach. The procedure of qualitative data gathering is much more open as it does not require predetermined procedures and pre-tested instruments. As Blaikie (2000) puts it,

“They (qualitative researchers) see research as a learning process and themselves as the measuring (data-absorbing) instrument. They will want to allow concepts, ideas and theories to evolve and they will resist imposing both preconceived ideas on everyday reality and closure on the emerging understanding” (Blaikie, 2000, p. 243).

Thirdly, a qualitative approach has advantages as a method of gaining detailed information with limited resources. For instance, new issues can be identified and probed during a flexible interview process.

4.2.2 The case study

The research presented in this thesis was undertaken through the case study method. Case studies are one of the most common approaches to qualitative enquiry (Stake, 1998). Case studies are especially suitable for single-person research to study a range of issues in depth within a limited budget and time-scale (Blaikie, 2000).

What exactly is meant by a case study? There are various definitions of the case study (Goode and Hatt, 1952; Creswell, 1994; Yin, 2003). One common concept of case study is “an umbrella term for a family of research methods having in common the decision to focus on inquiry around an instance” (Adelman, et al. 1977).

Goode and Hatt (1952) define the case study as “a way of organizing social data so as to preserve the unitary character of the social object being studied” (p. 331). Creswell (1994) provides a similar definition with five components. In case studies, “the researcher explores a single entity or phenomenon (“the case”) bounded by time and activity (a program, event, process, institutions, or social group) and collects detailed information by using a variety of data collection procedures during a sustained period of time” (p. 12).

The most influential and widely-used definition of a case study was introduced by Yin (2003), who distinguished a case study from other types of research strategies: experiment, survey, archival analysis, and history. The key differences among these strategies are summarised in **Table 4.1**.

Table 4.1 compares the strengths and weaknesses of a range of different research strategies. As Yin points out, the strategies of experiment, history or case study are normally preferred for explaining why or how types of research questions. However a disadvantage of the experiment strategy is that it needs to control behavioural event. On the other hand, history and case study strategies do not. A disadvantage of the history strategy is that it often deals with non-contemporary events.

Table 4.1 Relevant Situations for Different Research Strategies

Strategy	Form of research question	Requires control of behavioural events	Focuses on contemporary events?
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/No
History	How, why?	No	No
Case study	How, why?	No	Yes

Adopted from Yin (2003), *Case Study Research*, p. 5

Based on his analysis, Yin (2003) defined a case study as

“An empirical inquiry that:

- investigates a contemporary phenomenon within its real-life context; when
- the boundaries between phenomenon and context are not clearly evident;

The case study inquiry

- copes with the technically distinctive situation in which there will be many more variables of interest than data points, and as one result
- relies on multiple sources of evidence, with data needing to converge in a triangulation fashion, and as another result
- benefits from the prior development of theoretical propositions to guide data collection and analysis.” (Yin, 2003, p. 13-14)

With respect to employing the case study approach, one of the key criticisms is that it is not useful for generalizing (Blaikie, 2000; Yin, 2003; Mitchell, 1983). However, as many scholars argue, generalizing is not only concerned with narrow statistical inference, but also

with logical inference (Mitchell, 1983), which is called analytic generalization in Yin's analysis (2003), or replication logic in Blaikie (2000).

Mitchell (1983) classifies the distinction between statistical and logical inference as the following,

“Statistical inference is the process by which the analyst draws conclusions about the existence of two or more characteristics in some wider population from some sample of that population to which the observer has access...logical inference is the process by which the analyst draws conclusions about the essential linkage between two or more characteristics in terms of some systematic explanatory schema—some set of theoretical propositions” (Mitchell, 1983, p. 199-200).

Yin (2003) has also argued for the use of analytic generalisation as an alternative to statistical generalisation in case studies; and has developed a theory of both single-case study and multiple case studies. But Yin points out that all cases occur in a specific context, there is a need for researchers to give sufficient information on the common and unique features of that context, because which will enable readers to evaluate conclusions properly.

In order to deal with the criticisms of unique or critical condition represented in one single case study, Yin argues that researchers should undertake a multiple-case design. “Having two cases can begin to blunt such criticism and scepticism. Having more than two cases will produce an even stronger effect” (Yin, 2003, p. 54).

Yin further argues that a replication approach is the key logic to use in carrying out multiple-case studies rather than a sampling logic. The replication logic is similar to that used to justify multiple experiments (Hersen and Barlow, 1976), in which a significant finding from a single experiment can be replicated through a second, third and even more experiments. Some

replications can be conducted under the same conditions; other replications can allow variation in some conditions irrelevant to the original finding.

In contrast with the replication approach, a sampling logic follows a statistical procedure for selecting specific units from a population, which is an aggregate of all cases that conform to some designated set of criteria (Blaikie, 2000). For example, cases can be selected in a way that all cases have the equal chance of selection, which is normally called simple random sampling. The number of replications with a sampling logic depends on the level of certainty, there are more replications needed if a higher degree of certainty is targeted (De Vaus, 1991)

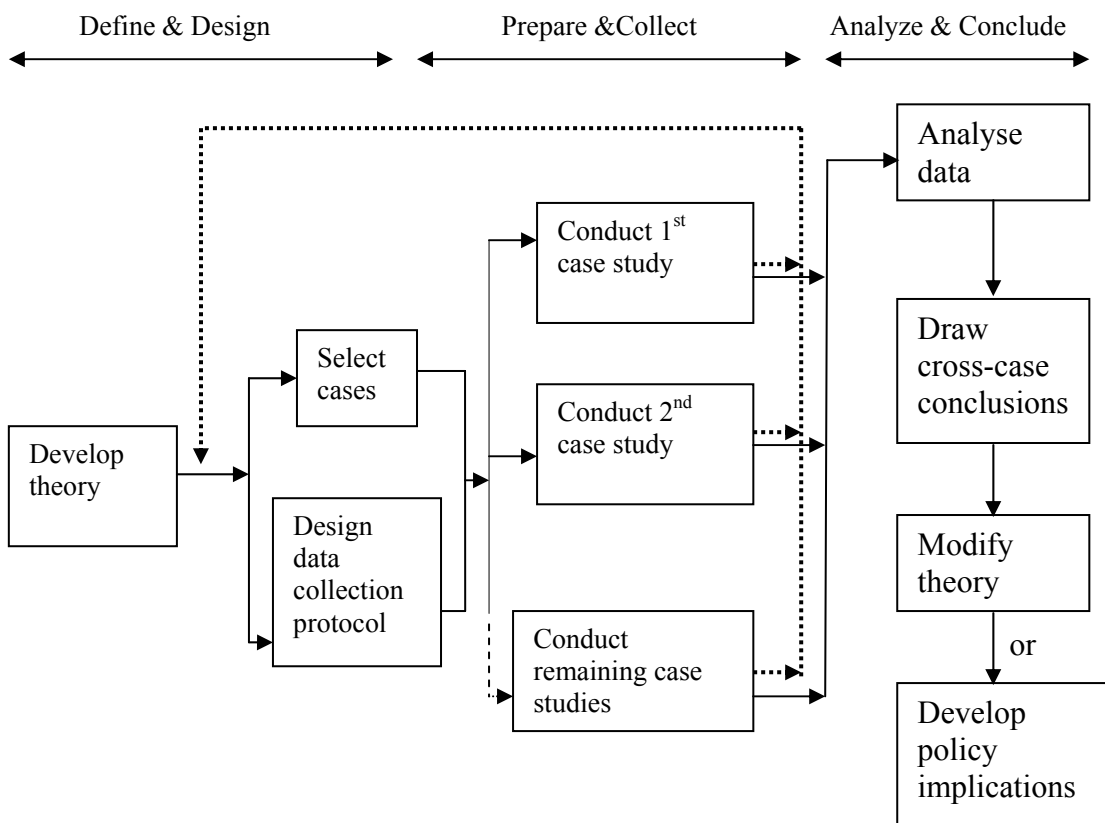
With respect to replication logic, the selection of the number of replications is associated with the complexity of the external conditions. There are more replications needed if different external conditions produce different case study results; however, “When external conditions are not thought to produce much variation in the phenomenon being studied, a smaller number of theoretical replications is needed” (Yin, 2003, p. 51).

The process of employing multiple-case studies is illustrated in **Figure 4.1**. Overall, a case study project involves three stages: defining and designing the case studies; preparing and, collecting data from case studies; and analysing and drawing conclusions from the case studies.

The first stage starts with theory development, individual case studies are then selected and the data collection protocol is designed. The second stage consists of the conducting of individual case studies and the collection of data. In the third stage the data are analysed from each case study and cross-case study conclusions are drawn. Lastly there is the stage of redeveloping theory and examining the implications for policy.

The dotted line feedback loop is an important part of **Figure 4.1**. Feedback arises as the result of carrying out case studies and the learning that arises from carrying out case studies affects the process of redesigning case selection, including dropping unsuitable case(s) and selecting new case(s).

Figure 4.1 Case Study Method



Adopted with slightly change from Yin (2003), *Case Study Research: design and methods*, p. 50

The case study approach adopted for this thesis is strongly influenced by Yin’s work on case study methodology. In the research presented in this thesis a multiple-case studies strategy was applied. Five public universities and one private university were selected as case studies and a range of academic staff and administrative staff in each university. More detail is given in section three: conducting the research.

4.2.3 Reliability and validity

The quality of research is a vital issue for research work. The most widely accepted criteria used to assess the quality of research are its *reliability* and its *validity* (Bell, 1987; Denzin and Lincoln, 1998; Bush, 2002; Yin, 2003).

Reliability (Bell, 1987; Bush, 2002) means that, in essence, repeating a research methods or process would generate identical or similar results. Another way of putting it is that the results have consistency. For example, Bell (1987) defined reliability as “the extent to which a test or procedure produces similar results under constant conditions on all occasions” (Bell, 1987, p. 50)

The concept of *validity* is used to evaluate whether the research describes the phenomenon in an accurate way (Bush, 2002). The key feature of validity, as Bell (1987) has argued is as follows:

“Validity...tells us whether an item measures or describes what it is supposed to measure or describe. If an item is unreliable, then it must also lack validity, but a reliable item is not necessarily also valid. It could produce the same or similar responses on all occasions, but not be measuring what it is supposed to measure” (Bell, 1987, p. 51)

There is a distinction to be made between *internal validity* and *external validity*. *Internal validity* relates to the degree to which findings correctly map the phenomenon in question; *external validity* is associated with the extent that findings may be generalised to other settings similar to the one in which the study happened (Denzin and Lincoln, 1998).

In this research, case study is the main approach to address research questions, so the question is how to make the research results reliable and valid?

Yin (2003) elaborates *reliability* in terms of case study research as following:

“The objective is to be sure that, if a later investigator followed exactly the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions...The goal of reliability is to minimise the errors and biases in a study. *One prerequisite... is the need to document the procedures followed in the earlier case...* The general way of approaching the reliability problem is to conduct research as if someone were always looking over your shoulder” (Yin, 2003, p. 37-38, emphasis added)

Guided by Yin’s point, there was a procedure document designed by the researcher. The key aim of this document is to ensure that the researcher followed the same procedure in each interview in order to achieve reliability in this research. The main content of document is presented in Appendix 3.

Nisbet and Watt (1984) regard the interview as the basic research instrument in case study research. They also emphasise that the nature and applicability of reliability procedures depend on the type of interview employed by the research. In particular, semi-structured interviews with great flexibility may have difficulty in ensuring reliability because of “the deliberate strategy of treating each participant as a potentially unique respondent” (Bush, 2002, p. 63). On the other hand, some have argued that such a strategy may enhance validity, for example, Kitwood (1977).

“In proportion to the extent to which ‘reliability’ is enhanced..., ‘validity’ would decrease. For the main purpose of using an interview in research is that it is believed that in an interpersonal encounter people are more likely to disclose aspects of themselves, their thoughts, their feelings and values, than they would be in a less human situation. At least for some purposes, it is necessary to

generate a kind of conversation in which the ‘respondent’ feels at ease”
(Kitwood, 1977, cited in Cohen and Manion, 1994, p. 282)

Taking account of the strengths and weaknesses of semi-structured interview, the researcher tried her best to make each interviewee relax before started interviewing. In particular, the academic purpose for this research was emphasised in every interview, and one reason for doing so was to remove interviewee’s worries about the political aspects of the study and make the responses more valid.

However, Cohen and Manion (1994) also point out that bias is a vital source of invalidity for semi-structured and unstructured interviews. Bias is generally defined as “a systematic or persistent tendency to make errors in the same direction, that is, to overstate or understate the ‘true value’ of an attribute” (Cannell and Kahn, 1968, p. 532).

The interviewing process itself has potent sources to produce bias, for example, the characteristics of the interviewer, the characteristics of the respondent, and the substantive content of the interview questions. More particularly, the attitudes and opinions of the interviewer; a tendency for the interviewer to seek answers that support his preconceived notions; and interviewer features in terms of colour, religion, social class and age. To counter this, techniques like designing explicit formulation of questions or proper training procedures for the interviewer, can reduce bias to some extent (Cohen and Manion, 1994).

In this research, in order to overcome bias as much as possible, on the one hand, the researcher formulated all the research questions with care. Although there are different questions for different group interviewees, the researcher has tried her best to design each question with a clear meaning and explicit research purpose. Thus the same group of interviewees were asked the same number of questions in the same way; by doing so, bias

would be reduced. Also, during the process of the interview, the researcher kept an objective attitude towards interviewee, most of time she was listening carefully to what the interviewee said about interview questions without any personal interruption. Only when the interviewee appeared to have misunderstood the question and answered it in a way different from the researcher's intention, did the researcher stop the interviewee and explain the question again.

In addition, in the first year of research, the researcher attended a short interviewing practice, which was carried out by experienced researchers in the department. From observation, the researcher gained some practical knowledge of interviewing and learnt how to conduct interviews in a realistic environment, what kind of skills should be considered in the interview, for example, the way to ask questions (voice, expression and gesture), the way to probe questions and the way to make the interviewee relax. This training process proved to be very useful and helpful for interview fieldwork carried out later in the research.

However, regarding the case study approach, a more frequently discussed issue is the question of the generalisability of the findings. As discussed before, analytic generalisation in the case study instead of statistical generalisation can be achieved through replicating the study in another similar setting, which would lead to wider acceptance of the external validity of the findings. As Yin (1994) stated:

“The theory that led to a case study in the first place is the same theory that will help to identify the other cases to which the results are generalizable...A theory must be tested through replication of the findings in a second or even third (case), where the theory has specified that the same results should occur. Once such replication has been made, the results might be accepted for a larger number of similar (cases), even though further replications have not been performed (Yin, 1994, p. 145).

But Yin (2003) also pointed out that multiple-case studies are more expensive and time-consuming to conduct. Hence there is a trade off between greater generalisability and the cost of research will need to draw a line at some level of replication of case studies.

Bearing in mind these useful insights, six case studies were selected in this research with all the same questions asked and an equivalent level of seniority interviewees in each. With this replication process, if the same results were to occur in most or all of the six case studies, it might suggest that the research had indeed identified some broad patterns that could be applicable more widely in the higher education sector in China.

Also, within the limited resources of this work, there was a consideration between interviewees and the research costs. The basic principle was to be proportionate and so there was a greater number of interviewees in the big universities and less number of interviewees in the small universities. As a result, sixty-six interviewees were chosen in six case study universities in this research.

4.3 Conducting the research

In the course of carrying out the research for this thesis, the following advice of Rubin and Rubin (1995) was very applicable:

“In a qualitative interviewing study, design takes shape gradually, as the researcher listens and hears the meaning with the data. Concerns that appear important at the beginning of the research may seem less vital later, and points that seemed unimportant when the study began may turn out to be valuable. To

adapt to what you are learning, your design has to be flexible” (Rubin and Rubin, 1995, p. 43)

In this research, there are a number of examples where having a flexible design was useful, for example, the process of designing key research questions, and the procedure of designing interview fieldwork, as discussed in section 2. Also, the process of data analysis and the writing order of chapters remained flexible throughout the work.

4.3.1 Research location and case selection

In this section the key considerations determining research location and case selection are discussed. The research focussed on case studies of six universities in Kunming city, Yunnan Province, China. The reasons for this choice of location are discussed below, but discussion begins with some general considerations on location of case studies and selection.

Dimmock (2003, p. 35) argues that “conducting research in some cultures can present difficult if not insurmountable problems regarding access for even the most experienced academic researcher, let alone the postgraduate”. In particular, he mentioned doing research in China, “gaining the willing participation of subjects and respondents may also present a problem in cultures where power, influence and status are of great importance”.

The research of this thesis was carried out in China for the following reasons. One direct reason was that the researcher comes from China, which helps the researcher collect data conveniently; a more important reason was that, the researcher was interested in the question of how principal-agent theory can help to understand the changes of governance structures. China has been through a radical restructuring since the late 1970s, and the incentive-based marketisation reform in Chinese higher education has provided a good example for applying

the principal-agent model to analyse the issues of how the governance structure in higher education has been changed and how universities and staff are responding to these incentive-oriented reforms. Therefore, China is a perfect case study country to provide the answers.

Also, China is a big country with a unique political, social and economical environment, and the experience of higher education reforms might be different from that of countries elsewhere in the world, this would provide different data and show a different path-pattern of higher education development, which could make this research more distinctive.

However, in line with Dimmock's views the study did encounter considerable difficulties in securing participation from the governmental organisations. The researcher was trying to get touch with people working in the Local Council at first, which is in charge of the development of local education, but it seemed no one was willing to become involved in this research for political reasons. In the end, the researcher had to give up with the interviews on the government side and put more attention on university interviews.

Kunming City of Yunnan province was chosen as the physical location for the case study. An important reason for selecting this location was that the researcher was a lecturer teaching at the Yunnan University before she began her PhD research. Yunnan University was therefore selected as one of case studies for the research. The selection of Yunnan University had considerable benefits in enabling the researcher to understand the culture of the case study site, and in affording more easy access to research sample and the collection of appropriate data.

Other five case studies were chosen from universities in Kunming city, Yunnan Province. The main reason for conducting all six case studies in the same city in the same province took into account the data needs to address the research questions, and resource constraints. At the

same time, the external validity of research can be improved by means of case replications from the same setting, as discussed in previous section.

Although there were considerable advantages stemming from the author's status as a relative insider in Yunnan university and Yunnan province, as Dimmock (2003) has pointed out that, there can be dangers in being in such a position, because "people can be blind to some aspects of their own culture and take for granted many otherwise interesting characteristics, thus failing to give them due recognition" (Dimmock, 2003, p. 37).

Dimmock's suggests that one approach to avoiding such dangers is to appoint members of the research team from a different cultural background. Clearly such an approach is not feasible within the resources of a PhD study. However, to guard against this insider problem, the selected research sample frame across universities with different disciplines can, to some extent, reduce this problem.

In the following, a brief introduction to the study location and research case studies is provided.

Yunnan province is located on the Yun-Gui Plateau in the southwest of China, characterised with beautiful scenery, colourful ethnic cultures and a pleasant climate. The whole population in Yunnan province is about 42.88 million, including 24 official minority nationality people constituting about 14.33 million. The province covers an area of 394,000 square kilometres (Yunnan Statistical Yearbook, 2002).

As one of the largest provinces, Yunnan province is surrounded by Guizhou province, Guangxi Zhuang minority autonomous region, Sichuan province and Tibet Zang minority autonomous region, sharing the long international borders with Burma, Laos and Vietnam (see **Figure 4.2**).

Moreover, three of the world's great rivers flow through Yunnan from Tibet: the Salween (Nujiang), Mekong (Lancang) and Yangtze.

Figure 4.2 The Geography of Yunnan Province



Named as ‘Spring City’, Kunming is capital of Yunnan province and it is a major administrative, commercial, and cultural centre of South China. More importantly, Kunming is a gateway of China to the Southeast Asia countries. The total population in Kunming is around 12.40 million (Yunnan Statistical Yearbook, 2002).

All case study samples were selected from Kunming City, where the key influential universities are located; the main reason for doing so was to keep research costs within practical limits. A benefit of this approach was that it allowed more detailed information to be gathered in a short period through semi-structured interviews; also it was an easy way to communicate with interviewees in the same city through telephone or by bus.

According to information provided by Yunnan Local Education Committee, in 2005, there were forty-five universities in Yunnan province, including twelve public universities and eight private universities in Kunming city. For reasons of practicality and the application of

replication strategy, five public universities and one private university were selected as multi-case studies in this research.

The first case study sample selected was Yunnan University (YU), where as noted above, the researcher was a lecturer before starting her PhD study in UK. As the most distinguished and oldest comprehensive university in Yunnan Province, in 2005, YU had a teaching and research staff totalling 1,182, 26 schools, 2 research institutes, and 3 general teaching departments, which provided a rich sample source from within which to select the research interviewees.

The second university selected as a case study was Kunming Science and Technology University (KSTU). This was selected on the basis of its large size and high academic status. As the largest university in Southwest China, KSTU is an engineering-based multi-disciplinary and comprehensive university in Yunnan Province, comprising 3700 staff, 18 faculties and 41 departments in 2005. As a base for advanced technical talents, KSTU has become an important centre of research and consultancy for the regional social and economic development.

The third, fourth and fifth case study universities selected were Yunnan Finance and Economics University (YFEU), Kunming Medical College (KMC) and Yunnan Arts Institute (YAI). These universities were chosen on the basis of their contrasting academic specialities and their influences on social and economic development in Yunnan Province. Compared to Yunnan University and Kunming Science and Technology University, these three universities have prominent academic advantages--- specialities in some subjects, for instance, Yunnan Finance and Economics University is good at economic specialities; Kunming Medical College is training undergraduates in the medical field and Yunnan Arts Institute is a place to

cultivate art-based talents. But these three universities are small in terms of the area, the number of students and staffs compared to Yunnan University and Kunming Science and Technology University.

In addition to these five public universities, a private university was added to the set of case studies. Compared to public universities, private universities have developed in a short time with limited student enrolments in Yunnan province. As the only private university representative, the Business School of Yunnan Normal University (BSYNU) was included in the research sample because of its distinctive market-driven model of university management and good reputation on quality of graduates. Also the Chair of the Board of the university was easy to get touch with and well disposed to the success of the research. It proved a fruitful choice to involve this private university, as it made a valuable contribution in addressing evaluation and rewards questions in the research fieldwork.

4.3.2 Sample selection and data collection

There were a number of considerations involved in deciding sample size for the research. These were the level of research resource, problems of obtaining access and the amount of data needed. As Bryman (2001) has argued most decisions about sample size have implications for the financial and time budget of the research.

Stratified sampling was employed in the research. The stratification process involves dividing the population into separate strata firstly based on one or more criteria and then selecting either a simple random sample or a systematic sample from each resulting strata (Arber, 1993). As Bryman (2001) points out, the advantage of stratified sampling is to ensure that the resulting sample will be distributed in the same way as the population in terms of the

stratifying criterion, when it is relatively easy to identify and allocate units to strata. However, stratified sampling can be very costly.

In this research, it was considered that people in different positions may have differing views on managerial issues at the same university. It is feasible to identify staff in terms of academic (or administrative) position; it was decided to select the sample using the academic (or administrative) position as a stratifying criterion. Therefore, the president of the university, the head of school and academic and administrative staff were targeted with different interviewing questions.

Snowball sampling was used for selecting interviewees when there was no adequate list available in the research. In this approach, snowball sampling means that “the researcher makes initial contact with a small group of people who are relevant to the research topic and the uses these to establish contacts with others” (Bryman, 2001, p. 98). Although there is a problem of representativeness of the population in this approach, as Coleman (1958) argues, tracing connections through snowball sampling may be a better approach than conventional probability sampling in terms of research costs.

In the six case studies, with the exception of Yunnan University, snowball sampling played a major role in the selection of interviewees. In this research, the sample size was determined mainly on the basis of university academic importance and practical consideration. Therefore, five schools were involved in Yunnan University, three schools in Kunming Science and Technology University, two schools in Yunnan Arts Institute, and one school in Kunming Medical College and Yunnan Finance and Economics University respectively.

In terms of selection of interviewees, the basic principle was, research interviewees for each university included one president, one head of each school, and three members of academic staff in each school.

It would greatly have added to the depth of findings in the research if the key governmental officials involved in the administration of the university system could have been involved. With this idea in mind, the researcher also designed interview questions for government officials.

At the beginning of research fieldwork, the researcher's personal view was that it would be sufficient evidence to gain access for interview work to show an introduction letter written by the University of Birmingham at first and then introducing herself as a PhD student studying abroad. However, such an approach was frequently unsuccessful in that often little interest was shown in the author's research. Sometimes it was even harder to get in touch with interviewees, because people were worried about that information they gave might be distorted and produce some harm to themselves.

The researcher found that a change of approach whereby she introduced herself only as a former lecturer of Yunnan University that now was carrying out doctoral research on university management in Chinese higher education was a very effective and helpful way to get people involved. One reason for this is that a researcher of this kind can be trusted easily as a colleague working in a different university; the other reason is that as most of interviewees knew how hard it is to do a PhD study, they were disposed to help as an act of academic fellowship.

Some of those interviewed had doctoral degree already, some were studying as PhD students, and some were planning to be a PhD student. As a result, the interviews were carried out more successfully after this strategy of approach had been adopted.

During the research fieldwork, the researcher was lucky to attend a local higher education conference, where one key government official was interviewed, who was in charge of local higher education development at that moment and the evidence he provided proved a good support for theoretical assumption during the later stage of data analysis in the research.

One interviewee involved in this research was the deputy president in Jiangnan University in Wuhan city, HuBei province. He was attending the summer school organised by the School of Public Policy, the University of Birmingham, in United Kingdom. With a two hours face-to-face interview, this interviewee provided valuable opinions on Chinese higher education reforms for this research.

In the end, the research fieldwork was conducted slightly differently from the original sample design due to practical reasons and resource considerations. The final sample size in this research comprised a total of sixty-six interviews, involving seven university presidents, fourteen heads of school, forty-one academic and administrative staff and four senior officers working in the government (see **Table 4.2**).

After sixty-six interviews done in six case studies during two research interview fieldwork cycles, there was enough information to address the research questions. Therefore, research interviewing was stopped.

Table 4.2 Research Sample Size

Sample source	The president	The head of school	Academic and administrative staff
Yunnan University	1	6	20
Kunming Science and Technology University	1	3	9
Yunnan Finance and Economics University	1	1	3
Kunming Medical College	1	1	3
Yunnan Arts Institute	1	2	6
The Business School of Yunnan Normal University	1	1	---
Governmental officials	4		
Wuhan Jiangnan University	1		
Total	66		

4.3.3 Research fieldwork and relevant issues

In the research, the majority of data was collected from face-to-face semi-structured interviews, carried out from October to November, 2005 and July to September, 2006 in the six university case studies.

Most of interviews were carried out at the interviewees' place of work; classrooms were also used; in one case the interview was carried out in a café, at the interviewee's suggestion. Interviews lasted between twenty minutes and two hours and were tape-recorded and extensive notes were taken during the interview. Only two interviewees refused to be recorded, in these cases detailed note taking of the conversation was substituted.

The research interview is a prominent data collection strategy in both quantitative and qualitative research (Bryman, 2001). A structured interview is the typical form of interview in social survey research, which is also called as a standardised interview. In structured interviewing, the interviewer asks all respondents the same series of pre-established questions with a limited set of response categories (Fontana and Frey, 1998). There are several advantages of structured interviews; for example structured interviews can help to reduce error due to interviewer variability and accuracy and can aid the task of data processing (Bryman, 2001)

However, a structured interview is inflexible and standardised, and is unlikely to be responsive to new information arising during the interview process. Nor would it reflect the variation of different interviewees in terms of experience, education and interests, instead confining questioning along predetermined lines (Jobbins, 2003).

Unstructured interviewing, on the other hand, is a highly flexible technique, allowing the subject to talk freely, revealing their own concerns, reducing the impact of the interviewer's preconceived ideas of what is important or relevant (Fontana and Frey, 1998). The technique is therefore valuable as a vehicle for 'discovering meaning' (May, 2001) but is less capable of enabling comparisons between respondents.

After considering different methods, the researcher chose face-to-face semi-structured interviewing to conduct this research, because it can 'dig deeper' and get a richer understanding than the formal interview (Moser and Kalton, 1997, p. 299) and it can balance the interests of the researcher and researched and extract more information from the individual (Fontana and Frey, 1998).

Some research methodologies advocate the use of a focus group or group interviewing (Fielding, 1993; Cohen and Manion, 1994). Coupled with other research tools like a postal survey, in-depth interviews, the focus group can make important contributions to the research, enabling the researcher to explore views, perceptions, and motives through group interaction, (Morgan, 1988). Also, a focus group is a good data gathering technique being inexpensive, data rich and flexible too (Fontana and Frey, 1998).

On the other hand, there are some disadvantages of taking the focus group approach. Firstly, it is difficult to get everyone to attend the group meeting at the same time and it is hard to get a clear recording in a group discussion in terms of people speaking at different volumes and at different distance (Fielding, 1993); Secondly, it is also difficult to complete a series of follow-up questions for one specific member of the group; Thirdly, considerations of sensitive research topics, 'group think' and the requirements of interviewer skills can also significantly affect the researcher's choice of a focus group technique (Cohen and Manion, 1994).

After weighing the advantages and disadvantages of using a focus group, the researcher eventually decided not to use a focus group approach and conduct individual interviewing to collect the data for this research.

It is generally believed that *tape recording* and *transcription* is important in qualitative research. Heritage (1984) suggests that there are some major advantages of tape recording and transcription, for example, tape recording can help to correct the natural limitations of human memories and permit repeated examination of the interviewees' answers, also it can open up the data to the public, which can be used as a secondary analysis. However, transcription is very time-consuming (Heritage, 1984)

Transcribing the interviews was undertaken after completion of fieldwork. The author listened to the tape-recording several times, then transcribed the key points of the respondent in relation to the research questions. In seeking to make sense of the data as a whole, it often happened that the same interview data could be interpreted in different ways. As Rubin and Rubin (1995) argue,

“Data analysis begins while the interviewing is still under way. After completing each interview and then again after finishing a larger group of interviews, you examine the data you have heard, pull out the concepts and themes that describe the world of the interviewees, and decide which areas should be examined in more detail” (Rubin and Rubin, 1995, p. 226)

In general, the whole analytic process in this research was flexible. Based on data interpretation, picking up the key points to reflect the research questions or reformulate the research questions were important elements of the research analytic process, which was a very useful strategy.

Interview preparation was important before starting interviews. There was a routine for interview preparation, including reading through all interview questions, checking the tape recorder and microphone, because a good quality interview recording is important for detailed analysis, it is often required in qualitative research, because it can ensure that interviewee’s answers are captured in their own terms (Bryman, 2001).

A good microphone is highly desirable because many interviews are let down by poor recording. There was one occasion in this research where the battery of microphone was running out, but interview was still being carried out without noticing the problem. Of course, the quality of interview was poor. Fortunately, extensive notes were always taken by researcher in interviews and in this case they provided a vital back up.

4.4 Analysing data

4.4.1 Interpreting interview data

After data collection stage, a critical question faced by researchers is “how can we draw valid meaning from qualitative data?” (Miles and Huberman, 1994, p. 1). In contrast with the case of analysing quantitative data, methods of analysis on qualitative data are not well formulated (Miles, 1979). The reliability and validity of qualitatively derived findings can be seriously disputed (Kirk and Miller, 1986). The problem of how to manage and analyse qualitative data can be regarded as being a relatively unresolved issue (Huberman and Miles, 1998).

Many scholars have made significant contributions to developing qualitative data analysis, see Dey (1993), Strauss and Corbin (1998) and Tesch (1990). The best known and practical approach is provided by Miles and Huberman “three concurrent flows of activity: data reduction, data display and conclusion drawing/verification” (1994, p. 10-12). These three stages of data analysis are summarised in **Table 4.3** as follows:

Table 4.3 Three Stages of Data Analysis

data reduction	make decisions about which chunks of data will provide the initial focus—select, focus, simplify, abstract and transform the raw data on this basis
data display	assemble the data into a display which clarifies the main direction and missing links of the analysis
conclusion drawing	draw out and debate meanings, patterns, explanations, possible configurations, causal flows and propositions
verification	test provisional conclusions for plausibility, sturdiness and validity

adapted from Silverman (2000), *Doing Qualitative Research*, p. 143

The *Data reduction* process mainly focuses on data selection, focusing, simplifying, abstracting and transforming. The process organises data in a way that allows conclusions to

be extracted or verified (Miles and Huberman, 1994). In this stage, pattern coding is a very important technique. Pattern coding is a way of assigning all interview text into a small number of sets, themes, causes or constructs (Miles and Huberman, 1994, p. 69). As Coffey and Atkinson (1996) suggests, “In practice, coding usually is a mixture of both data reduction and data complication. Coding generally is used to break up and segment the data into simpler, general categories and is used to expand and tease out the data, in order to formulate new questions and levels of interpretation.” (p. 30)

The next step of analysis is the *data display*, which involves bringing all the data together towards conclusion drawing and action. Diagrams, maps, charts and matrices are employed to display data and form patterns from coding. In this research, a summary table was used to bring all the data under particular codes within case studies. Also, the computer software Cool Edit Pro and small-size tapes were used at the same time to store and retrieve blocks of data, which allows frequent reference to items of qualitative data.

Yin (1994) suggests that a replication strategy is an important approach. This would involve studying one case in depth using a theoretical framework and then looking for matches to that pattern in other cases. This process is also called pattern matching technique (p. 116). Miles and Huberman (1994) points out this strategy is particularly useful where the pattern is expected on a theoretical basis to be weaker or stronger across case studies (p. 174). This technique was used in this research to analyse the application of incentive-oriented reforms across six universities, to see whether or not there were similar patterns during the marketisation process among different universities.

The *conclusion drawing and verification* stage mainly focuses on how to draw reliable and valid conclusions from qualitative research by means of various tactics of analysis. There are

thirteen tactics of analysis suggested by Miles and Huberman (1994), which can be used selectively and placed in the context of the theoretical framework, research design, and research resources. In this research, triangulation is the key tactic employed in the course of the process of analysis.

Triangulation is a particularly valuable technique that can be used in case study research to improve the validity of research (Cohen and Manion, 1994). As Bush (2002, p. 70) indicates triangulation is “fundamentally a device for improving validity”.

The concept of *triangulation* was elaborated fully by Denzin (1970, 297-301), who identified four basic types of triangulation: (1) data triangulation: the use of a variety of data sources in a study; (2) investigator triangulation: the use of several different researchers or evaluators; (3) theory triangulation: the use of multiple perspectives to interpret a single set of data; (4) methodological triangulation: the use of multiple methods to study a single problem.

Denzin (1970) argues that “sociologists must learn to employ multiple methods in the analysis of the same empirical event”, because “the flaws of one method are often the strengths of another, and by combining methods, observers can achieve the best of each, while overcoming their unique deficiencies” (Denzin, 1970, p. 308).

The research presented in this thesis employs triangulation widely throughout the research. For example data triangulation was employed in analysing Chinese university development. Statistical data is used to describe how rapidly universities have developed since the higher education reforms were launched, and interview data was used to analyse how the governance structure has been changed after the marketisation reforms and to identify the impact of marketisation on higher education management.

In addition, analysis of documentation and interview data were used together to analyse the quality assurance system and the incentive schemes in Chinese universities. This analysis is presented in Chapter 7. One key concern of taking data triangulation is to improve research validity and to minimise research bias through multiple sources and modes of evidence. As Jick (1979) argues, the use of complementary methods will lead to more valid results (p. 603).

4.4.2 Research ethics

In recent years, *research ethics* has become increasingly important in social science research. Ethical concerns relate to a wide range of issues, but the main issues revolve around informed consent, confidentiality and protection from harm, which are discussed in turn.

Informed consent requires that research participants have been carefully and truthfully informed about research content, for example, what are purposes of the research, what are limits to their participation, and what are potential risks for participants by taking part in this research (Sin, 2005);

Confidentiality requires that information about participants is kept private, in other words, any identifiable information about participant is not published in the research. Techniques for achieving this include anonymity or assigning code numbers to individuals (Homan, 1991);

Protection from harm requires participants not to be harmed by participating in research studies, including physical harm, or emotional harm, for example, the participant is not embarrassed, humiliated or placed under stress during the research process (Fontana and Frey, 1998).

A researcher has a duty to protect research subjects, so that they do “not suffer harm of embarrassment as a consequence of research” (Punch, 1997, p. 92). As Miller and Bell (2002)

remarks, ethical considerations should form an ongoing part of research. Sin (2005) argues that, such considerations also come into play before, during and after research, which means that research should consider ethical issues from initial planning, through to data collection, writing up and dissemination.

Research ethics were considered throughout in the whole study. At the beginning of each interview, there was an introduction procedure to provide relevant research information for all interviewees, including who the researcher was, what purpose this research had, what kind of information the interviewee was expected to give. Also, at the end of introduction, there was a promise that no interview questions would address political and personnel matters, all participants and their responses would remain confidential and anonymous in the research, and all interview data were to be used exclusively for academic purposes.

After gaining permission for being interviewed, then interviewees were asked at first whether the conversation could be taped during the interview. Most of them did not mind; only two interviewees refused to be taped, so permission for note taking was asked instead.

One interesting case occurred during the interview fieldwork when one lecturer asked the researcher to make promises first on the ethical position of the research, because she was worried about the misuse of interview information. Compliant with her wish, the researcher did make promises on such issues as using interview data wisely and accountably, and the purpose of this research as an academic study, and then she agreed to be interviewed.

Besides that, there was consideration of confidentiality for interviewees during writing up stage in this research. As a result, all interviewees were represented in the thesis by numbers, such as interviewee 3, interviewee 40, and no more personal information is presented in this

thesis. By doing so, the confidentiality of interviewees is protected. The use of this confidentiality technique did not affect any of analytic results of the research.

4.5 Conclusion

The key issue of this chapter has been to identify the main research methods used in undertaking the research. The chapter also provides an explanation of the particular research methods which were selected to conduct the research. The methodology adopted is based on research methods well-developed in social science.

In this research, a case study approach was applied to address the main research questions in accordance with the research resources available. In particular, multiple-case studies were designed for the research with the aim of improving data reliability and validity of whole research.

The interview is the key technique used to collect data in the case study approach adopted in this thesis. Compared to structured and unstructured interviews, the semi-structured interview approach adopted has the advantages of being flexible and allowing the gathering of extra information during interview process. A drawback of this method is that it may produce bias. However, this problem was guarded against by explicit interview questions and a commitment to objectivity on the part of the researcher.

The data analysis in this research involves three flow activities including data reduction, data display and conclusion drawing and verification. Pattern matching with coding is the key

strategy employed in this multi-case study work, and triangulation is the critical technique to be used for drawing and verifying research conclusions.

Research ethics was also a strong feature of the approach adopted in conducting research fieldwork. The techniques of providing informed content, applying confidentiality and striving for harm-protection designed to secure ethical concerns of the research were put into practice during the whole research study.

CHAPTER 5 ANALYSING HYBRID GOVERNANCE IN THE MARKETISATION OF HIGHER EDUCATION IN POST-MAO CHINA

5.1 Introduction

The chapter builds on the analyses set out in Chapters 2 and 3, which developed the theoretical approach to be used in analysing Chinese higher education. Chapters 2 and 3 conclude that under certain circumstances, hybrid governance can organise transactions in a much more efficient way than market and hierarchy, and that hybrid governance in higher education can be analysed in relation to three incentive methods: reducing state authority, enhancing academic power and creating market rewards.

The key focus of this chapter is to analyse hybrid governance in the marketisation reforms in Chinese higher education institutions, in particular, focusing on the issue of how the Chinese government set up various policy agendas to reduce state authority, enhance academic power and create market rewards. One research question “what forms has marketisation taken in Chinese universities?” is being answered in this chapter.

The chapter begins with the discussion of the development of Chinese higher education in post-Mao China in section 2, and sections 3, 4 and 5 set out the analysis of hybrid governance in the marketisation reforms in Chinese higher education in relation to three dimensions of state authority, academic power and market rewards.

In the course of marketisation, the reforms of policy decentralisation and the development of quality assurance are relevant to the changes of state authority and academic power. As a result, these two issues are discussed together in section 3.

Reforming the university funding system, establishing incentive systems and developing private universities have been the main actions taken by Chinese government in the marketisation of higher education, all of which are relevant to creating market rewards. Compared to the other two, reforming university funding system is a complicated issue and it has affected university management significantly. This issue is therefore discussed separately in section 4; and establishing incentive systems and private universities are dealt with together in section 5.

5.2 Higher education development in post-Mao China

5.2.1 The political and administrative system in Chinese universities

China is a socialist country; the Communist Party is the sole authority in the Chinese system, and this is recognised in the Chinese Constitution. The centralisation of leadership in the country has been explained by Hamrin (1992),

“Beginning in 1942, with a reorganization of the wartime base areas to overcome lack of coordination among Party, government, military, and mass organizations, the fundamental principle of highly centralized Party leadership was established. Policy directives by Party committees at the various levels were to be implemented unconditionally by the Party groups of the military-political commissions set up within each military, government, and mass organization...Party committees were set up in each non-Party organization and

given responsibility for supervising (not actually engaging in) administrative work” (Hamrin, 1992, p. 97).

The party-based political system is a distinctive characteristic of university management in China, and the Chinese Communist Party (CCP) plays a leading role on university administration. As Zhou (2006) states,

“The Constitution provides that, proceeding from the national and political systems, the Communist Party of China is the ruling party of the country, and that in a university, the Party’s grass-roots committee provides the leadership and supports the president in governing that university independently and with a high sense of responsibility according to the law” (Zhou, 2006, p. 64)

As the examples show in **Figure 5.1** and **Figure 5.2** , the Yunnan Arts Institute has two systems: on the one hand, the administrative system includes the president of the university and the executive bodies like the general affairs department, the finance department, library and the university affairs department; on the other hand, the political system includes the secretary of the Communist Party Committee (CPC) in the university and the executive bodies like the party affairs department, propaganda department and disciplinary commission, and also includes all CPC at grass-root level in each academic school.

Regarding the university administrative system in general, higher education institutions are administered by government bodies at different levels, but all under the unified guidance of the central government (Qiang, 1996). The *State Council* and the *Ministry of Education* are responsible for national policy-making, development planning, reforms and the direction of higher education as a whole. And the provincial governments and central ministries and commissions, including the *Ministry of Education*, are responsible for the direct administration of higher education institutions affiliated to them.

Figure 5.1 Yunnan Arts Institute Administrative Organisation Chart

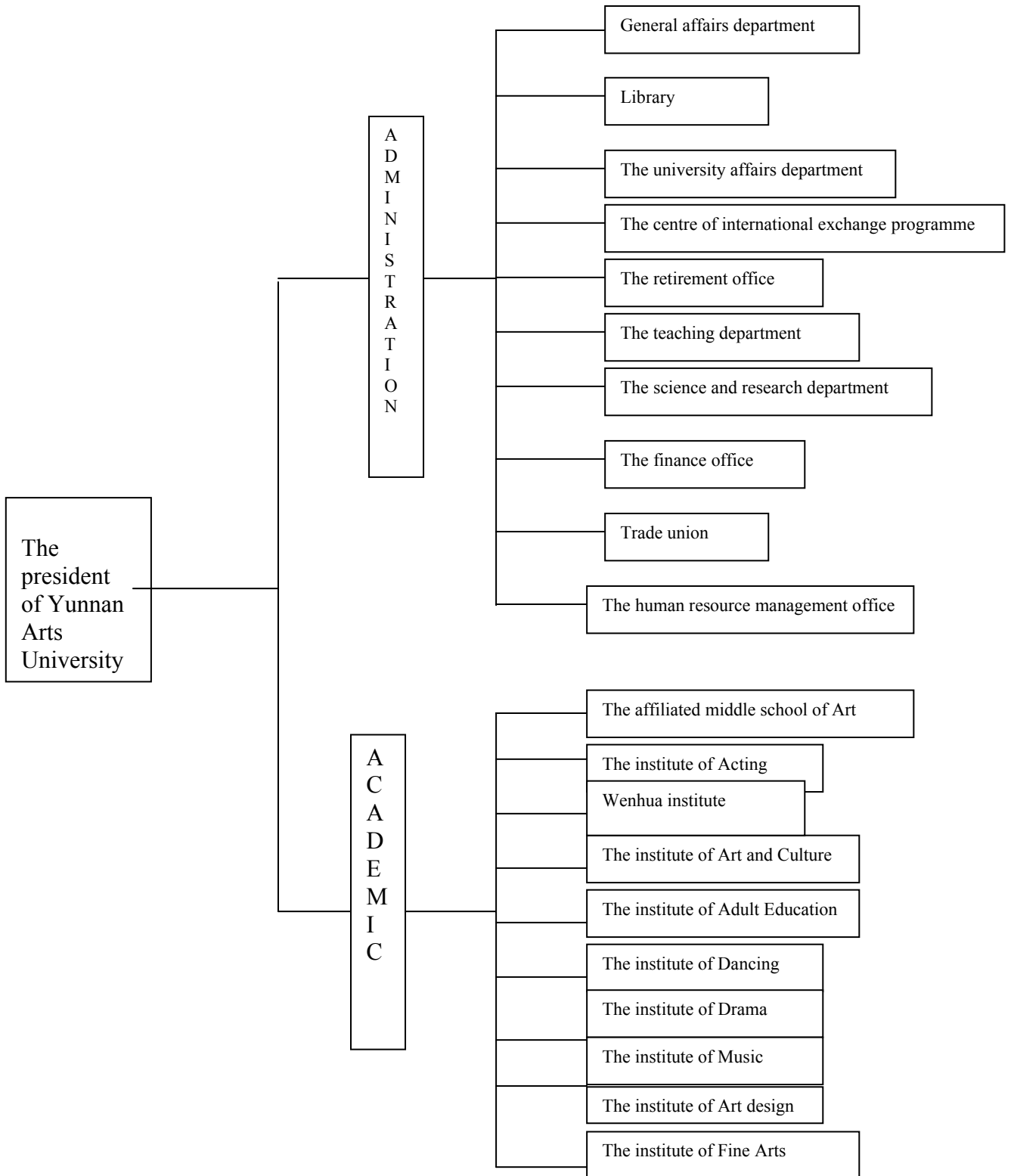
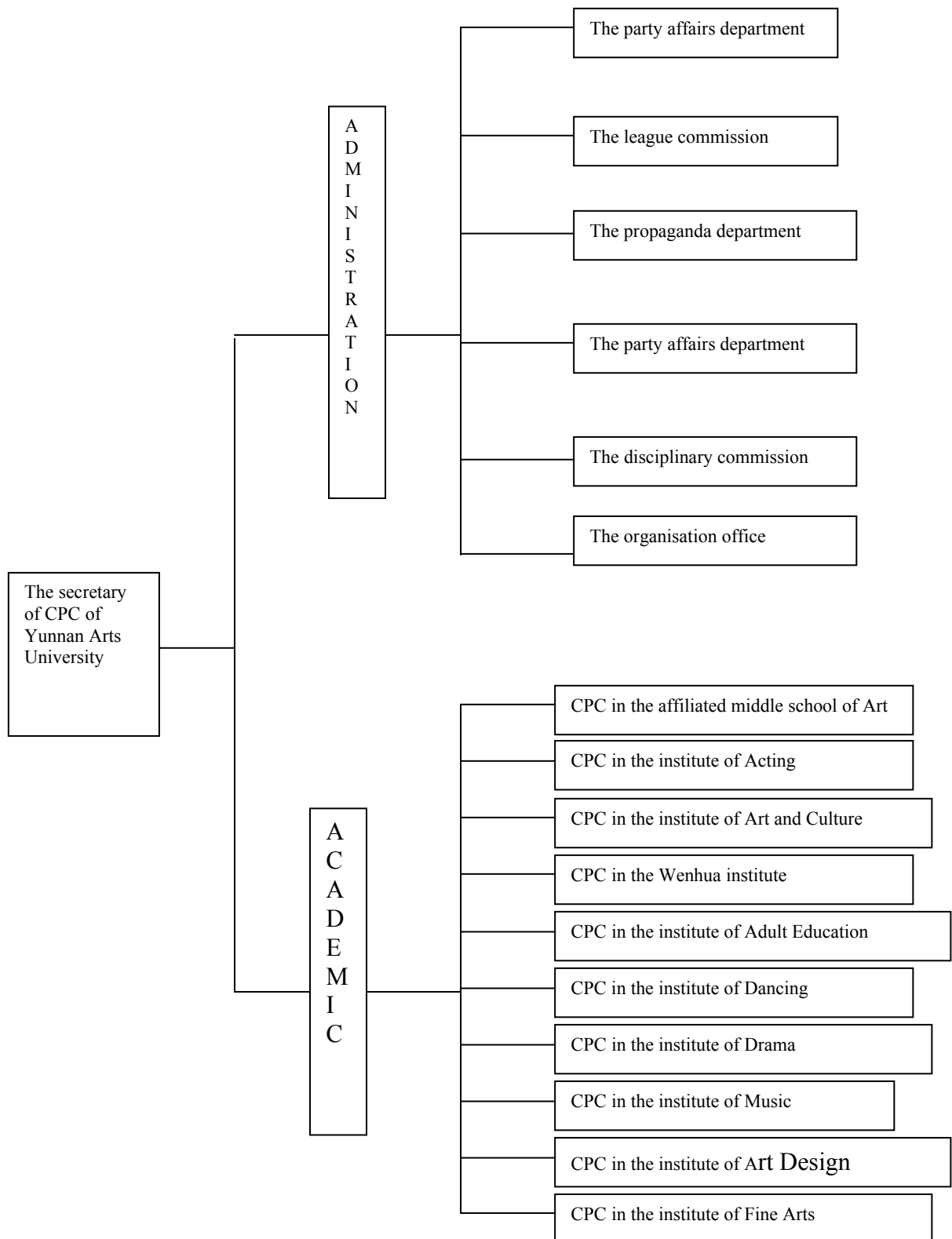


Figure 5.2 Yunnan Arts Institute the Communist Party Committee Structure Chart



In terms of internal administrative systems, universities operate under a president-in-charge administrative system. According to the *Higher Education Law*, the president takes full responsibility for his or her university under the leadership of the university's Party committee. The key role of the president of the university focuses on the internal management of the university, for example, enhancing academic excellence and innovation, and improving administrative efficiency. As the executive body, the administrative system provides full administrative support for the president of university.

As well as the president, there are four key offices in the administrative system to assist teaching and research services in the university: the teaching department, the general affairs department, the university affairs department, and the Party affairs department. These departments also supply services for teachers and staff at the grass-roots level.

The teaching department is the principal provider of university administration. It organises and runs teaching and research projects throughout the university. The general affairs department deals with logistics work for the whole university and provides basic material facilities for teaching and research and on-campus study. The university affairs department handles basic clerical work, files, statistics, public relations and internal or international cooperation. Lastly, the Party affairs department supports the university Party Committee, organises the political issues and senior administrator appointments and monitors administrative work for the whole university.

According to the *Higher Education Law*, China's higher education consists mainly of special course education (or junior college education), regular course education (or undergraduate education) and graduate education (or postgraduate education). There are eleven fields of study in the current higher education system: philosophy, economics, law, education,

literature, history, the sciences, engineering, agronomy, healthcare and management (Article 16, 17).

In the regular higher education system, there is normally a four-year undergraduate program leading to a Bachelor's degree, but studying in a medical field or at some polytechnic institutes requires two more years. Students can achieve a Master's degree after two or three years of successful study and the completion of a qualifying dissertation. Doctoral degree requirements can be accomplished in a minimum of three years. A dissertation must be presented proving that the candidate possesses the ability to undertake independent research and has made a significant contribution to the specific field.

5.2.2 The hierarchical model of higher education in the Mao period (from 1949 to 1976)

The development of modern higher education in China can be traced back to a little more than a century ago. The first government-run modern college was set up during the Reformist Movement of 1898. In July 1898, the Metropolitan University of the Capital City, which is the former Biejing University, was established. It was the government's flagship institution of higher education and also sowed the seed for China's contemporary higher education (Zhou, 2006). Since then, Chinese higher education developed unsteadily because of the country's complex social and political situation. By 1947, China had 207 universities in total; however, most of these were run by missionaries (Mok, 2005).

Since the foundation of the *People's Republic of China* in October in 1949 until the late 1970s, a new governance structure for universities had taken shape through the adoption of the former Soviet Union model in the Chinese higher education system. It was firmly believed that only through public ownership and state planning could enable the state impose its

desired structure on the economy and restrict behaviours that might threaten public health, education, safety, welfare (Wang, 2006).

As a result, a wide range of services in both economic and social life were managed by the government. Examples include telecommunications, electricity, insurance, banking, and education.

“In the period of the planned economy, everything was owned by the government, all enterprises were state-owned enterprise, and universities were public universities. Even though the photo-shop was run by a private company, it had to be named as a state-owned photo-shop. Any market-like relationship was strongly objected to, because it was the sign of capitalism--- a big monster threatening socialism”. (Interview 52)

During this stage, a significant restructuring of Chinese higher education system took place in the 1950s with the aim of moving towards the Soviet model, which emphasised the tendencies of the centralisation of knowledge and uniformity of thought (Hayhoe, 1989).

Under Soviet guidance, the Chinese government promulgated and implemented various decrees and policies to nationalize all private, public and missionary universities to become state-run universities and particularly focused on specialised training to meet the economic development needs. The whole reorganisation process involved not only a geographical rationalisation of higher education provision but also a complete rethinking of curricula patterns and institutional identities (Mok, 2005).

As a Socialist follower of the former Soviet Union, the importance of ‘learning from Russia’ was made clear and definite by the Chinese central government. Therefore, the restructuring of the higher education system produced a nearly one hundred percent reprint of the former

Soviet model. The structure of higher education institutions, such as subjects and specialities, the syllabi, teaching methods, textbooks, and even the institutional and discipline names, were all closely modelled on Soviet practice. (Yang, 2000)

At the same time, a hierarchical, centralized state control model in higher education was developed in order to best serve the centrally planned manpower needs (Agelasto and Bob, 1998). The *Ministry of Education* (MOE) played a dominant role not only in decision-making but also in the implementation of educational policies.

Ignoring regional differences and variations, the *Ministry of Education* manipulated all major educational decisions and controlled detailed university management at local level. Issues ranging from setting up courses, designing syllabi, assigning graduate jobs, deciding staff employment, and making budgets, all were controlled by the *Ministry of Education* (Mok, 1998).

As a result of direct control by the government, unitary instructional plans, course syllabi and textbooks were implemented in all the colleges and universities throughout the country (Min, 1994).

All university activities were carried out under the direct guidance of the *Ministry of Education* (Qiang, 1996). Hu (2005) argues that the Chinese higher education management before 1980s was such that “arrangements, change and cancellation of disciplines must be approved by the *Ministry of Education*universities must organise teaching in accordance with the teaching programs and teaching plans formulated and approved by the *Ministry of Education*.... The arrangement of disciplines, teaching programs, teaching plans, teaching curricula and teaching materials are required to be stable, and should not be changed hastily.

Important courses and system of disciplines must be approved by the *Ministry of Education*” (p. 33)

However, one difference from the Soviet procedure for student selection system was that China introduced a central unified planning and examination system (Kun, 1961). Students were required to pass the *National College Entrance Examination* (NCEE) before accessing higher education. Higher education was free for all students, but in return they had to accept a job assigned to them by the government after graduation (Mok, 2000).

“In the past, it was great news if you could go to university, everyone in your family would be proud of you! Once you became a university student, this meant you would have a good job, more pay and a better life in the future!!” (Interview 32)

During the Cultural Revolution (1966-1976), the *National College Entrance Examination* (NCEE) was cancelled and higher education was seriously devastated with most universities closing down for several years. Institutional administration was paralysed and classes suspended, many young people lost the opportunity of studying at secondary schools and universities. As Tsang (2000) suggests, the revolution caused profound damage to China’s economy, society, culture and education for decades, and it pushed the Chinese economy nearly to the brink of collapse.

After the *Chinese Communist Party Third Plenum of the Eleventh Central Committee* held in December 1978, the Chinese government launched its open door and reform policy with the aim of “turning the chaos to correctness” (Huang, 2004, p. 40). One of the first tasks towards the path of modernisation facing the Chinese government was to restore the education system.

The entrance examination to universities was re-introduced and professional standards and expertise were made respectable again (Yang, 2005).

After realising education's contribution to economic development and based on the experience of Western countries, central government in China has applied a number of reforms in higher education sector since the early of 1980s, particularly in the 1990s, and these reforms have brought significant changes in Chinese higher education system.

5.2.3 The development of higher education in the post-Mao period (from year 1978 to at present)

Under a new regime of the socialist market economy, the economy of China has become the fastest growing in the world with average annual real GDP growth exceeding eight percent since 1978. By 2001, China had become one of the world's largest economies with a GDP estimated at US\$ 5 trillion, but still a poor country according to GDP per capita of US\$ 4020 based on the measure by Purchasing Power Parity (PPP)³ (UNDP, 2003).

With the rapid development of the economy, the Chinese higher education system has also been reformed and has made significant progress from the mid of 1980s. In 1985, the Chinese government stipulated a key document *The Decision on the Reform of Educational System*, which started policy decentralisation in higher education and accelerated the development of higher education. In 1949, the average enrolment per institution in higher education was only 568 students; there was a major increase in 1978, to 1432 students in average. By 1985, the average enrolment was 1676 students, nearly three times that of in 1949 (see **Table 5.1**).

³ Chinese currency Yuan converted to US\$ by 2001 purchasing power parity: 1 US\$ = 1.88 Yuan

Table 5.1 The Change of Higher Education Institutions in China over time

Year	Average student enrolment	Total staff	Academic staff	Ratio of student and academic staff	Ratio of auxiliary and academic staff
1949	568	45983	16059	7.3:1	1.86:1
1958	834	192485	84993	7.76:1	1.26:1
1978	1432	518440	206254	4.15:1	1.51:1
1985	1676	870625	344262	4.95:1	1.53:1
1992	2074	1013553	387585	5.64:1	1.62:1
1997	3112	1031509	404471	7.85:1	1.55:1
2001	5870	1026344	531910	13.52:1	0.93:1
2002	6471	1127345	618419	14.61:1	0.82:1

Source: Kang (2005), *The area of institutional innovation in higher education resource*, p. 116

Despite the significant progress was made during 1980s, the Chinese government has made further efforts to enlarge the scale of higher education in the late 1990s. In 1999, the *Ministry of Education* issued *the Action Plan for Vitalising Education in the 21st Century* with the aim of accelerating the rate of increase in higher education much further. It was planned that the gross enrolment rate⁴ in higher education institutions should have reached 15 percent of young population by the year 2010.

As a result, the expansion of higher education in China has been unprecedented in magnitude since 1999, and 800,000 more students have been enrolled every year on average since then. The trend towards mass higher education has become clear. Based on the national statistical data⁵(2004), in the early 1980s, only 5 or 6 percent of graduates had the opportunity of higher education, but by 2003, 83 percent of graduates in higher school were gaining admission to universities.

The expansion of education at doctoral level is even faster than for undergraduates. In 1999-2003, nearly 12 times as many doctorates were awarded as in 1982-1989. The number of new

⁴ the ratio of enrolment students in the universities to all same age (18-22 years old) level of population

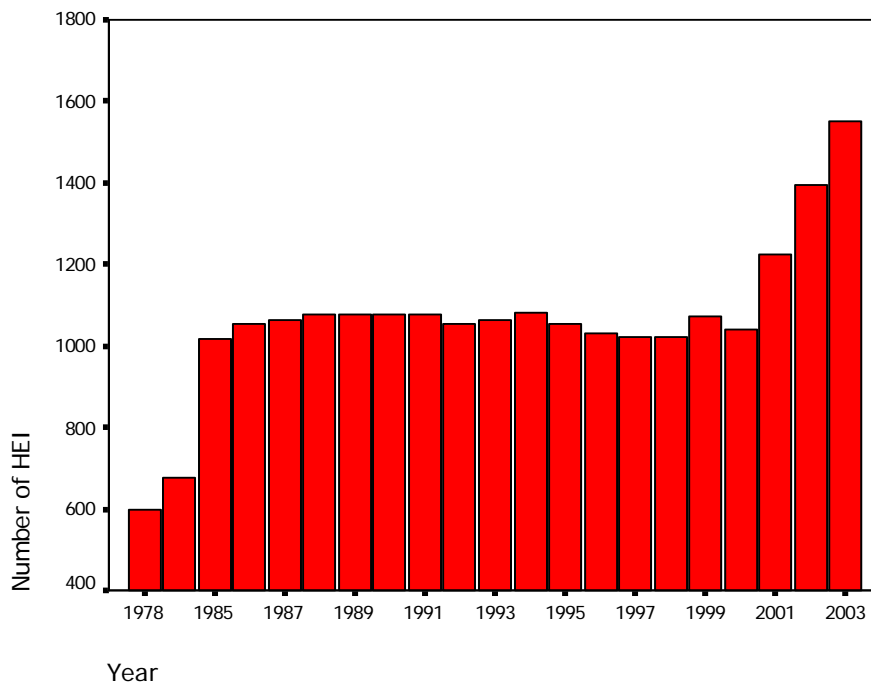
⁵ see <http://www.stats.gov.cn/>

doctoral students jumped from 14,500 in 1998 to 48,740 in 2003. Enrolments of full time university students totalled 1,080,000 in 1998 and exceeded 20,000,000 in 2004, and had therefore increased nearly 20 times over the period (Yang, 2005).

Table 5.1 shows that there has been a dramatic increase from 1949 to 2002 in terms of average student enrolment, total staff, academic staff and ratio of students to academic staff. In 2002, average student enrolment per institution was 6,471; total staff numbers were 1,127,345; academic staff numbers were 618419; and the ratio of students to academic staff was 14.61:1. Compared with the year 1949, it increased respectively 11.4, 24.5, 38.5 and twice student enrolment, total staff, academic staff and the ratio of students to academic staff.

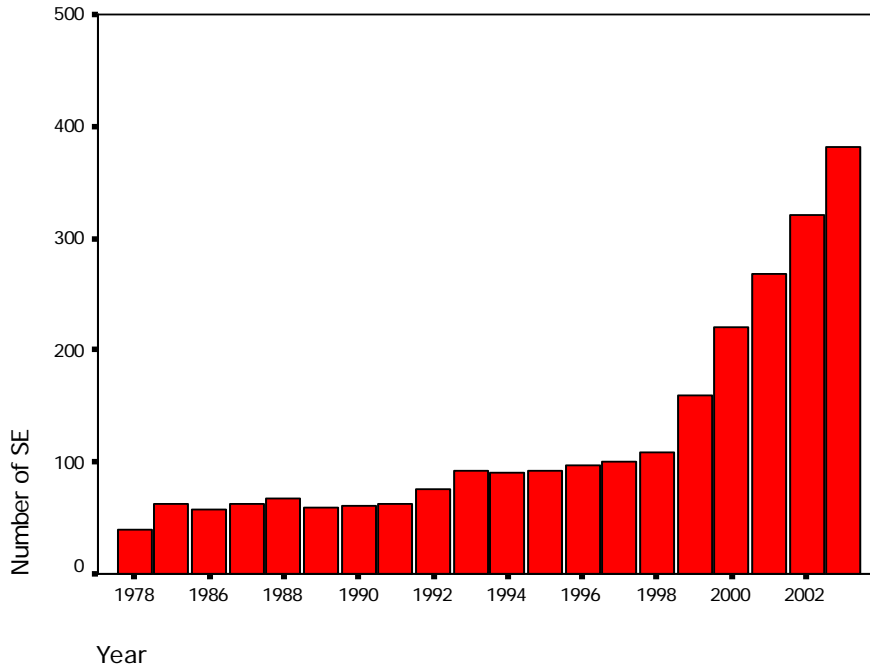
The rapid increase in the number of higher education institutions and the number of total student enrolments can be observed from the **Figure 5.3**, and the **Figure 5.4**. The figures

Figure 5.3 The Increase in the Number of Higher Education Institutions over time



Source: China Statistics Yearbook (2004)

Figure 5.4 The Increase in the Student Enrolment in High Education over time (million)



Source: China Statistics Yearbook (2004)

show there were two distinctive step changes in the year 1985 and in the year 1999, which is closely linked to higher education reforms, as discussed before.

In addition, according to national statistical data, the gross enrolment rate in higher education has been achieved much earlier than the schedule set by the government. **Table 5.2** shows that the gross enrolment rate had increased from 3.4 percent in 1990 to 15 percent in 2002.

Table 5.2 1990-2002 the Gross Enrolment Ratio of Students in Higher Education over time (%)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
GER	3.4	3.5	3.9	5	6	7.2	8.3	9.1	9.8	10.5	11.5	13.3	15

Source: China Education Statistics (2002)

In conclusion, Chinese higher education has developed rapidly since the higher education reforms were launched during 1980s. In particular, there has been dramatic increase in student

enrolments and the number of higher education institutions since the policy of developing mass higher education was introduced in 1999. The target of 15 percent of the gross enrolment rate was achieved in 2002, which is eight years early ahead of the plan.

5.3 Reducing state authority and enhancing academic power in Chinese universities

One key reason for the rapid development of Chinese higher education is the fact that, the Chinese government has been taking forward its marketisation reforms to restructure higher education system over the last two decades. The main initiatives of these reforms, policy decentralisation, developing quality assurance, establishing incentive systems and reforming the funding system, show that the Chinese government has used various incentive forces to organise universities and academics in Chinese higher education institutions.

These marketisation reforms have changed state authority, academic power and market rewards in different ways. The discussion of these movements will be elaborated in turn in the following sections.

In this section, changing state authority and academic power is examined through analysing policy decentralisation and quality assurance.

5.3.1 Policy decentralisation

From 1949 to 1976, there was a highly centralised hierarchical model run in Chinese higher education. As Mok (2002) summarised the key characteristics of this central model are as follows. The Chinese government was (1) providing of core funding for universities; (2) setting student enrolments for each institution; (3) approving senior staff appointments; (4)

authorising all new academic programmes; and (5) managing the student assignment process (Mok, 2002, p. 261)

Under this centralised governance, there was less institutional autonomy in higher education institutions and the initiatives for each university were weak (Mok, 1998). In order to reduce the rigid controls, the Chinese Communist Party called for “resolute steps to streamline administration, devolve powers to units at lower levels so as to extend the schools’ decision-making power in the administration of school affairs” (Lewin, 1994, p. 233). Therefore, starting from the 1980s, the Chinese government has adopted various strategies to reduce state control and increase autonomy for universities.

The process of decentralisation in Chinese higher education system began when the Chinese Communist Party (CCP) Central Committee issued *the Decision on the Reform of Educational System* (DRE) in 1985 (hereafter called the 1985 decisions). One of major themes of the 1985 decisions is the devolution of decision-making power from the central government to individual higher education institutions (Mok, 2001). For example, regarding administrative management in higher education, Article 4 of the document states that:

"Enlarging university autonomy. Under overall guidance of the state policy and the law, higher education institutions are entitled to more new powers, particularly with regard to freedom to recruit enterprise- financed and self-financed students outside the state plan; to readjust of teaching syllabus; to cooperate with outside university; to develop new academic programs; to allocate government funding according to own needsa president-in-charge system will be gradually set up, a teacher-based university management committee should be developed, a democratic and supervised administration system must be strengthened ... " (DRE, Article 4, 1985).

In particular, the government allowed local governments and educationalists more autonomy and flexibility in directing the path of education development, “In order to motivate local governments’ initiative, it is necessary to develop a state-province-prefecture three tiered educational system; apart from key educational plan decided by the government, local government can make its own educational decisions, regulations, or policies according to the local needs...” (DRE, Article 2). Meanwhile, in this document, the government attempted to diversify educational services by encouraging social organisations and individuals to contribute the educational development through various structures and processes (Mok, 2000).

In February 1993, the Chinese Communist Party Central Committee and the State Council issued another document: *the Guideline for China's Educational Reform and Development* (hereafter called the *guideline*). The *guideline* called for a deepening reform of higher educational system “by gradually setting up a system under which the government exercises overall management while universities are run independently and geared to the needs of society” (Wei, 1997, p. 35).

There is a clear statement in this *guideline* that “the national policy is to actively encourage and fully support social institutions and citizens to establish schools (including higher education institutions) according to laws and to provide right guidelines and to strengthen administration... and the government has to change its function from direct control to managing schools (including higher education institutions) through legislation, funding, planning, advice on policies and other necessary means” (Mok, 2001, p. 130).

At the same time, the *guideline* indicated that university autonomy should be expanded further in terms of student admissions, the setting up academic programmes, deciding administrative structures, staff appointments and dismissals, the use of funding, and

international cooperation and exchange, all of which were to be decided by the university according to specific conditions. As a result, the role of government has been significantly changed. Instead of exerting tight detailed micro control, the government now maintains macro control over higher education through deciding policy directions and issuing policy principles (Wang, 1988).

*The Education Law*⁶ was promulgated in 1995 and gave universities more freedom under the law. The document declared that "the national policy is to actively encourage and fully support social institutions and citizens to establish schools according to laws and to provide right guidelines and strengthen administration" and it also suggested that the managerial autonomy of universities should be expanded in terms of "enrolling students, adjusting specialities, appointing and rewarding staff, spending funds, evaluating performance and granting degrees"(Article 28, 1995).

Subsequently *the Higher Education Law*⁷ stipulated in 1998 and 'the Third National Education Working Conference' which took place in 1999 concluded that university autonomy must be implemented and enforced (Li, 2000).

In addition, *The Action Plan for Vitalising Education for the 21st Century*⁸ calls for the state to move from being controller and producer of higher education services to becoming an architect of a new, more self-regulating socialist market higher education system.

In conclusion, as a result of a policy of decentralisation, Chinese universities have been granted more power in deciding matters related to student enrolment, adjustment of academic specialities, appointing and dismissing staff, distribution of wages and the conducting of

⁶ Available at <http://www.moe.edu.cn>

⁷ Available at <http://www.moe.edu.cn>

⁸ Available at <http://www.moe.edu.cn>

international cooperation and exchanges. The role of government is to play a strategic function in making macro plans and policies for higher education institutions and in supervising the implementation of these plans and policies. According to a number of the regulations and laws, to a large degree state authority has been reduced and academic power has been strengthened in Chinese higher education institutions.

5.3.2 Developing a quality assurance system

With this expansion of student enrolments in the late 1990s, the quality of higher education has become a key concern for the government and society at large (Zhou, 2006). The traditional quality criteria are no longer adequate for evaluating mass higher education. On the other hand, with the number of higher education reforms, the expanding autonomy of higher education institutions has made it impossible for the government to control tightly all issues of university internal management.

The Chinese government has developed a quality assurance system in order to improve the quality of higher educational institutions, and has introduced a number of assessment programmes during 1990s, covering undergraduate, graduate and adult students' education.

Article 24 in *the Education Law* stipulates that “the state shall adopt an educational inspection system and assessment system for schools and other educational institutions”. Also, article 44 in *the Higher Education Law* stipulated that “levels of running a school and the educational quality of institutions of higher learning shall be subject to the supervision of departments of education administration and the evaluation organised by them”.

In 1994, the assessment programme for the Bachelor's degree was initiated with the aim of improving the quality in higher education institutions. By September, 1996, 148 higher

education institutions had passed this assessment. However, there were 22 higher education institutions which failed in the first evaluation.

According to the requirements set out by the *Ministry of Education*, a comprehensive assessment system in higher education includes institutional capability, management skill and quality, economic and social effects, educational quality and quantity and student quality. As far as institutional capability is concerned, according to *the Regulation on Setting up Regular Higher Education Institutions* (1986), requirements for undergraduate higher education vary with different kinds of universities. Requirements include teaching space per student, accommodation per student, teaching facilities per student, academic staff, library books per student, and the ratio of senior staff to all staff, (see **Table 5.3**).

Table 5.3 Higher Education Institutions Requirements for Enrolment by Field of Study

Items Indicators	Teaching space per student (M ²)	Accommodation per student (M ²)	Teaching facilities per student (yuan)	Library books per student	Academic staffs	The ratio of staffs with senior title to all staffs (%)
Comprehensive universities	15	6	5000	180	100	20
Science	18	6	5000	180	100	20
Agriculture	18	6	5000	180	100	20
Forestry	18	6	5000	180	100	20
Medicine	18	6	5000	180	100	20
Teacher-training	15	6	5000	180	100	20
Social science	11	6	4000	220	100	20
Finance	9	6	4000	220	100	20
Law	9	6	4000	220	100	20
Sport	27	6	4000	220	100	20
Art	27	6	4000	220	100	20
Minority	15	6	4000	220	100	20

Source: Ministry of Education (1986), p. 35

Since 1996, the *Ministry of Education* has been implementing the assessment of key universities to select outstanding achievements in undergraduate education. *The Scheme for Assessment and Selection of Outstanding Universities for Undergraduate Education* has set

up eleven criteria in the assessment system, including 51 sub-criteria, 20 core criteria and 17 quantitative criteria and covering the performance of several departments: the office of Party Committee, the university president's office, academic affairs, student affairs, the scientific research department, the human resources department, the finance department, the logistics department, the physical education department, the youth league committee, university archives, and the equipment department.

Teaching quality has become the priority of the quality assurance agenda since higher education reforms were launched in 1990s. Despite the first step towards quality assurance having begun in 1985, the key evidence that the quality evaluation started to be put into practice was the evaluation of undergraduate teaching that took place in early 1995.

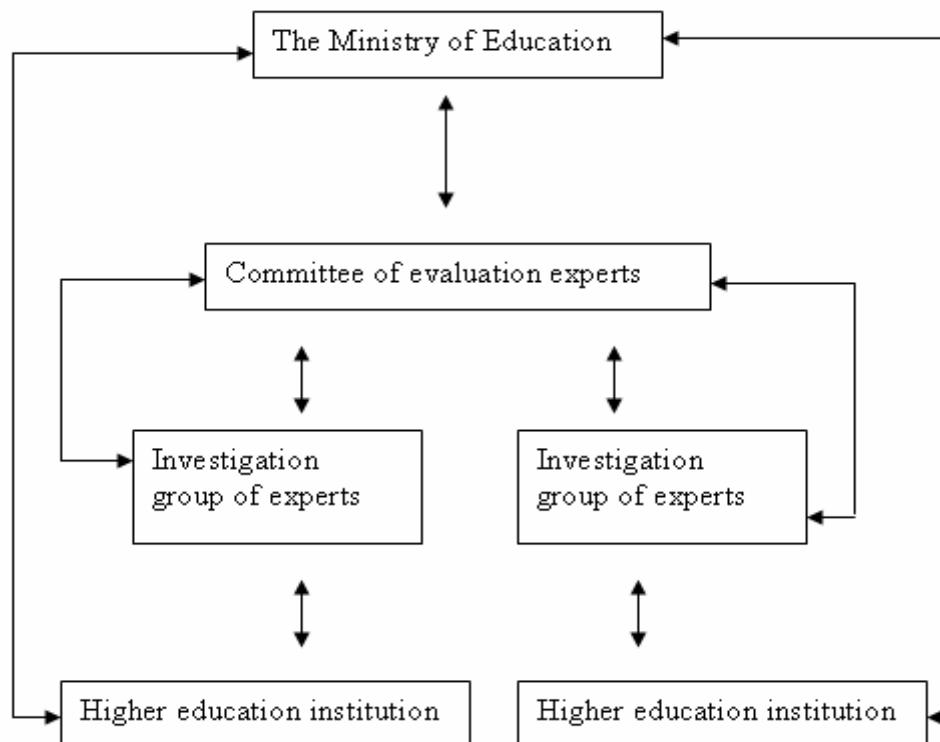
A number of macro policies have been produced by the government to safeguard that the quality of teaching in higher education institutions. These are *the Plan for Teaching Content and Curriculum Reform in Higher Education for the 21st century*, implemented in 1994; *the New-century Teaching Reform Project in Higher Education Institutions*, started in 2000; *the Proposals on Strengthening Undergraduate Teaching and Improving the Quality of Student Training in Higher Education Institutions*, published in 2001; *the Evaluation Plan for Undergraduate Teaching Quality in Higher Education Institutions (Experimental)* in 2002, and *the Project on Teaching Quality and Teaching Reform in Institutions of Higher Education*, started in 2003. These policies have emphasised improvement of teaching quality and training of students in creative spirits and practical abilities.

Coupled with these teaching evaluation programmes, the *Ministry of Education* has also established various rewards schemes. For example, *the Award for Achievement in Higher Education Teaching* was developed in 1989 and *the Regulations on Award for Achievement in*

Higher Education Teaching was published in 1994. These schemes are designed to encourage high-level teaching practice. Candidates are selected every four years. Also, *the Award for Excellence in Teaching for University Teachers* was established in 2003, which is a government award issued every three years to 100 candidates.

The *Ministry of Education* is fully responsible for making evaluation plans which are implemented by the committee of evaluation experts, and also organising the evaluation procedures. There is five-year cycle of evaluation, which takes place through three stages: self-evaluation, on-the-spot investigation by a group of experts and rectification (see **Figure 5.5**).

Figure 5.5 Undergraduate Teaching Evaluation



Modified from Zhou (2006), *Higher Education in China*, p. 111

At the first stage of national evaluation, the university writes a self-evaluation report after checking teaching quality compared to national criteria. Then the group of evaluation experts comes to the university to investigate the reliability of the self-evaluation report through attending lectures, interviewing faculty and staff, randomly checking the teaching conditions in the school, assessing university research achievements, looking over the graduates' theses and holding discussions with the president on a range of teaching issues. Subsequently, the group will write an evaluation report on the university's teaching quality. After feedback, the final evaluation report will be submitted to the *Ministry of Education*. The whole process might last a year. And based on the teaching performance score, the *Ministry of Education* will place each evaluated university in one of four categories: excellent, good, pass or fail.

The quality assurance system does not affect the distribution of university funding by the government. In contrast with most Western countries, university funding has not been assigned according to performance. Taking England as example, a university's recruitment ability and their financial position are highly dependent on the quality score they achieve in quality audit (Hoecht, 2006). Despite quality not being a determinant of central funding, Chinese universities still need to pay close attention to passing the national quality assurance programmes.

There is a comprehensive assessment report for all evaluated universities written by the Committee of Evaluation Experts, which is given back to each evaluated university. This does not provide a ranking against the other universities, rather it places the evaluated university in a category of excellent, fine, pass or fail. There is a feed-back process before a final decision is made for each university. In the assessment report, experts will make some suggestions

about quality improvement for each university. If the evaluation results are very poor, a second evaluation will be needed.

In general, the function of developing quality assurance in China is, partly to enable the government to put higher education institutions under pressure to improve educational quality and meet social needs. The other motivation is that it is useful for citizens to be able to obtain information about a university, in terms of its teaching resource and educational quality. For example, in 2002, the *Ministry of Education* launched a research programme on ‘Chinese higher education evaluation’, which listed 600 higher education institutions awarding bachelor degrees and 400 higher education institutions awarding postgraduate degrees and set out their education performance achievements.

In summary, after increasing university autonomy through its policy decentralisation, the Chinese government has developed quality assurance systems for higher education institutions with the aim of improving teaching quality in Chinese universities. Based on university self-evaluation report, the *Ministry of Education* organises the evaluation experts group to conduct the national evaluation for each university. There is no direct financial relationship between the evaluation score and the university funding distribution, and universities are not ranked in order against all the other universities.

This demonstrates that, to a certain degree, the Chinese government has strengthened its control of university performance and that academic power has been reduced through the implementation of quality assurance.

5.4 Creating market rewards through reforming the funding system in Chinese universities

Before the reforms in the 1980s, the Chinese highly centralised hierarchical governance model was incorporated with a very tightly controlled budgetary system for higher education institutions. According to the unitary State budget plan, the central government provided almost all revenues for higher education institutions. And then, based on the previous year's allocation and consideration of the needs and development, the government made some incremental adjustment for next year budget plan. At the end of the year, unused funds had to be returned to the government.

There was no incentive for efficiency gains in this strictly controlled finance system; in fact, this rigid financial system was harmful for the initiatives of universities. Therefore, from the early 1990s, the Chinese government has been taking a number of actions to reform university funding system with the aim of motivating innovation and improving performance. Reforms have included reducing government funding, charging student tuition fees and providing selective funding support from the government. These changes are examined in the following sections.

5.4.1 Reducing government funding

Since the launch of the open-door reforms in 1978, the development of the Chinese economy has increased dramatically. The total public allocation to higher education grew from 4.2 to 14.4 billion yuan with an annual average increase of 22 percent between 1978 to 1989. Government funding as a percentage of total university expenditure grew from 95.5 percent in 1978 to the peak of 97.7 percent in 1984, and then decreased to 90 percent in 1989, but in general, the government was a key financial source for university funding (see **Table 5.4**).

Table 5.4 The Funding Source for Chinese Higher Education from 1978 to 1989**(Billion Yuan)**

Year	Total	Government funding	Government funding as a percentage of total university expenditure	University-generated income	University-generated income as a percentage of university expenditure	Government higher education expenditure as a percentage of government expenditure on education
1978	4.4	4.2	95.5	0.2	4.5	19.7
1979	6.5	6.3	96.9	0.2	3.1	26.3
1980	7.6	7.4	97.4	0.2	2.6	24.8
1981	8.2	8.2	n.a	n.a	n.a	26.2
1982	9.0	8.8	97.8	0.2	2.2	25.2
1983	11.1	10.8	97.3	0.3	2.7	28.1
1984	12.9	12.6	97.7	0.3	2.3	29.2
1985	14.7	13.5	91.8	1.2	8.2	27.1
1986	15.1	15.1	n.a	n.a	n.a	27.0
1987	16.6	15.2	91.6	1.4	8.4	27.2
1988	16.4	14.7	89.6	1.7	9.4	25.2
1989	16.0	14.4	90	1.6	10	17.9

Source: adopted from World Bank (1997), p. 43 and Annex 13B

With deepening socio-economic and socio-political reforms, the Chinese government has been struggling with financial challenges, health care reform, housing reform and the building safety net program all need government support. As a result, the Chinese government has been decreasing financial support for higher education since 1990.

Table 5.5 show various proportion changes in Chinese higher education funding system. One distinctive feature of today's university funding picture is the decline of government funding. For example, the ratio of government funding to total university expenditure decreased from 93.52 percent in 1990 to 54.98 percent in 2001.

Table 5.5 The Proportion of Funding Sources for Chinese Higher Education during 1990 to 2001

Unit: percentage (100)

Year	Total revenue	Government funding	University tuition fees	Donation	Others
1990	100	93.52	2.79		3.68
1991	100	92.95	3.87		3.18
1992	100	90.55	5.62		3.83
1993	100	91.83	6.15	0.74	1.28
1994	100	82.17	11.85	1.29	4.69
1995	100	80.55	13.57	1.61	4.27
1996	100	78.78	14.41	1.65	5.15
1997	100	76.36	15.72	2.29	5.64
1998	100	64.94	26.56	2.10	6.39
1999	100	62.75	29.95	2.30	5.00
2000	100	58.47	34.72	1.68	5.13
2001	100	54.98	38.00	1.51	5.51

Source: Guo (2004), 'The financial change of Chinese higher education institutions in the 90s of 20 century', p.8

As a result of reducing government funding, diversification of higher education funding has been encouraged strongly by the government since the 1990s. Non-government funding sources have become crucial in supplementing university expenditure (Yang, 2005).

The student tuition fee is an important source of funding after 1997. In 2001, tuition fees contributed 38 percent of total university revenue; in 1991, it was only about 3.87 percent of total university revenue. The total amount of tuition fees in 2001 was increased nearly ten times over the past ten years without considering inflation.

In addition to student tuition fees, there has been an increased amount of funding from donations to cover fund universities. In today's Chinese universities, most donations are for the construction of buildings, which normally bear the name of the donor or are in the form of merit scholarships for students or for faculty members to study overseas (World Bank, 1997). However, small inland provincial universities are rarely the recipients of donations. As **Table 5.5** shows, donations increased from 0.74 percent of total university revenue in 1993 to the

peak of 2.30 percent in 1999, and then dropped to 1.51 percent in 2001. In general, the role of donations is small in terms of overall university funding.

5.4.2 Charging tuition fees

Charging tuition fees is an important method employed by the Chinese government to provide strong incentives for university innovation. In order to generate more funding from tuition fees, Chinese universities have to improve their performance according to market needs and compete with each other for student enrolments in the market. As discussed above, student tuition fees have become a vital source of university revenue after year 1997 in China. But how did this happen?

Prior to 1985, the Chinese government employed a formula-based approach to provide funding for higher education institutions. The key allocation parameter was the number of student enrolments. But university admissions were tightly constrained by the *Ministry of Education*; and there was a complex procedure to set up the enrolment plan. As Yin and White (1994) demonstrated, that

“plans for additional manpower drawn up by various government department, regions, enterprises and other institutions would be submitted through the various ministries, commissions, provinces, municipalities, and autonomous regions to the central government, and finally incorporated by the *Ministry of Education* into the state’s unified student enrolment plan” (Yin and White, 1994, p. 219).

Since the *Decision on the Reform of Educational System* was adopted by the government in 1985, universities have been allowed some latitude in student enrolment. Chinese higher education institutions were permitted to accept students outside the state plan, as long as

students were either sponsored by enterprises or self-financed. However, every year, the total amount of enrolment of higher education institutions had to be approved by the *Ministry of Education*.

In 1989, the report on *the reform of job assignment of graduates in higher education institutions* required that state-financed students should pay a low level of tuition fee for higher education but self-financed and enterprise-financed students should be charged more. Initially, the tuition fees were set up at 100 to 300 yuan per year.

From the year 1989 to the mid of 90s, there was a ‘two track’ (shuāng guǐ) policy employed in higher education tuition reforms: fee-paying students and state-funded students. In order to complement the cost of higher education, more universities began to charge student fees for higher education and recruiting fee-paying students was encouraged in some areas.

Zhu kaixuan (1995), the deputy chairman of the *Ministry of Education*, clarified the government policy in a national conference in 1992 as follows,

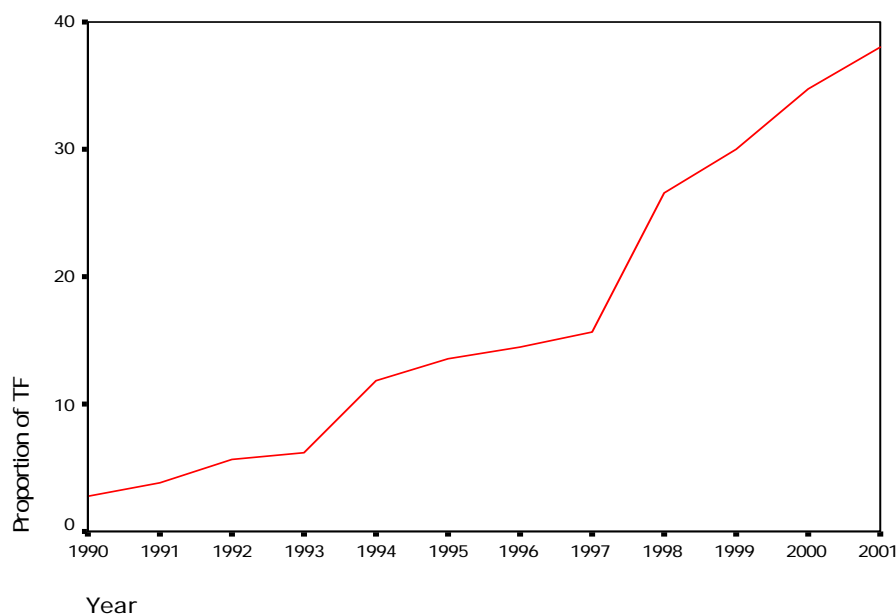
“The whole society’s concept of higher education should be changed. It should be made clear that higher education does not fall into the category of compulsory education and, in principle, all university students should pay their way” (Yin and White, 1994, p. 221).

In 1995, there were 246 higher education institutions that charged student fees. According to the announcement of higher education tuition in 1995, in general, each student was charged tuition no more than 1200 yuan per year, although some more developed regions could add 10 per cent. In particular, the *State Planning Commission* made a policy on tuition fees in art-specialised universities, where the tuition fees vary from 2400 yuan per year, 4000 yuan per year and 6000 yuan per year according to specialities.

In 1997, the ‘two track’ policy was changed to a one track policy (bìn guǐ) so that all students would pay tuition fees for higher education all over country, and free higher education has become history since then. The basic principle of tuition fees was to cover 25 percent of higher education costs, on average, the tuition fees were 2500 yuan per year to 3500 yuan per year during three year since 1997.

According to **Table 5.5**, student tuition fee has increased from 2.79 percent of total university expenditure in 1990, to 15.72 percent in 1997, and then to 38 percent of total university expenditure in 2001. As **Figure 5.6** shows, there was an upward trend of tuition fees between 1990 and 2001, and tuition fees have been increased dramatically after 1997, which is the time that the Chinese government started to charge tuition fees for all students in Chinese universities.

Figure 5.6 The Change of the Proportion of Tuition Fees from 1990 to 2001



Source: data from Guo (2004)

There was a major increase in tuition fee in 2001, as shown in **Table 5.6**. Taking Beijing municipality as example, for Beijing university and Qinghua university, the basic tuition fee was 4800 yuan for each student each year; for the science-based universities or specialised universities, such as Beijing science and technology university, Beijing foreign language university, each student was charged from 5000 yuan to 6000 yuan. The tuition fee was higher in art-based universities and could be varied from 4000 yuan to 10,000 yuan. However, in agriculture, forestry, normal education, minority education⁹, physical education, and maritime education were exempted from tuition fees (World Bank, 1997). Instead, in 1992, students in these kinds of universities enjoyed subsidies of about 80 to 150 yuan per month.

Table 5.6 Tuition Fees at a range of Specialties across Regions in 2001

Unit: yuan

Region Speciality	Bei Jing municipality	Shanghai municipality	Zhejiang province	Hubei province	Shichuan province	Dongbei region
Science	4800- 5500	5500- 6500	4500- 4800	4500- 5500	4500- 9000	4500- 5000
Economy and finance	4800- 5000	5000- 14000	4500- 4800	3600- 4500	3500- 4500	3500- 4500
Social science	4500- 5500	5000- 5500	4400- 4600	3600- 4500	3500- 4000	3500- 4000
Medicine	4500- 5000	6000- 10000	4500- 4800	4500- 5000	4500- 8000	3600- 4400
Foreign language	4800- 6000	5000- 10000	4600- 4800	4500- 5000	3500- 4500	2500- 5000
Art	7600- 10000	7600- 10000	7600- 10000	7600- 10000	7600- 10000	7600- 10000
Law	4800- 5000	5000-5500	4200- 4600	4000- 5000	2400- 3500	3000- 4000

Source: Li (2002), *The study on tuition fees system in regular higher education institutions in China*, p. 10

As **Table 5.6** shows, the level of economic development is a key factor in determining the level of tuition fees, in other words, more developed regions are associated with higher level tuition fees. Generally speaking, from the year 2000, a family with a salary-based income

⁹ The higher education particular provides for minority students

needed to pay 3,000-6,000 yuan for their children to attend higher education each year. If accommodation (see **Table 5.7**), food, and clothing expenses are added, the total amount of cost would raise to around 4,000-10,000 yuan a year.

Table 5.7 The Accommodation in Different Region in 2001

Unit: yuan

Region	Bei Jing municipality	Shanghai municipality	Zhejiang province	Hubei province	Shichuan province	Dongbei region
Accommodation	800-1300	600-1200	600-1500	600-1200	500-1400	600-800

Source: Li (2002), *The study on tuition fees system in regular higher education institutions in China*, p. 10

According to Chinese statistical data, in 2001, annual per capita disposable income of urban residents was 6,860 yuan, and annual per capita net income of rural residents was only 2,366 yuan. Therefore, it can be argued that tuition fees for higher education were set too high in relation to average income and it was difficult for most Chinese families, and particularly rural families to afford higher education.

5.4.3 Selective funding support from the government

In order to improve the quality of higher education and compete with distinguished universities in the world, the Chinese government introduced “Project 211” in 1995 and “Project 985” in 1999 to upgrade the level of higher education institutions in China. The main aim of these programmes was to enhance the key universities and direct their academic disciplines towards those of world-class universities. More importantly, with this new government strategy, public-funded higher education institutions are becoming increasingly selective.

Beginning in 1995, the aim of “Project 211” is to select the top 100 higher education institutions and key disciplinary areas to promote as a national priority for the 21st century.

The main concern of this plan is to introduce competition among universities and reward the top 100 higher education institutions. Selected universities are assessed by quantitative and qualitative criteria on staff, teaching facilities, library, laboratory facilities, research and students (Mok, 2000).

Very importantly, higher education institutions within “Project 211” would receive a higher level of funding support from the government with the aim of improving academic quality and quantity as first-rate universities in the world. According to an official summary, the total amount of “Project 211” funding during 1996-2000 were approximately 2.2 billion US\$ (Li, 2004). So far, there are ninety-five universities on the list of “Project 211”, for example, Qinghua university, Beijing university, Fudan university and Yunnan university. More detailed information is shown in Appendix 5.

In 1999, the Chinese government launched “Project 985” to ensure that selected universities received the extra financial support required to become world-class universities.

At the beginning, there were only two universities, Beijing University and Qinghua University in the scheme. But soon, another seven universities were added to the project. These were: Fudan University, Shanghai Jiao Tong University, Nanjing University, Zhejiang University, Xi’an Jiao Tong University, University of Science and Technology of China and Haerbin Institute of Technology.

With distinctive achievements and traditions, Beijing University and Qinghua University are important higher education institutions in Chinese education history. Therefore, these two universities had respectively obtained extra financial allocations of 217.65 million US\$ directly from central government from 1999 to 2001 (Li, 2004). The other seven universities

were financially supported by central government and local governments or other organisations, such as, the Chinese Academy of Sciences, the Commission of Science Technology and the Industry of National Defence.

Coupled with key national programs like “Project 211” and “Project 985”, the Chinese government has initiated other funding programs to promote research and development in the humanities and social sciences, including the 863 High-Tech Programs and the National Natural Sciences Fund. Also, many ministerial and provincial/city governments have built up their projects and grants for technology-based research investment. A substantial proportion of such resources goes to universities (Yang, 2005).

To sum up, the Chinese government has been reducing financial support for universities since 1990s; by contrast, university students have been charged to pay for their higher education since 1997, and as a vital supplementary source, student tuition fees have increased dramatically. Selective public funding support has changed the way that the government distributes extra public funding support for universities from egalitarianism to performance-based selective funding system.

Therefore, the main financial reforms for reducing state funding, charging tuition fees and selective funding support show that the Chinese government has provided strong economic incentives for Chinese universities to improve performance with the aim of attracting more students in the market and receiving more funding from the government. And the Chinese government has applied a market rewards approach to motivate universities through reforming the higher education funding system.

5.5 Creating market rewards through establishing incentive systems and private universities

Coupled with financial reform, the Chinese government has developed incentive systems and established private universities as part of its programme of restructuring the higher education system. These changes are examined in this section.

5.5.1 Developing incentive systems

Before the 1990s, the administrative system provided weak incentives for university staff, and the key characteristics of the old distribution system was based on egalitarianism, in a Chinese proverb saying, “eating in an iron-rice-bowl”, that means, a person once hired would never be fired; irresponsible and incompetent staff continued to receive their salaries without any punishment; those who excelled in their job did not get recognition and nor receive any special awards. As one university administrator said,

“There were no work norms, evaluations, clear descriptions of functions and duties, clear stipulations for awards and punishment, or system of personal responsibility. In distribution the practice is to allow ‘everyone to eat from the same big pot’, job promotion, wage hikes, housing allotments and designation of the advanced all have to be distributed evenly and made according to a unified standard” (quoted from Johnson, 1991)

Since 1990s, Chinese government has launched serious administration reforms in the universities with the aim of enhancing incentives for university staff through internal competition. The teachers’ appointment system and a new multi-remuneration system were developed in today’s Chinese universities.

Developing a contract-based employment

The teachers' appointment system was introduced with the enactment of *the Teachers' Law* in 1993 and *the Higher Education Law* in 1998. It was based on the principle of

“setting up teaching positions according to needs and opening them to public bidding and fair competition, appointing only those who have proved that they are the best through scientific evaluation, and abiding them by contracts” (Zhou, 2006, p. 74-75).

The Higher Education Law stipulates the basic requirements for university teachers, including a qualification for university credentials, basic theories in the relevant academic field, teaching and research ability and workload in related to the professional titles. Based on teaching and research tasks, universities would set up basic qualification standards for each professional title.

At present, there are principally two roles of university teachers according to the duties of the post: academic staff and administrative staff. By professional title, academic staff are appointed as teaching assistant (zhùjiào), lecturer (jiǎngshi), associate professor (fùjiàoshòu) or professor (jiàoshòu). Administrative staff are appointed as officer (yībāngàngbù), senior officer (kēzhǎng), deputy director (fùchùzhǎng) or director (chùzhǎng).

As one important component of the teachers' appointment system, an evaluation procedure was developed with the aim of assessing a teacher's performance in Chinese universities. In general, this evaluation system covers three aspects of a teacher's performance: work attitude, the teaching and research workload and teaching and research achievements and contributions. After evaluation, a comprehensive summary report is produced for each teacher, which

presents what progress and achievements or mistakes he or she has made in recent years. Based on these results, the university would make a decision for a teacher on appointment, dismissal, promotion, award, or penalty for next appointment cycle.

Under the guideline of the teachers' appointment system, each university has designed its own staff employment scheme to appoint university staff according to its own needs. For example, in the document: *the regulation of staff appointment in Beijing Industry University*, there are thirty-five articles¹⁰ in total stipulated by the university, which delineate a detailed administrative procedure and academic requirements in relation to staff employment, including a range of issues such as how to apply, how to evaluate, how to appoint and how to dismiss. For instance, according to the article 24, staff would be fired if one of these following conditions were met after evaluation in a year: poor teaching attitude; poor quality of teaching; unfinished teaching workload; causing a serious teaching discipline.

In line with this new university employment system, a new rewards system has been developed in Chinese universities. Since the late 1980s, the Chinese government has developed a number of special programmes with extra funding support to attract and cultivate excellent talents and academic leaders in higher education institutions, including *the Chang-jiang Scholars Award Programme*, *the Award for Outstanding Young University Teachers*, *the Cross-the-Century Plan for Training Outstanding Talent*, and *the Facilitation Plan for Excellent Young Teachers and the Facilitation Plan for Core University Teachers*.

Taking *the Chang-jiang Scholars Award programme* as an example, this programme was set up in 1998 jointly by the government and the Li Ka Shing Foundation. The key aim of this programme is to raise funds for training talented academics. Under the document of *the*

¹⁰ <http://www.ncut.edu.cn/renshi/zwpr/5.doc>

Appointment of Guest Professor in Higher Education Institutions, the Chinese government has set up 500-1000 positions for guest professors in universities across the country and clarified the main responsibilities and credentials for those wanting to apply for these positions. The successful candidates are appointed as Chang-jiang scholars. With an annual award of 100,000 yuan for five years, these Chang-jiang scholars can hire five core researchers to engage in frontier research or hi-tech science development. By 2003, a total of 537 guest professors had been appointed in seventy-four universities in China (Zhou, 2006).

Developing pay for performance schemes

Guided by the principle of ‘giving priority to efficiency and consideration to fairness’, the Chinese government has launched salary and remuneration reforms to enhance internal competition and incentives at the university since the mid of 1990s. The main purpose of building a sound remuneration system is to provide strong incentives for university staff to improve their performance. As Zhou (2006) argues the reforms,

“turn the role of salaries and distribution from improving employees’ living standards to providing incentives that can motivate faculty and staff, from resolving immediate conflicts of interest to maintaining long-term stability in the ranks of faculty members, and from motivation with money to the promotion of values and cultural spirit on campus.” (Zhou, 2006, p. 69)

In the past, a basic wage without any bonus was the key feature of the old salary system in the universities, which was established initially in 1985. Under this wage system, everyone holding a given professional title received the same base wage regardless of academic discipline, university, and geographical location. The main differences in wages among teachers with the same professional title were attributed to the number of years of work

experience. Seniority pay accrued at a rate of 0.5 yuan per month for each year of teaching experience (Johnson, 1991). The motivation for improvement stemming from this old salary system was very weak.

By contrast, there are various income sources besides a basic wage in a staff salary in the university, which is the key feature of the new multi-remuneration system. Basically, the university staff salary consists of the following items: 1) a basic wage: including a standard wage and the state subsidies; 2) a complementary wage: including workload allowance, teaching allowance, price subsidy, heating subsidy in Winter, travel subsidy and local subsidy; 3) benefits: including staff welfare benefits, subsidies for a single child, subsidies for health and medicine; 4) social welfare: including unemployment insurance, medical insurance, housing accumulation funds; 5) other wages: any income except from above (Wang and Wang, 2000)

With the principles of “a fair day’s work for a fair day’s pay” and “the more the work and the more the pay”, each university has been encouraged to design its own internal distribution system to attract teachers and keep them from leaving their jobs. Pay for performance schemes have been employed by many universities, such as, a piece-rate payment which is used for designing teaching allowance and workload allowance, and an efficiency wage which is used for designing promotion rewards for staff.

Taking Tianjin University of Science and Technology (TUST) as an example, according to the document *the reform of university allowance remuneration system in TUST* (trial)¹¹, there are various workload allowances applied to different teaching and administrative titles in the university. Regarding the professor-title, there are six levels of workload allowances as

¹¹ <http://5doc.com/doc/71852>

follows: 10,000 yuan per year for civil-merit-professor; 7,000 yuan per year for ‘haihe’-merit-professor; 4,000 yuan per year for professor-1; 3,400 yuan per year for professor-2; 2,800 yuan per year for professor-3; 2,400 yuan per year for professor-4.

As Wang and Wang (2000) have argued the new remuneration system has introduced competition into university wage system, “it was not only a breakthrough from the old egalitarian distribution system, but also an effective approach to motivate staff and improve staff incomes” (p. 141).

In brief, the Chinese government has established a contract-based employment and a new multi-remuneration system in the universities. Under these reforms, university staff have to improve their performance and compete with each other for relevant work positions in accordance with *the Higher Education Law*. At the same time, pay for performance applied in the new remuneration system, such as workload allowance and teaching allowance, has provided strong economic incentives for university staff to achieve excellent teaching and research performance. The market rewards approach has been developed further by the Chinese government to manage higher education institutions.

5.5.2 Re-establishing private universities

Before the foundation of the People’s Republic of China in 1949, there were 93 private universities among 223 universities (Lin, 1999). However, during the 1950s’ nationalisation movement towards public ownership, all private universities were closed down, transformed or amalgamated into public universities. Private universities in higher education completely disappeared from 1952 to 1982 in China (Yuan, 2004).

Since the open-door and reform policy was launched in 1978, the government has been putting more attention to higher education with the aim of accelerating economic development. In order to meet the Chinese citizens' high demands for higher education, from 1980s, the Chinese government had made a series of policies to attract social funding in the market and to encourage the establishment of private higher education institutions or "minban"¹² universities. As a result, private higher education has developed steadily since then.

The legal framework for private higher education

There have been three stages in the development of private higher education in China: (1) From the late of 1970s to 1992; (2) from 1992 to 1999; (3) After 1999 (Mok, 2002; Zha, 2001).

The late of 1970s to 1992 is the first stage in re-establishing private higher education.

In 1978, the *Chinese Communist Party Third Plenum of the Eleventh Central Committee* issued the *Constitution of the People's Republic of China*. In this document, Article 19 stipulated that the government would fully encourage social institutions and citizens to establish various types of educational institutions according to laws and guidelines issued. In March 1982, the first private university, named as Zhōng huá Shè huì University, was founded in Beijing, which started the development of private higher education in China. Thereafter, more than one hundred private higher education institutions were established rapidly in a couple of years.

¹² 'Minban' is the same meaning as 'private', many Chinese scholars use them interchangeably.

From 1992 to 1999 is fast-increase stage of private higher education.

When the former Communist Party leader Deng Xiaoping giving his southern-inspection-tour speech in 1992, it was not only marked a socialist market economy as a new stage of Chinese reforms, but also it provided a vital opportunity for private higher education's further development.

In the same year, the *Ministry of Education* issued the document *Points Regarding How to Expedite Reforms and Vigorously Develop Ordinary Higher Education*, which claimed that, in order to accelerate higher education development, it was important to widen the open-door policy and engage in more international communication and cooperation. In particular, foreign institutions and individuals were warmly welcomed and encouraged in education investment.

In 1993, *the Guidelines of China's Educational Reform and Development* declared for the first time that the national policy towards the development of non-state-run education would be that of "positive encouragement, strong support, proper guiding and effective management" (Hu, 2005, p. 35).

In 1995, the Education Law was promulgated and reconfirmed that the government would provide full support for the establishment of private higher education institutions by means of various enterprises, social forces, local communities and individuals under the Chinese legal framework (Zha, 2001). Since then, there has been a rapid increase in the number of institutions and student enrolments in private higher education.

On 1st October 1997, *The State Council* first promulgated *the regulation of running education by social forces*, which emphasised the legal status of private higher education. There are

eight chapters on regulations for private higher education institutions, which are associated with issues such as: the legal status of private higher education institutions; the requirements for establishing private higher education institutions; the formal application procedures for establishing private higher education institutions; the evaluation process and internal management requirements for private higher education institutions (State Council, 1997).

From 1999 to present is the speed-up stage of private higher education.

In June 1999, during the third national meeting for education practitioners, the General Secretary of the Communist Party, *Jiang Zemin*, positively confirmed the role of non-state-run universities and colleges and encouraged more social forces, non-government organizations and individuals to engage in establishing private higher education institutions and to create more learning opportunities for Chinese society (Mok, 2002).

More importantly, *the Stimulation Law of Private Education* was issued in 2003, and subsequently *the Practical Regulations of Stimulation Law of Private University* stipulated in 2004, which show that private higher education has developed into a new stage in terms of its institutions, administration and management in government law. The government not only focused on the quantity of private higher education, but also placed more emphasis on the quality of private higher education.

According to these laws, private higher education institutions have more autonomy, which is normally expressed as “five freedoms”---- an independent corporation, a separate campus, independent management, a right of issuing diplomas independently and a separate financial budget.

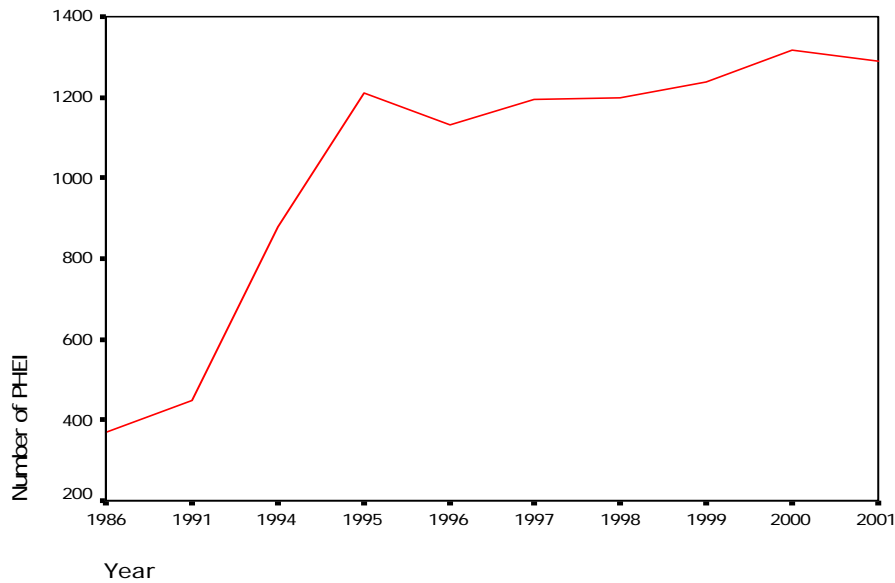
In the document *the Practical Regulations of Stimulation Law of Private University*¹³, the government has clearly declared that, private universities can set up academic specialties, deciding staff employment and recruiting students based on their own needs or market needs. For example, Article 22 states that “Private higher education institutions can decide their own teaching activities according to market needs, including setting up academic specialties and academic courses, and selecting teaching materials. These final decisions have to be reported to the relevant government agency”.

Under these policy frameworks, different types of private higher education institutions have been flourishing, and in particular, have developed dramatically in big cities, such as Shanghai, Beijing and the rich coastal provinces, for example Guangdong, Jiangsu and Zhejiang (Mok, 2002).

Figure 5.7 shows the rapid increase of private higher education institutions during 1990s. According to the China Statistical Yearbook (2002), in 1991, there were only 450 private universities, but it was 1291 private universities in 2001, nearly increased three times over ten years. Also, there were more than 1415 private higher education institutions with enrolling 2,000,000 students in 2004 (Kang, 2005).

¹³ <http://www.edu.cn/20040318/3101476.shtml>

Figure 5.7 The Trend of Private Higher Education Institutions over time



Source: data from Kang (2005)

The characteristics of private higher education institutions

There are various classifications of higher education institutions according to funding source and authorizing certificate. As far as the certificate is concerned, there are three types of private higher education institutions. The first are institutions which are recognised by the *Ministry of Education* and have authority to grant their own certificates or diplomas; the second are institutions on trial, where the requirement for student admission is lower, but students would be granted the certificate only after passing the national standard certificate examination. The third are institutions which are not qualified to grant certificates, offering assistant teaching for students who are prepared to attend national self-study examination. In 2003, there were 167 institutions with certificate, over 400 institutions on trial and others are more than 1100 institutions (Kang, 2005).

The categories of private higher education institutions vary according to different funding suppliers. These are, private owner and private run institutions, private-run and state-assisted institutions, state and private cooperation institutions, shareholder institutions, state owner and private assisted institutions, state owner and private run institutions and state and foreign cooperation-run institutions. Most private higher education institutions provide continuing or adult education without being able to grant a degree.

The most influential and popular type which has recently appeared in private higher education is called the private-run college in the public university, and renamed as the independent secondary institute in a public university in 2003 (dú lì èr jí xué yuàn). With private investment and the reputation of the public university, independent secondary institutions have been developing very fast since 1998. There were 148 independent institutes all over the country in 2004 (Pan and Wu, 2005); which includes 70,000 mu¹⁴ of campuses, 8,760,000 square meters of campus buildings, 12 billion yuan worth of teaching instruments and equipment, and about 20 million books at the initial stage (Zhou, 2003).

In essence, there are two distinctive features of independent secondary institute demonstrated as follows:

The comprehensive institute: in order to attract more students and compete with the state-funded public university, the independent secondary institute has to specialise in courses which are geared to newly emerging market needs. These popular specialities are normally distributed in various schools in public universities. The independent secondary institute is a collection of high-demand specialities across disciplinary.

¹⁴ 1 mu = 1/6 acre

Taking Taida independent secondary institute of Nankai university as an example, this institute includes an information department, an economic department, a law department, an environment department and a medicine department. This is typical example of a comprehensive institute.

Lower requirements of student admission: because private higher education institutions charge much higher tuition fees than public universities, so as to attract more students, lower admission requirements become important and necessary for the independent secondary institutions. The score for independent secondary institute is normally less than 20 compared with the cut-off score line for a public university.

Despite the rapid increase of private higher education, there are some challenges constraining the future development of independent secondary institutes.

First is the property ownership rights problem. There is no clear definition of the property ownership. Correspondingly, the responsibilities and benefits are obscure in private higher education institutions. Many problems arise in relation to this issue. For example, state-owned capital might be lost, or an independent institute might be difficult to separate out from the public university when it is strong enough to become independent.

Secondly, most independent secondary institutes are structured to the same model as their parent (public university), a collection of quick-return courses without their own academic specialty, which is harmful for their survival for a long run. Also, there are immense difficulties facing the independent secondary institute in competing with state-funded universities in reality, in terms of funding, teaching resource and academic staff. Therefore,

independent secondary institutes are easily to put more attention on making profits, rather than improving education quality.

Thirdly, students in independent secondary institutes are admitted with lower scores, and most teachers are retired staff from public universities, and so problems with the quality of education arise in these institutes. So far, nearly 80 percent of independent secondary institutes are without their own academic staff across the country (Zha, 2001).

All these disadvantages are detrimental to both the development of independent institutes and the equality of higher education. On May 13, 2003, the *Ministry of Education* issued *A Few Ideas on Formalizing and Strengthening the Management of the Experimental Running of the Independent Institute by Public Higher Education Institutions with a New Institution and Model* to formalize and strengthen management of independent institute with the aim of improving the educational quality and accelerating the development of independent secondary institutes for the future.

To summarise, the Chinese government has established private universities since 1980s. According to *the Stimulation law of Private Education*, private universities can flexibly set up internal management processes in response to market needs. For example, they can set up academic specialties, decide staff employment and recruit students. However, at the early stage of the development of private universities, there are some disadvantages, such as the conflicts of property rights, lack of academic distinctiveness, and the low quality students.

Based on neo-liberal principles, the creation of market competition can provide strong incentives for public universities to improve efficiency in higher education provision, in the form of ‘survival of the fittest’. The establishment of private universities in China indicates

that, the Chinese government has created market competition through developing private universities to motivate public universities to improve their performance in the market, which is the other market rewards approach employed by the government to reform the Chinese higher education system.

5.6 Conclusion

Since the open-door policy and economic reform was launched in 1978, Chinese higher education has developed dramatically in terms of the number of student enrolments and the number of higher education institutions. The reforms of marketisation in higher education demonstrate that, the Chinese government has applied three incentive methods to motivate universities and academics towards improved performance, these incentive methods are reducing state authority, enhancing academic power and creating market rewards.

The key points in this chapter can be summarised as follows: on the one hand, the process of policy decentralisation shows that university autonomy has been strengthened, and the government has retreated from its role in university internal management and has left more space for academics to decide academic issues. On the other hand, the introduction of quality assurance has placed more pressure on universities to meet the targets set by the government. Therefore, state authority has been tightened and academic power has been reduced in the development of quality assurance system.

The decline of government funding and the policy of charging tuition-fees have provided strong economic incentives for universities to improve their performance with the aim of attracting more students in the market and generating supplementary funding for university

expenditure. The resurgence of private higher education, on the one hand, is intended to attract more market funding for education and to meet the increased high demand of higher education. On the other hand, the intention of the government is to encourage potential competition with public universities with the aim of improving the quality of higher education as a whole.

In brief, through a variety of government policies in the marketisation reforms, the Chinese government has reduced state authority, enhanced academic power and created market rewards in Chinese university management. Apparently the traditional highly centralised hierarchical governance in Chinese higher education has been replaced by the new hybrid governance, which is characterised by low state authority, strong academic power and strong market rewards.

Therefore, the key issue examined in the next two chapters is the question of how these government policies affected the incentives of universities and academics.

CHAPTER 6 THE IMPACT OF REDUCING STATE AUTHORITY AND ENHANCING ACADEMIC POWER IN THE UNIVERSITIES OF YUNNAN PROVINCE

6.1 Introduction

The analysis in the previous chapter shows that, the Chinese government has established various policies in the marketisation reforms to motivate universities and academics towards better performance, including reducing state authority, enhancing academic power and creating market rewards. And the traditional hierarchical governance has been replaced by hybrid governance in Chinese higher education.

Therefore, the objective of this chapter and that of the following Chapter 7 is to examine the implementation of these government policies at the university level. These two chapters explore the issue of, to what extent, these incentive-based marketisation reforms have affected university internal management and academic performance.

The issue of reducing state authority is closely linked to increasing institutional autonomy, and increasing institutional autonomy is relevant to enhancing academic power; therefore, the impact of reducing state authority and enhancing academic power will be discussed together in this chapter.

As a key ingredient of Chinese higher education reforms, the move towards market rewards has had a major impact on university management and academics performance. Therefore, the impact of creating market rewards will be examined separately in Chapter 7.

The implementation of quality assurance is associated with all three incentive methods and in this way is different from the other reforms in the process of marketisation, which caused changes of only one incentive method. Therefore, the discussion of the impact of quality assurance is covered in this chapter, but as a separate subsection.

The data used in this chapter and Chapter 7 were collected from two research interview cycles, which were carried out from September to November, 2005 and from July to September, 2006 in six university case studies in Kunming city, Yunnan province, in China. Most interviewees were working in the universities, some interviewees had senior management responsibilities such as the president of university; some were the heads of school or the heads of administrative department, some were senior members of academic staff. In addition, some government officials were interviewed. In total, sixty-six individuals were interviewed using a schedule of semi-structured questions.

6.2 Changing state authority and academic power in marketisation of higher education

6.2.1 Theoretical analysis

According to the theoretical analysis set out in Chapter 2, there are three main governance structures: market, hybrid and hierarchy. The key problems that impair hierarchical arrangements are the incentive problem and the shirking problem; by contrast, market arrangements can be impaired by problems of cheating. As a result, under certain environments, hybrid governance can organise transactions more efficiently than hierarchical and market governance, because hybrid governance can employ various incentive instruments

to mitigate the shirking problem in hierarchical governance. At the same time, hybrid governance can use monitoring methods to control the cheating problem in market governance.

Principal-agent theory argues that, when the agent has the best information on the job they are carrying out, reducing the principal's direct control and granting more autonomy to the agent can provide strong incentives for the agent to achieve better performance. This is expected to increase job commitment and motivate the agent towards working efficiently.

Therefore, reducing controls and increasing job autonomy are effective incentive methods employed in hybrid governance to overcome the incentive problem in hierarchical arrangements.

In many countries, governments have been reducing tight universities control by the state and enhancing academic power to motivate the efficient self-management of universities. Universities can flexibly adjust their internal management structures and find the best way to satisfy clients according to market needs. In such a system, the main function of government is to set broad policies to exert strategic steering on the university development, 'steering at the distance'.

The key issue in this section is therefore to analyse the impact of reducing state authority and enhancing academic power on university management in China. The key purpose is to examine how the impact of changes in state authority and academic power have affected the organisation of universities as a result of marketisation in higher education.

The impact of the reduction in state authority is mainly examined in relation to the role of government on university internal management. The reasoning is that shifting the

governmental function from direct tight governmental control to indirect performance-based governmental control will motivate universities in different ways. Therefore, this chapter will examine the effects of such a move from tight control to loose control.

The impact of enhanced academic power is witnessed in changes in the three areas: setting up academic programmes, changes to academic freedom and the relation between administrators and academics. The main reasons are considered as follows:

Firstly, a key element of institutional autonomy is the ability to set up academic programmes and courses freely. This freedom is very important in enabling a university to survive in a competitive environment, because universities can adjust their course plans in response to market needs quickly and attract more students in the market. At the same time, this freedom can enhance the incentives for the university to provide the best academic programme for their students.

Secondly, in relation to institutional autonomy, a high level of academic freedom is an important source of incentives for better academic achievements. As it is difficult to measure the performance of academics, principal-agent theory suggests that creating more job freedom with certain rewards schemes can increase job commitment and motivate the best performance. Thus, in this section of the chapter, academic freedoms are illustrated by examining whether academics can decide what should be taught and how this can be done.

Mintzberg (1983) argues that academics as professionals have a high level of freedom and power, because they have special knowledge and skills. According to Mintzberg's analysis, academics play a key role in university management. Indeed they not only control their own

work, but also control administrative decisions such as hiring colleagues, and distributing resources.

On the other hand, the main role of administrative staff in the universities is to provide “as much support as possible” for professionals, in particular, to provide solutions to administrative problems for academic staff and to assist academic autonomy in the universities.

More importantly, from Mintzberg’s viewpoint, the administrators can keep their power only when their service is effective. If an academic does not receive the freedom that he (she) needs, he (she) could “pack up his kit bag of skills and move on” (Mintzberg, 1983, p. 195).

Based on these theoretical analyses, the following section will therefore examine the evidence of the actual impact of a reduction of state authority and an increase in academic power on university internal management at university level. Then it can be examined, as to whether or not these changes have been happened in the way the government has suggested.

6.2.2 Reducing state authority

After a series of changes of governmental policies and educational laws carried out in the 1980s, the Chinese government has claimed that the state has stopped interfering and that it allows universities to manage most of their internal issues. Under this decentralised policy framework, universities have powers to make decisions on admitting students, setting up academic programmes, appointing staff, spending funds and conferring degrees.

However, from the viewpoint of many interviewees, the Chinese government has not put these new promises of freedom into practice, and indeed most of the important internal management issues in the universities are still controlled by the government. At present, the

Chinese universities cannot decide freely how many students are enrolled, what kind of academic programmes are provided, what kind of staff are recruited, how much funding is distributed and in which way to grant the degrees to students. As one interviewee said,

“According to the *Education Law* or the *Higher Education Law*, universities are given legal autonomy from the government. However, in fact, we cannot do anything! The decisions on number of student enrolment and tuition fees, designing the academic programmes, appointing staff, granting degrees, even making covers for the certificates, these tiny things all are controlled by the government. Whether the student can graduate or not is determined finally by the government, not by university! Therefore, under the government’s tight control, all public universities in the country are running in the same way: the same administrative structure, the same academic courses plan and the same funding system, no difference at all” (Interviewee 52)

Many interviewees emphasised that the management culture of Chinese universities is very difficult to change because of the reluctance of the government to give up more power. Despite the series of decentralised policies which have been initiated, in reality, the Chinese government still controls universities tightly and plays the key role on university internal management.

In present-day Chinese universities, on behalf the government, the Local Human Resource Committee decides most university staff appointment issues; the Local Education Committee decides most academic issues, the Local Finance Committee decides university funding issues and the Local Planning Committee decides the structure of student tuition fees for universities. In addition, the president of university is appointed by the government. Therefore, the opportunity for university to make decisions is very small with respect to university internal management.

“In China, universities cannot manage solely depending on the market. To most public universities, because of that, government policies have been made, the governance structure has been decided, and the presidents are appointed by the government, so the presidents have to comply with the government arrangements. My view is no autonomy, no independence; no independence, no innovation! In this sense, it is difficult to say that Chinese higher education is marketised. The big problem of government control is, the government is not capable of dealing with university issues, but it wanted to decide everything for universities. Of course, as a result, performance is poor. We cannot do anything about it, because the government is in charge” (Interviewee 7)

“I personally think there is no big difference in terms of university internal management compared to the past, because the government doesn’t want to lose any control at all. If all universities can make their own decisions, where is the power of the government then?” (Interviewee 25)

These findings show strongly that the hierarchical control model still functions in university internal management; and the incentive for university innovation is weak. Within the government’s tight constraints, universities find it difficult to act according to their own initiative.

“Sometimes, we are capable of recruiting more students, but we cannot, the state has the plan, we cannot break it, otherwise our funding would be reduced” (interviewee 44)

“We do not want to recruit too many students because of high costs of training in our university; however, we cannot do it as we wish, because the local government ‘tell’ all universities to increase the gross enrolment rate of higher education, this is a national policy required by the central government, so we have to enlarge our student enrolment no matter how difficult our financial situation is” (Interviewee 25)

At the same time, the government has put lots of pressure on the shoulders of university presidents to do a good job. A university president has to be accountable to the government and be responsible for what happens in the university.

“There are more responsibilities than before. As a president, I feel exhausted, because I have been involved in so many things, student issues, staff issues, and my personal academic tasks, I am busy everyday. The state requires that no student should drop out because of lack of money, but not a penny is received from the government budget! We have to seek funding to support poor students. Also we have to achieve so many teaching quality requirements, to attend various administrative check-out meetings, to draw up various documents, all time-consuming.” (Interviewee 52)

Despite this close government control, there is still some scope for universities to “move around” (interviewee 65). To a certain extent, the Chinese universities have some freedoms to decide their own academic programmes within the guideline of the government and make useful suggestions on key issues of university internal management, such as staff appointments, student enrolment and standards of tuition fees, “we (universities) have more rights to provide advice than before” (Interviewee 43)

“Although the government decides most issues for the universities, such as determining the basic academic specialties through the *Catalogue of Undergraduate Academic Disciplines*, there are more than two hundred specialties, the universities still have lots of chances to decide their own specialties within this catalogue, the government did not require all universities have to provide the same speciality structure. We still have freedoms to develop our own academic distinctiveness” (Interviewee 65)

“We cannot decide to set up any new speciality in our university, but we can decide to cancel some unpopular specialties which we already have” (Interviewee 42)

From this research, it is clear that in practice there has not been the degree of reduction in state authority, nor the consequent degree of increasing institutional autonomy that government rhetoric has claimed. The Chinese government still controls most key issues of university internal management, for instance, staff appointment, academic programmes, student enrolment and tuition fees. As a result, in comparison with the government declaration, state authority has only been reduced to a small extent from its previously very higher level.

6.2.3 Enhancing academic power

The analysis of the previous section identifies that, although the government has promised to reduce its hierarchical control on university management, the reality of changes at a university level is very limited. So, have academics in the university enjoyed a high level of freedom to set up academic programmes and academic courses in order to adapt to market needs?

Setting up academic programmes

Findings from the research interviews suggest that such freedom has been very limited. Many interviewees complained of tight government control on academic issues.

Through *the Catalogue of Undergraduate Academic Disciplines*, which is promulgated by the *Ministry of Education*, the Chinese government has controlled academic issues for universities. The state-issued Catalogue highlights the key academic criteria for each specialty, for instance, training aims, basic courses and compulsory courses. Based on these national academic criteria, each university designs its own academic structure for academic specialties, including the purpose of study, the teaching plan, the course credits, and the thesis requirements.

No Chinese university can freely set up academic specialties according to market needs (Interviewee 52); there is an application procedure for adding a new specialty in the universities. All universities have to apply for the permission to set up a new academic specialty and have to provide relevant information to the state, such as teaching conditions, capability of offering academic courses and student living conditions. After the approval by the *Ministry of Education*, then universities can legally enrol students for this new specialty, but they have to set up academic courses according to the national Catalogue.

“We cannot freely decide what programmes are provided. There is a *Catalogue of Undergraduate Academic Disciplines* for all universities. Within this catalogue, we have more freedoms to set up programmes, but any new special programmes introduced by the universities must be examined and approved by the *Ministry of Education*. For example, we applied for a new specialty—the local arts and designs according to Yunnan ethnic reality. We thought it was a good specialty, suitable for local culture and the market, but it failed, because the *Ministry of Education* did not approve.” (Interviewee 6)

“Applying for a new specialty is very difficult in today’s Chinese universities, because the competition is very strong. Therefore, in order to get the approval for the new specialty from the *Ministry of Education*, we have not only to meet all the academic requirements set up by the government, but also have to spend lots of time and resources on lobbying. Sometimes, the latter is much more important” (Interviewee 57)

In the pre-reform planned economy of China, specialised training was the key model for educating students, and was applied in all universities throughout country. Disciplines and specialties were set up in accordance with national social-economic development and the regulations set by the *Ministry of Science*. As a result, universities were required by the state to make teaching plans in strict accordance with targets planned around requirements for

specialists. Despite the advantages of being simple and efficient, this model trained most students in a way of producing a narrow specialty and limited knowledge range, and poor adaptability to social change.

Therefore, under the new reform schemes, the Chinese government has made more efforts to explore new models for better student training. One of key trends is to widen the content range of specialties and to put greater emphasis on basic knowledge and comprehensive abilities. With the requirements of the government, more and more universities now set up more basic courses and allow students to select courses in different academic fields as long as they can complete the required credits.

In all honesty, this new model has improved “the comprehensive abilities of students and increased student’s adaptability for complicated environment” (Interviewee 8); however, this model has produced students in a similar way as ‘educational goods’ without academic distinctiveness, and as a result the ability of each student to compete is weak, which is harmful for the further development of the student.

“The government has provided the basic academic requirements, including basic courses, compulsory academic courses and optional academic courses. There are too many basic courses and not enough time for academic study, for example, English courses, computer courses and political courses. As a result, we have to reduce the number of academic courses to three or four, thus students are educated in a similar way, and no big differences between students in different departments in the same school, which is worrying” (Interviewee3).

“The big problem of today’s Chinese higher education in terms of student training model is that, all students are educated similarly with the basic knowledge of the speciality. This is good in some ways, for example, students can fit in different jobs in the relevant areas; on the other hand, students need the

further training for the particular job, because they have no specific and deep knowledge for this job, which are disadvantageous in a strong competitive job market” (Interviewee 41)

Also, the national political culture has strongly influenced the structure of courses in all universities in China. Political study includes courses on Marxist philosophy, Leninist philosophy and Maoist thoughts, and it is a government requirement that students have to learn these different political courses for four terms. All universities must achieve this “the political obligation” (Interviewee 52). However, these compulsory political courses occupy a large proportion of student time, and student academic learning is affected.

With the increase in the number of basic courses, many universities have to adjust academic structures in accordance with the governmental requirements. One result is to reduce the number of academic courses and shorten time for academic studies. Many interviewees were dubious of this arrangement and most of them thought it would be good if the amount of political study could be changed.

“As far as student study is concerned, no matter which subject a student studies in the university, he (she) must attend political courses, such as a Marxist course, a Maoist course, and other one, which are compulsory courses, determined by the Chinese Political Commission, you cannot change this requirement or cancel it, this is a political obligation. These courses last two years and take twenty percent of student time, which is too great” (Interviewee 52)

“As an academic teacher, my course used to have 200 teaching hours, now it is cut to only 90 hours, because too many new courses have been set up for students. You can imagine how difficult it is for me to teach students academic knowledge with shortened teaching hours. Why do political courses have to be compulsory? It is very simple, because the government wants it” (Interviewee 23)

Although universities have difficulties in setting up academic programmes freely according to market needs without the governmental permission, once universities have these academic specialties permitted, universities are free to apply marketing strategies to attract more students in the market.

Market-based practices are employed by universities to provide the best performance with the aim of recruiting more students and enhancing the university's reputation in the market, for example, adjusting the course name and structure to fit in the new market environment, applying new high-technology teaching methods to student studies and advertising the university through the media like newspapers and television.

“In order to attract more students, we have to rename our courses according to market needs, although the basic content of each course is the same as before, which is a very important and useful to enrol more students. For example, we had a course named ‘document management’ before, now we have changed it to ‘Modern Information Management’, it sounds more fashionable and attractive to students. Also, we are encouraging teachers to innovate teaching content and teaching methods, such as using multi-media teaching, teaching up-to-date academic knowledge, and by doing so, to attract more students studying here” (Interviewee 51)

“We put more emphasis on enhancing our academic reputation in the market in order to have more students studying in our school. Advertising is a key approach to achieve this purpose, such as introducing ourselves in a famous national journal, or an influential newspaper. Sometimes we use the media like TV or radio to enlarge our reputation” (Interviewee 39)

The relation between administrators and academics

The above findings demonstrate how the Chinese government decides key criteria for academic programmes through its *Catalogue of Undergraduate Academic Disciplines*. In this sense, academic power is weak. However, academics still have certain power to decide how to provide academic programmes effectively based on market needs, as some interviewees clearly said in the interviews. But inside universities, who makes decisions for university management?

In China, as a result of traditional hierarchical organisation, universities have been run by focusing on administrative power for a long time, and therefore academic power is very weak. Administrators in the university make important decisions on personnel management, financial budgeting and even academic affairs such as making university rules on curricula, teaching and research, although academics are sometimes involved in these decisions as a minority group. Most of time, university professors can only “act as consultants while administrators are the very heart of university management” (Interviewee 30), which is the opposite picture from Mintzberg’s analysis.

“Academics in Chinese universities are far away from the decision-making process. All policies about internal or external issues are decided by administrators in our university. Obedience is the right word for the current status of academics in Chinese universities.” (Interviewee 7)

“All policies concerning the university management are decided by the Party Committee, which includes the secretary of Party Committee, the deputy secretary of Party Committee and the president of university and the deputy presidents of university, most of them are administrators of university. In principle, the head of school cannot attend this meeting, not a professor or other academic staff” (Interviewee 42)

Drawn from the case study work, it can be seen that academics in the universities cannot make most administrative decisions, and the key policies concerning university management such as hiring staff or allocating resources are controlled by senior administrators. Administrators are more powerful and they are in charge of university internal management. However, poor efficiency remains the key problem arising from this hierarchical control in the universities.

“The picture in Chinese universities is, administrators do not provide the best service for academics, and instead they make all the policies for academics to follow and they are powerful. University academics have no power at all, they have to satisfy students’ needs, tolerate the poor service from administrators and be assessed by the school every semester. We often say university academics are ‘grey collar’ (the colour of the chalk), their careers are not important and are often neglected” (Interviewee 10)

“In terms of administrative service, one point I want to make is about very poor efficiency. It always takes a long time to get one job done; the other point is, university administrators are powerful. In the university, academic staff are more like the front-line workers in the factory; they are not respected by administrators at all. In the university, if you are a professor but also have a senior administrative title, it will be much easier able to publish articles and obtain research funding than those professor without an administrative title. More ridiculously, administrators have higher workload allowances than academic staff at same level, so where is motivation for academics?” (Interviewee 18)

In relation to Mintzberg’s analysis on the relationship between administrators and academics, it can be concluded that academics in Chinese universities are much less empowered than administrators, and administrators are dominators in university internal management. University administrators provided the ‘service’ in a way of making rules, which academics

have to obey. Therefore, in this sense, administrators are ‘managing’ academics in Chinese universities.

Academic freedom

Despite the poor service provided by administrators in the universities, academics have to ‘tolerate’ this administrator-in-charge system, because academics have limited ‘personal’ freedom and they cannot move anywhere they want as Mintzberg’s description. There are many social ties which constrain academic freedom in Chinese universities.

The Chinese identification (hu kou) system is a very important method used by the government to control human resource movement. The identification system is a registration in the local area required by the national security management, which provides the personal information associated with the residence identity, studying and working records and other relevant information. There is a close relationship between the personal welfare and the identification account in China. In the planned economy, the main elements of welfare for each person, for instance the housing allowance, the education allowance and the health allowance, all are decided in relation to the identification system.

Although this system has some advantages, for example, managing human resource simply and avoiding chaos in a complicated country like China, it has impaired effective human resource movement and increased inefficiency in allocating human resource. As a result, the Chinese government has reformed this system and encourages human recourse movement freely without the limit of identification. In reality, the identification system still play role on human resource management, and most people still cannot move easily under this rigid identification management.

“In China, there is very little personal freedom under strict government control through the identification system, including academics, because the identification is closely related to the national welfare. There is nowhere to go without your identification, and you will lose all local allowances you enjoyed here when you move to the new place. You cannot just pack your luggage and leave; you have to consider more, not only your job, for example, your wife’s job and your child’s education, etc. It is a complicated issue moving to a different place” (Interviewee 12)

“If you are an academic leader or talent with special skills, you have freedom to go anywhere. For example, like me, if I don’t like it here, I can go! Lots of universities want me to lecture there, because I am a famous professor in the country. Apart from this case, most academics haven't got freedoms; you have to listen to the team leader, the head of department, or the head of school. There is a complicated network out there; you cannot just leave without thinking over and over again” (Interviewee 7)

Despite the fact that academics cannot ‘voice’ their opinions on university internal management and they do not have much freedom to leave, academics do have freedom with respect to academic teaching. To some extent, academics can control their own work.

Based on student’s abilities and needs, academics can teach students in a flexible way to provide the best effective service for students, for example, they can select different methods to teach students, they can choose academic textbooks for student study and they can set up exam criteria and design exam questions for students.

“I can decide how to teach students in my lectures, what kind of reference books I would like to use, in which way to examine students. As long as I abide by the basic teaching schedule, which is decided by university, I have freedom for my own course” (Interviewee 12)

“I think the most important thing in our specialty is innovation, therefore, in my lecturing, I focus on cultivating student’s new ideas, new insights. I use lots of case studies to analyse what is arts designing and how it works well, instead of basic drawing skills training. My course is very popular in our school”
(Interviewee 41)

In conclusion, the discussion concerning academic freedom and academic power shows that academic power in the universities is weak and administrators are powerful in relation to university internal management. Academics can only decide issues related to academic teaching or learning, but most of university policies are made by university administrators.

With the constraint of government identification policy, academic freedom is very limited in today’s Chinese universities. Apart from academics who have a particularly high profile, most academics in the universities cannot go anywhere they want and they have to abide by all policies made by administrators. Therefore, in market-hybrid-hierarchy governance model, the academic power has only been changed slightly, but remains at a low level.

6.3 Quality assurance and three incentive instruments

6.3.1 Theoretical analysis

As discussed in detail in Chapter 2, governance theorists have argued that reducing authority and granting more autonomy are the features of hybrid governance that are expected to mitigate the shirking problems in hierarchical governance. However, at the other end of scale, granting too much freedom to the agent might be expected to cause the cheating problems which are seen in market governance. As principal-agent theory suggests, a certain level of

administrative control is required in hybrid governance to monitor the agent's behaviours with the aim of reducing the agent's cheating and shirking opportunities.

In higher education institutions, governments in many countries have increased university autonomy to motivate universities towards better performance; but university autonomy is not a synonym for independence. Instead governments have sought ways to exercise increasingly tight external control to make universities more accountable. Quality assurance is one of approaches applied by the government to monitor university performance in higher education institutions all over the world.

An important effect of the decline of government funding, has been the introduction of tuition fees for higher education. This has had the effect of motivating universities revenue generation activities in the market, for example, expanding student enrolment, irrespective of their capacity to deliver and the quality produced. As a result of information asymmetry, students know the quality of education in a particular institution only after consumption. Therefore, students can be misled into paying an enormous amount.

In order to control these potential university shirking and cheating problems, on behalf of students, the government develops quality assurance systems to control a university's behaviour. A performance-based funding system is also established to provide incentives for universities to achieve the targets set by the government.

As discussed in Chapter 5, the Chinese government has developed a quality assurance system in higher education institutions during the process of marketisation. The key issue of how three incentive instruments have been applied by the quality assurance to university internal management is examined here.

6.3.2 Three incentive instruments

As detail discussed in Chapter 5, since the late 1990s, as is the case in most industrialised countries, the Chinese government has applied a quality assurance system to monitor university performance. Following the experience of Western countries, teaching and research are both important fields to be monitored in most universities, methods such as self-evaluation, peer-review by external experts and performance-based rewarding system are often used to conduct quality assurance in many countries around the world.

Regarding the present undergraduate teaching programme, which is a more influential assessment than any other programmes in China, the key characteristic of this teaching assessment essentially is qualification-based assessment for universities, as some interviewees pointed out, because most evaluation requirements are focused on teaching conditions, such as university physical size, library books, and the ratio of academic staff to students. Therefore, the evaluation of the quality of teaching and research have not themselves featured in the agenda of the current quality assurance system in China, and this is a distinct feature of Chinese quality assurance systems. One interviewee said,

“Today’s quality assurance in China mainly focuses on the basic requirements as a university, it is the qualification evaluation; in other words, the attention paid by the government is to check whether this university is capable of providing higher education through various quantitative requirements, for example, teaching facilities, number of academic staff and university infrastructure. The quality of teaching or research in the university has not been evaluated at this stage” (Interviewee 7)

Despite being a qualification-based assessment, the development of the quality assurance system in China has brought some changes in university management with respect to the three

incentive instruments: state authority, academic power and market rewards, which are now analysed.

State Authority

The key purpose of developing the quality assurance system is to help the government monitor university behaviour and control university performance. Therefore, the government plays a major role in the Chinese quality assurance system and it has full responsibilities to design all issues around quality assurance, including setting up evaluation requirements, organising evaluation experts and carrying out the evaluation programme. By contrast, as a compulsory obligation, all universities have to accept the national assessment and endeavour to meet all targets set by the government.

“All universities must accept the assessment from the government, this is not voluntary, it is compulsory. In order to achieve all requirements of the national evaluation programmes, we established the evaluation office and recruit specific staff to organise all self-evaluation issues inside university, also there is the evaluation office in each school” (Interviewee 7)

“In order to pass the national evaluation programmes successfully, all senior staff including senior administrators and senior academic staff are required to stay at the university to prepare assessment materials, no academic trip to anywhere (going abroad or out of province), this is made as a policy by the president of the university. The national evaluation has become the top agenda for all staff this year” (Interviewee 32)

The self-evaluation report is the key component of the assessment process. The national evaluation experts mainly assess whether information provided by universities is honest or

misleading by virtue of the self-evaluation report, including staff information, research information or graduates information, etc.

Therefore, before carrying out the formal national evaluation programme, all universities must establish an evaluation office and recruit staff to organise the self-evaluation programme inside universities in accordance with the national requirements. By doing so, universities can detect the weaknesses in university management beforehand and find remedies to cope with these problems, which helps to pass the national evaluation programmes successfully later on.

A three-level self-evaluation system has become the most popular approach to carry out self-evaluation in different universities, which includes the university supervisory group, the school evaluation group and the student evaluation. With the cooperation of three evaluation groups inside university, the self-evaluation has achieved considerable improvement in university management.

“There is a comprehensive self-evaluation system in our school and there are forty-eight rules and regulations on quality control. Basically, there is three-level self-assessment regime including: (1) evaluation by the university supervisory group: this group consists of three retired professors, each of whom attend lectures without warning, at least twenty hours per term and report the results; (2) evaluation by the school quality-control group: this group is composed of key teachers and excellent students who attend lectures and score their lecturing; (3) the student evaluation: every student can evaluate teacher’s performance through the internet. Since this evaluation system is developed, we have found some teaching problems, but after taking some positive actions, we have improved our performance substantially” (Interviewee 32)

One administrator in the Yunnan Higher Education Quality Assurance Agency introduced briefly the development of quality assurance in Yunnan Province. As an independent third

party, Yunnan Higher Education Quality Assurance Agency (YHEQAA) was founded in April, 2002. The key responsibility of YHEQAA is to monitor the quality of higher education at provincial level, and the *Ministry of Education* has full duty at national level.

There is a database of evaluation experts for YHEQAA, which includes the presidents of universities, the directors of student departments, academic experts with various disciplines in higher education institutions in Yunnan province. So far, most of the evaluation programmes are associated with academic issues, such as teaching quality evaluation or degree assessment, therefore, the society and student sectors have not yet been involved in today's quality assurance system in Chinese universities.

This administrator explained that the government plays the key role on quality assurance at national and even at local level.

“Although our agency is independent, in practice, we cannot be independent, this is a Chinese characteristic of the quality assurance system. Required by the *Ministry of Education*, we have to establish the local evaluation centre to evaluate the educational quality for local universities. Therefore, we are not only the assessment institution (the third party), but also are the evaluation centre of the Local Education Committee (the government agency). Why do we combine these two agencies together? The reason is that, no one would receive our assessment as the third party, because the evaluation results for local universities wouldn't be accepted by the government, also, we haven't got the resources, no matter how bad or good results, nobody would care. But as a government agency, we can legally launch assessment projects and put pressure on the local universities, because the government has resources, we assess universities on behalf of the government, and universities must listen.” (Interviewee 7)

These words clearly demonstrate that Chinese universities were used to the hierarchical control from the government, and now they still need it. As an independent third party, the development of the assessment agency is difficult, because there is no resource-related incentive for evaluations, and there is no common consciousness of quality importance accepted by all universities. Under these circumstances, economic incentive has become a direct powerful driven-force for all universities to accept the quality evaluation in practice.

In addition, the government still controls the resources of universities tightly, and there is no financial decentralisation to any assessment institutions so far, which is another key reason to account for why the development of the assessment institutions is difficult as an independent third party in the market.

“To be honest, our assessment agency plays a bridge role, to link the academic experts and the government quality requirements. We are not really an independent organisation, because that requires the market. But in China, the reality is the central government controls too tight, if the government gives you space, then you have the market; if the government does not give you space, then you do not have any market at all” (Interviewee 7)

As a result, the evaluation programme in the name of the government can be carried out more easily; correspondingly, the evaluation agency on behalf of the government can conduct the assessments for universities more successfully. The government still is a key player regarding the development of quality assurance in Chinese higher education.

Despite the government having claimed that, “the government does not interfere any more with university internal management through quality assurance” (interviewee 43), the state power has been strengthened through the quality assurance system. As this government official stressed, “We (the government) need to make sure universities meet the basic

standards of quality of teaching, therefore, we use quality assurance system to monitor university performance” (Interviewee 43).

In brief, quality assurance in China is mainly carried out by the government through different levels of agencies and the Chinese government decides most issues around quality assurance, including evaluation requirements, evaluation experts and evaluation schedule. As a matter of compulsion, all universities have to accept the national evaluation and achieve all targets set up by the government. With the help of quality assurance, the Chinese government has strengthened its control on university performance.

Academic power

Although the key aim of the government’s quality assurance programme is to mitigate university shirking and cheating problems, it has also affected academic autonomy, and academic power has been weakened too.

As set out in the document *The Assessment Requirements for Academic Teaching in Yunnan University* (see Appendix 4), academics have to be assessed by two methods: student internet evaluation and school expert evaluation.

There are four requirements for academic teaching. Firstly, there are the basic teaching requirements (teaching responsibility, class discipline, academic materials, teaching attendance, handwriting on the blackboard, speaking voice and the teacher’s standard of dress); Secondly, there are the teaching quality requirements (the depth and width of specialty, the logic of knowledge, updated knowledge); Thirdly, there are the teaching methods (case-

study teaching, multi-media methods, discussion methods) and finally, there is the teaching effect (interesting? helpful for student learning? useful for student future development?).

Coupled with this assessment document, the document *Further Strengthening and Monitoring Teaching Quality in Yunnan University* (see Appendix 4) has twenty articles on academic responsibilities and academic teaching requirements. There are three particular articles relating to academics and their teaching in section two: the basic requirements for academic teaching.

In these articles, academics are subject to requirements not only concerning teaching advanced knowledge, but also on academic personal behaviour. For example, academics have to prepare their lectures beforehand, use standard language and positively motivate student studying; academics must attend the class on time, arriving at the class late or leaving early are not permitted; academics must dress properly, it is not allowed to bring into class anything irrelevant to teaching.

From the university point of view, the detailed requirements on teaching quality are necessary to monitor academics with the aim of improving teaching quality as a whole. In practice, there is evidence that these documents did influence academics and improve teaching quality as the following interview extract demonstrates:

“I think the evaluation is a good opportunity for teaching quality improvement and administrative formalisation. The positive influences are many, such as attracting more investment from local government, motivating university innovation, and improving academics teaching quality. At present, many academic staff put more attention on the teaching skill than before, full preparation before lecturing and good hand-writing on the blackboard, etc. Teaching quality in our school has been improved a lot” (Interviewee 32)

At the same time, a powerful monitoring system has been developed in universities in order to reduce the academic shirking problem. Academics are not allowed to make changes to their courses spontaneously, any change of course schedule has to be reported to the university teaching department the day before. Also, academics are required to write the teaching plan (the teaching timetable and the teaching content) for each academic course before the new term starts.

During the academic term, the university evaluation group or the school evaluation group will check whether academics are teaching students according to the teaching plan (the learning place, the teaching timetable and the learning content). If they are not doing so, academics have to find a suitable reason to account for any change; otherwise, it will be treated as a disciplinary matter and academics have to accept relevant punishments, including oral warning, written warning, or being fired.

Under this strict control system, fewer teaching disciplinary issues have arisen and the formalisation of the teaching procedure is achieved in the university, which is one of requirements of the national evaluation programme.

“There is a comprehensive monitoring system in our university. Basically academics have to teach students in accordance with the student cultivating plan. Before the term starts, every teacher has to fill up the form of the teaching schedule. Based on the course timetable, the student cultivating plan, and the teaching schedule, the school evaluation group can evaluate academics properly, whether this teacher is teaching at the right time and place, whether this teacher is teaching suitable content and whether this teacher is making progress according to the schedule” (Interviewee 38)

“In our university, academics are not allowed to be late for class or leave early for five minutes; academics are not allowed to stop lecturing halfway through;

academics are not allowed to answer the mobile in the class. These things all are regarded as the teaching-discipline issues. Once found out, this teacher has to accept the relevant penalty, oral warning, written warning or off-duty. Any teacher, who has the disciplinary problem, cannot apply for ‘excellent teacher’ and also cannot apply for professional title within two years. Honestly speaking, these punishments are quite serious” (Interviewee 53)

At the same time, there are many requirements or regulations stipulated by each school inside universities to place pressure on academics for improved teaching performance. Despite these documents have achieved effective results, some negative attitudes have arisen among academics towards the quality evaluation programme at school level.

“Different school or university assessments are very annoying! They give me a big headache every time. To be honest, I do not like to be assessed at all, they distracted my attention on teaching, and I have to deliberately teach students in a way which assessors prefer, that’s a bit like playing a game, but we are not actors.” (Interviewee 18)

The key reason why academics have power is that, they benefit from information asymmetry as a result of their special knowledge or skills, and this gives them some advantages in relation to decisions about how to teach and what to teach; but in reality, the power of academics is limited in Chinese universities, because they have to accept various evaluation programmes from university, school and students. Many interviewees were unhappy with various assessments. From interviewees’ point of view, the requirements of the evaluation programmes sometimes are rigid and unreasonable; the evaluation ‘experts’ sometimes are not suitable, because they know little about particular academic knowledge; and students lacking enthusiasm for studying sometimes assess teachers’ performance unfairly. No matter in which situation, academics still need to meet all requirements and pass all evaluation programmes, and they feel powerless.

“Most school supervision groups are constituted by retired staff, sometimes they even know nothing about my academic subject, but they will score for me, it is ridiculous. Yes, the school supervisory group is useful in terms of monitoring academics’ class attendance record, or improving handwriting--these procedural things--but it is difficult to assess teaching quality in real terms. How can you rely on this system to improve my teaching quality? Utterly pointless, this just is bureaucratic behaviour from the government to the university” (Interviewee 12)

“The evaluation programme does affect my teaching, although the influence is not very serious, I have to think how to teach properly if someone will attend my class on behalf of the university or school. Students are not as good as before since the inception of mass higher education, I have to spend extra time to correct their homework, and teach them patiently, because students will assess my teaching too. I feel powerless, honestly” (Interviewee 41)

In addition, academics in today’s Chinese universities, not only need to meet the quality evaluation requirements from various levels, but also need to pursue their own academic achievements, for example, an academic degree, research grants and professional titles, which are important components for a teaching career in the university. Academics feel over-pressured most of time.

“Besides teaching, I need to publish articles with the aim of improving my academic position, because one of the assessment requirements for academics is the publications. As a young lecturer, I feel so much pressure, I have to spend more time on teaching, because students are not easily taught as before; I have to study for further degree, because a doctorate degree is necessary if I want to apply for a professor-title; also I have to make more money, because I just bought a house through a bank loan. To be honest, I am exhausted” (Interviewee 66)

In conclusion, academic power in Chinese universities has been restricted since the national quality assurance programme has been launched. Although, to a certain extent, increased

institutional autonomy has created some opportunities for university academics to decide how to teach and how to satisfy students according to market needs; nevertheless, evaluation requirements have placed many constraints on academic teaching, academics have experienced much more pressure than before, whilst striving for the promotion, they also have to please both student and the government. In all these ways academic power has been reduced.

Market rewards

A performance-based reward system can provide strong incentives for organisations towards better performance, and is often used in New Public Management. However, this has not played a key role in higher education institutions through the implementation of quality assurance. Based on international experience, apart from a few countries such as United Kingdom and United States, in most other countries there is a lack of a close relationship between university funding and the results of quality assurance. This is true in China as well. At present, the Chinese quality assurance system has not had the direct impact on the amount of distributing university funding from the government, but it does put pressure on universities to improve their management.

If a university is failed in the first evaluation programme, the government will not cut its financial support to the university, but it will require a reduction of student enrolment or a cancellation of relevant academic specialty, also conducting a second evaluation are required by the government, which will strongly affect student enrolment. The fatal punishment for universities that do not qualify in quality examination is a rescission of their enrolment right which leads to closure. However this outcome never happens in reality, “university will pass

the evaluation programme anyway, it is impossible for the government to close down any public university in China” (Interviewee 7).

Until recently the evaluation results of universities have been published to the public, but evaluated universities have not been ranked by the government¹⁵. All evaluated universities have been making utmost efforts to pursue an excellent score during the quality assurance programme, because this is a vital way for universities to present their academic capacity. Universities with a high academic reputation are much more likely to attract students in the market.

At the same time, local government has also tried its best to help local universities pass the national evaluation programme successfully through policy support and financial support, which has positively promoted local university performance as a whole. “Our university has developed quickly for the last two years, because the local government invested more money to improve university infrastructure, this was a problem for a long time” (Interviewee 39).

Despite the fact that there is no funding-related punishment or rewards for a failed or excellent university in the national evaluation programme, there is a rewards system that has developed at the local level. For example, in Yunnan Province, the local government has provided extra funding as a promotion reward for local universities with excellent performance in the national evaluation programme. At the same time, the local government has also supported financially those local universities with poor performance with the aim of improving university performance in the future.

¹⁵ The evaluation results of universities are published on the relevant government website.

“Last year, Kunming Science and Technology University was granted 2,000,000 yuan by the local government for its ‘excellent’ evaluation result” (Interviewee 29)

“There was a yellow card for our university in the national evaluation programme, but the local government has provided a specific grant and made relevant policies to support us, I believe we will pass this time” (Interviewee 42)

As far as teaching performance is concerned, there is a strong incentive for academics to pass the university evaluation, but little motivation for them to achieve an ‘excellent’ result. If the academic has been failed during the teaching evaluation programmes three times, he or she will be required to change work position. If the academic can pass the teaching evaluation, no matter how good his (or her) performance is, they receive no monetary reward, “the only benefit for an ‘excellent’ result is that, this teacher wouldn’t be assessed any more for this particular course for one year” (Interviewee 34).

“Academics have to improve teaching quality, if he (or she) has a very poor evaluation score, we will warn him (or her) in the school meeting at first, but without mentioning the name. If this teacher hasn’t improved teaching performance for another two assessments, we will shift his (or her) teaching position to something else, for example, to do some administrative jobs” (Interviewee 32)

In summary, the quality assurance system in China so far has not created strong market rewards for university performance. In general, the relationship is weak between governmental funding and university performance; however in practice, quality assurance does focus university attention on improving teaching quality and makes academics more concerned to deliver good teaching performance; and quality assurance does encourage university to improve internal management to some extent.

The weaknesses of the quality assurance system

The adoption of a quality assurance system has achieved some positive influence on university management, for example, quality assurance can improve teaching facilities and formalise teaching procedures; quality assurance can strengthen school cooperation inside university and enhance university competition as a whole. More importantly, through quality assurance, “the leaders of university have to plan a comprehensive development for a long run” (Interviewee 43)

However, some side-effects have arisen at this early stage in the course of the implementation of quality assurance.

Firstly, some evaluation requirements are rigid and impractical, which is harmful for university development in the long run. For example, there is a requirement for library books (one hundred books per student) in the national evaluation programme. This is a difficult target for the new-established universities. In order to pass the evaluation programmes, these universities are encouraged to buy lots of books without considering the academic value, which leads to resource wasting.

“In the national evaluation programmes, some requirements are not scientific and suitable, which allow the new-established university to pass the assessment but waste limited university resources, for example, 100 books per student in terms of the library collection; the qualitative index of 1:16 in terms of the ratio of academic staff to students. I personally think that there is no need to set up these concrete numbers” (Interviewee 40)

Secondly, administrative reporting and the documentation checking are key focuses of the present quality assurance, which is time-consuming and makes quality assurance more “mere

formality” (Interviewee 52). The quality of teaching itself has become less valuable in the evaluation programme.

“There are more than hundred rules or regulations for the evaluation in our school; I don’t think it is necessary!” “I have to attend so many the evaluation meetings, write lots reports, time-consuming” (Interviewee 32; 52)

Thirdly, in the national evaluation programme, all universities are assessed with the same requirements in the same way. The system is somewhat inflexible in the face of differences between universities. General academic ability varies from region to region, university to university and using a ‘one-size-fits-all’ evaluation programme may not be suitable for the complicated reality of Chinese universities.

“At present, all universities in China are assessed by the same requirements set up by the *Ministry of Education*. I think the national assessment requirements should be set up differently according to the university academic situation. In our country, the reality is complex, but all evaluations are carried out in the same way, unreasonable” (Interviewee 30)

Although in China there is no assessment for private universities at present, there is a plan for a national evaluation programme for private universities to come into effect in five years’ time. Interviewee 26 from the private university made similar points in terms of rigid assessment requirements in the national evaluation programme for public universities. From his point of view, those inflexible quantitative requirements of the national evaluation programme, such as the teaching space and the library collection, are encouraging university resource wasting. In the end of interview, he told the researcher that,

“We are worried that the government interfering too much in terms of the development of private universities. Generally speaking, government policy is an

encouragement to waste more resources; we don't want the government to use the same standards for public universities to assess private universities, but who knows..." (Interviewee 26)

In short, the Chinese government plays a big part in promoting quality assurance in Chinese universities, the evaluation requirements, evaluation experts and conducting evaluation all are control by the government; all universities are required to pass the national assessment and meet all targets set by the government, and all academics are required to improve teaching performance and pass evaluation programmes at different levels; and economic rewards so far have not been used to provide strong incentives for universities to improve performance in quality assurance.

The quality assurance system has strengthened government control on university internal management and undermined academic teaching freedom; and market rewards in quality assurance system is weak. In the governance structure, the state authority dimension has been moved a small step backwards towards a higher level; the academic power dimension has been moved a small step backwards towards a lower level; and the market rewards dimension has been moved a small step towards a higher level.

6.4 Conclusion

This chapter has examined the government's declared intention of reducing state authority and enhancing academic power on university management in the marketisation reforms in post-Mao China. According to these intentions, the process of policy decentralisation is used to provide strong incentives for universities and academics with the aim of mitigating the

incentive and shirking problems in traditional hierarchical governance; and the policy of quality assurance is applied to monitor the quality of teaching and research with the aim of reducing the cheating problem in market governance. Based on research data, the key findings of this chapter are summarised as follows:

Firstly, the Chinese government still determines most internal issues of university management, for example, new academic programmes, staff employment and tuition fees. Governmental strategic steering has not developed in practice as laid down in the law and state authority remains at a very high level in the management of Chinese universities.

Secondly, university autonomy in China has improved a little compared to before the reform, for example, universities have more freedoms to make suggestions on key issues of internal management, and under relevant government policies, universities can set up academic courses according to market needs and design own evaluation programmes. However, the final decision-making power is controlled by the government and Chinese universities cannot decide all internal management issues freely, and in relation to the regulations stipulated in the law, university autonomy is weak.

Thirdly, university academics have more freedoms to decide what to teach and how to teach in accordance with student needs; however, the pressure of teaching performance evaluation and the restriction of government identification system have exerted some constraints on academic autonomy and academic freedom has been undermined in Chinese universities.

On the other hand, administrative staff in the university have a strong degree of control of university management and make most decisions on internal issues, including resource allocation and teaching performance, and the key role of professors is to provide advice as

consultants. Therefore, university academics are much less empowered than administrators in Chinese universities.

Fourthly, the implementation of quality assurance has strengthened the control of state authority on university performance and universities are required to meet the targets set up by the government. On the one hand, quality assurance has produced some positive effects, such as improving teaching skills, promoting excellent performance and accelerating administrative standardisation; but on the other hand, some negative effects have arisen as well, for example, a neglect of teaching quality, encouraging some tendency to generate resource waste, some needless increase in formality and “one-size-fits-all” problem.

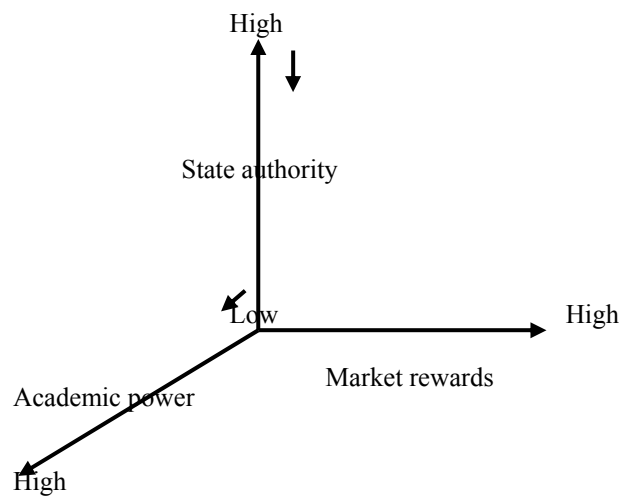
The overall conclusion of the analysis is that, through the process of policy decentralisation, in practice, the Chinese government has reduced some controls on university internal management, and to some extent, Chinese universities and academics have been handed a little power to decide some internal management issues or academic issues, and state control is still high in the university internal management and the incentives for universities and academics have not been increased as much as the government planned.

However, through the implementation of a quality assurance system, the Chinese government has strengthened its administrative control to monitor universities’ and academics’ performance in Chinese universities. At the same time, quality assurance has not played a key role on reducing the cheating problem in Chinese universities, instead it has undermined the incentives of academics for the teaching.

As a consequence of these two actions, the movements of state authority and academic power can be delineated in the three-dimensional governance model, which was developed in

Chapter 3. As **Figure 6.1** shows, in today's Chinese universities, the state authority dimension has only moved a little, remaining at a high level and the academic power dimension has also changed a little and remains at a low level after the reforms.

Figure 6.1 The Movements of State Authority and Academic Power



CHAPTER 7 THE IMPACT OF CREATING MARKET REWARDS IN THE UNIVERSITIES OF YUNNAN PROVINCE

7.1 Introduction

Chapter 6 discussed the impact of reducing state authority and enhancing academic power on university management and academic performance in Chinese universities. This chapter will discuss the impact of creating market rewards on university management and academic performance in Chinese universities.

The key issue of this chapter is to examine the extent to which a market rewards approach can motivate universities and academics to improve higher education services and increase academic production. The analysis of this chapter, combined with the findings presented in the previous chapter, enable the question “what has been the impact of marketisation reforms on the management of Chinese universities and academics’ performance?” to be answered.

Chapter 5 provided an analysis of hybrid governance in the marketisation reforms at national level. The analysis of Chapter 6 and this chapter examine the real impact of hybrid governance on university internal management at university level in relation to three incentive methods: reducing state authority, enhancing academic power and creating market rewards.

Therefore, the final chapter of this thesis, Chapter 8, can use these research findings in comparison with the discussions in Chapter 5 to draw conclusions and to locate hybrid

governance of Chinese higher education in the three-dimensional governance model, which was developed in Chapter 3.

7.2 The impact of creating market rewards on academics' performance

7.2.1 Theoretical analysis

According to the analysis of hybrid governance in Chapter 2, three main incentive instruments are employed in hybrid governance to mitigate agency problems in hierarchical governance and control cheating problems in market governance with the aim of minimising transaction costs and improving the efficiency of transactions. The previous chapter discussed two incentive instruments applied in hybrid governance: reducing state authority and enhancing academic power. This chapter examines the process of creating market rewards as the other key method applied in hybrid governance to reduce agency problems.

Principal-agent theory suggests that, when monitoring is difficult and costly, creating market rewards can improve incentives, reduce agent shirking and increase productivity. Different approaches to market rewards produce different incentives. For example, a fixed wage without any additional payment is a poor source of incentives but pay for performance including a piece-rate payment or efficiency wages can produce very strong incentives for the agent.

As set out in Chapter 5, traditional higher education provision in China was centralised and hierarchical. The main problem of such a hierarchical system is that it is inflexible and unresponsive to the market. In recognition of this problem, for the last two decades, a market

approach to restructure higher education systems with the aim of improving inefficiency problem has been strongly advocated in many countries (Williams, 1995; Dill, 1997).

The key feature of these marketisation reforms is the creation of a new governance model— hybrid governance in higher education institutions and the heart of hybrid governance is the provision of strong incentives for the agents included in higher education provision through different incentive instruments. Employing a market rewards approach such as reducing government funding, charging tuition fees and introducing pay for performance can be found in university management in many countries, which has provided an important method of motivating universities and academics towards improved productivity.

The analysis of hybrid governance in Chinese higher education in the marketisation reforms has been discussed in Chapter 5. The analysis shows that, at national level, the Chinese government has applied a market rewards approach to higher education institutions in order to reduce academic shirking. The principal aim of this section is to examine the extent to which Chinese academics have been motivated by market rewards at university level; and what has been the impact of creating market rewards on academics and students in Chinese universities.

In this section, the impact of the market rewards approach is explored through three aspects which affect academics, including the development of contract-based employment, the establishment a new multi-remuneration system, and the introduction of pay for performance. This section also examines an impact of creating market rewards on students, because the charging fees policy is one of key actions employed by the government to create market rewards, which has directly affected students with respect to student management, study motivation and equality issues. Therefore, it is necessary to discuss a change in the charging of tuition fees to students as an impact of marketisation reforms in Chinese higher education.

7.2.2 The market rewards motivation for academics

Before the marketisation reforms were launched during 1980s, there was no system explicitly designed to motivate academics in Chinese universities. No matter how much work academics had taken on and no matter how poor the quality of his (or her) job was, everyone was paid the same small amount money and no one was fired. Egalitarianism was the dominant characteristic of the old university distribution system and the efficiency of Chinese higher education was poor.

Since then, the Chinese government has developed a contractual relationship and established a new multi-remuneration system to improve efficiency in higher education institutions and provide strong incentives for academics towards better performance. At the same time, there have been a number of pay for performance schemes designed by individual university according to the relevant government documents to motivate academics in improving teaching and research performance. These are now discussed in turn.

Developing a contract-based employment

Since the teacher appointment system was introduced in the late 1990s, academic staff have been required to compete with each other for limited work positions according to the *Higher Education Law*. Anyone with certified credentials can sign a contract with the university and be hired as a university teacher and an academic with very poor performance can be dismissed from the university. The traditional “iron-rice-bowl” situation (in England the “job for life” principle) for academics has been undermined since then.

Basically, there is a regular three-year or five-year contract for staff in most universities. Correspondingly each member of staff has to be assessed every three years or five years.

University staff can remain in their work position if they have achieved the designed targets as assessed in the university's evaluation. Academics can be fired if their evaluation results are really bad three times in a row.

By contrast, there is an incremental contract employed in some universities. For example, this could consist of signing one-year contract for the beginning lecturer at first, then signing three-year contract after one year employment, then signing five-year contract after three year employment and so on so forth. The major advantage of this approach is that it can prevent staff from behaving in a "myopic" way (interviewee 26) and increases incentives for staff to achieve better performance towards long term job employment.

“When a new member of staff comes, at first we require him or her to sign one-year-based contract. If he or she passes the assessment after one year, the contract will be automatically increased to three years; if he or she is qualified after three-year assessment, the contract will be five years; then eight years; then he or she becomes a permanent member of staff in the school. This assessment-contract approach has provided very strong incentives for our staff. If they want to keep their positions then they have to be good” (Interviewee 26)

Generally speaking, the contractual relation introduced in the teacher appointment system has worked as a stimulus for academics to work hard with the aim of keeping their contracts with the university. Academics in today's universities have to strive for further academic degrees or certifications; in particular, achieving a doctorate degree has become necessary if academics want to apply for senior professional titles.

At the same time, there are more research obligations for academics, which are set up by universities; academics are required to apply for research projects and publish articles or research achievements as often as possible. The competition in the university is very intense.

“The competition in the university is very strong in terms of teaching or doing research. In the past, the master degree was fine to be a lecturer; but now it needs PhD. Our university has made a policy, all academic staff under 45 years old, who want to apply for senior position, must have certain publications and the doctorate degree, my colleagues are working hard for it. Also, we are required to publish at least two articles in national journals or in provincial journals every year, if you have not done for two years, you have to downgrade your work position. To be honest, the job in the university is very tough now” (Interviewee 18)

Coupled with the competitive pressures imposed by the contract-based system of employment, there is a performance-based rewards system established in Chinese universities to motivate academics to conduct the contract in the best way, including economic rewards, such as a monetary bonus, university-provided car or some vouchers; and the spiritual reward, such as oral praise in public or conferment of a certificate for excellent achievements.

“In principle, there is an effective rewards system established in our university. Taking the head of school as an example, if he had outstanding contributions for school development during the contract, he would receive certain economic rewards. For instance, he was rewarded with a 10,000 yuan bonus and given a university-owned car last year. Sometimes, the spiritual reward is important, praising him in the school meeting can motivate his job enthusiasm, we use this approach too” (Interviewee 26)

Pay for performance

The introduction of a new multi-remuneration system during the mid of 1990s has also created strong internal competition and provided effective economic incentives for academics in Chinese universities. Under the new system, remuneration consists of a basic salary, workload allowance, research grants and a teaching allowance. These various revenue

sources have increased an academic's personal income dramatically and made a teaching career more feasible than was the case previously.

“In the past, there was a simple remuneration system at the university; mainly it was basic salary, no bonus at all. But now, there is multi-remuneration system for staff, besides the basic salary, there are the teaching allowance, the workload allowance and the research allowance. In the past, my salary was only 400 to 500 yuan per month, but now if I add up all the items, I can earn nearly 10,000 yuan per month, twenty times than before, of course, I'd like to work in the university” (Interviewee 58)

Despite that the key difference between the new remuneration system and the old salary system is the development of the workload allowance for academics. The major change in this new remuneration system is to create a culture of 'pay for performance' in Chinese universities and to motivate academics work efficiently, because academics can receive different payment in relation to their professional titles or the relevant work responsibilities.

For example in Yunnan University, there are four levels workload allowance for university staff according to professional titles as follows: eight thousand yuan per year for a professor; six thousand yuan per year for an associate professor; four thousand yuan per year for a lecturer and three thousand yuan per year for a teaching assistant. It can be seen that a professor has more than twice the workload allowance of a teaching assistant, which has provided strong incentives for lower level academics to work hard towards the senior positions.

More performance more payment, this is the same principle used for teaching allowance in the new remuneration system. Academics are encouraged to set up more academic courses, teaching more students and applying bilingual teaching skills, because as teaching variables,

these aspects are considered in the calculation formulation of teaching allowance, which can greatly increase academic's teaching allowance.

“We receive eighty yuan per teaching hour in our school. If you are a professor, or you will teach students bilingually, this will add weight 1.1 or 1.2 into the teaching allowance formulation. Meanwhile, the weight of 1.2 will be added in the formulation for the number of students in a class if the number is more than fifty. After these considerations, the teaching allowance can become at least one hundred yuan per hour” (Interviewee 32).

In general, pay for performance has become a popular method used providing incentives for academics in many public universities in China. There are different piece rates for academics in different schools and in different universities according to teaching hours, academic title, student numbers and the ranks of publisher. For example, in terms of the teaching performance in Yunnan University, in average level (in 2005), 30 yuan per teaching hour for a professor, 25 yuan for an associate professor, 20 yuan for a lecturer and 15 yuan for a teaching assistant; 60 yuan per hour for extra teaching for a professor; regarding research performance, 500 yuan per article published in a national journal; 300 yuan per article published in a provincial journal.

In 2005, Yunnan Arts Institute, for teaching performance, 80 yuan per teaching hour for a professor, 70 yuan for an associate professor, 60 yuan for a lecturer and 50 yuan for a teaching assistant; in the faculty of Stomatology, Kunming Medical College, 40 yuan per teaching hour for a professor, 35 yuan for an associate professor, 30 yuan for a lecturer and 25 yuan for a teaching assistant.

In Kunming University of Science and Technology, there are ten types of workload payments for teaching staff as following: 35,000 yuan per person per year for the first workload; 30,000

yuan per person per year for the second workload; 23,000 yuan per person per year for the third workload; regarding to the fourth and to the ninth workload, there is no standard payments decided by university, generally, based on the number of staff, university assign averagely 8,500 yuan per person per year to the schools, then each school distribute these funding according to its own needs. The tenth workload is for a merit professor, which is 50,000 yuan per person per year.

As a separate private university, the Yunnan Business School has designed effective incentive compensations through various pay for performance schemes, such as the degree allowance, the teaching allowance and the workload allowance. Piece-rate pay is also used as an important motivational technique. In the document *The Regulation on Staff Salary in Yunnan Business School* (see Appendix 4), the Article 2 states,

“Academics with a doctorate certificate have 1200 yuan degree allowance per month; academics with a master certificate have 600 yuan degree allowance per month; academics with a bachelor certificate have 400 yuan degree allowance per month; others have 260 yuan degree allowance. In order to encourage more teaching in the university, apart from the regular teaching obligations, a professor will be paid 35 yuan per hour for extra after finishing normal teaching duty, an associate professor 30 yuan per hour, a lecturer 25 yuan per hour and a teaching assistant 20 yuan. Regarding the workload allowance, a professor has 4000-4800 yuan per month; the main duty is to teach undergraduates ten hours per week, to supervise 20 undergraduates with 10 yuan subsidy per student and a reward of 1000 yuan for per student to study master degree...”

Basically, pay for performance has two important positive influences. On the one hand, a pay-for-performance approach encourages academics to do more teaching. If academics with senior titles teach more hours and work with more students, then they receive greater teaching pay. On the other hand, pay for performance encourages academics to do more research and

publish more articles, which will improve university research achievements and enhance the university's reputation in the market.

“In terms of research performance, generally, if a member of staff publishes an article at national level, we will reward him (or her) with 1000 yuan; at provincial level, the reward is 500 yuan; at university level, 300 yuan. Since this policy was launched, research performance has been made big progress in our university.” (Interviewee 28)

Meanwhile, in order to motivate outstanding academics in the university, there are many governmental rewards programmes providing specific grants for them. As discussed in Chapter 5, programmes like, *the Chang-jiang Scholars Award Program*, *the Award for Outstanding Young University Teachers*, and *the Cross-the-Century Plan for Training Outstanding Talent*.

In the program *Supported for New Century Excellent Talents in the Universities*, the Chinese government states that there is 500,000 yuan support for academics in science and 200,000 yuan in social science every year, and this program will last three years. The key characteristics of candidates sought are: (1) a deep love of communism and country; (2) potential talents in academic field; (3) a doctorate degree and senior academic titles; (4) under 40 years old in science or 45 years old in social science.

With the encouragement of the government, universities have also introduced policies designed to select academic talents for more funding support. The key aim of doing so is to use limited funding to achieve improved excellent research performance and enhance university reputation in the market.

“In response to the government programmes for outstanding academics, in 2003, we chose one hundred young talents from the whole university as speciality academic leaders, and provided research funding from 20,000 to 50,000 yuan for each candidate. Generally speaking, this activity has a very positive impact.” (Interviewee 53)

As illustrated above, developing contract-based employment and designing pay for performance schemes have achieved positive benefits, for instance, motivating academics teaching enthusiasm and improving research performance. However, pay for performance can be a ‘two-edged sword’, some negative influences have impacted on academia too. On today’s campus, extrinsic motivation such as monetary rewards seems more effective than intrinsic motivation such as job satisfaction. As one interviewee argued,

“Nowadays, it is impossible to keep someone in this job by means of emotional things, such as personnel caring, job duty or job satisfaction. In the past, many teachers did extra workload without pay and they still felt happy; but now, no one would like to take this job if the payment is low. In the market economy, everything has price, you have to pay for everything.” (Interviewee 24)

Sometimes, chasing personal economic benefit has become much important than academic value in the universities; therefore there is a problem of academic accountability. Some professors become part-time company managers or have a second job, and devote more time to this than their first job; and some young staff fight or quarrel with colleagues for extra teaching hours; copying someone else’s ideas, plagiarism of academic articles have been discovered in some universities. As one interviewee said, “It is no good to motivate staff with economic rewards, because cheating will be produced. I personally think doing research and teaching properly are the main responsibilities for academics; they should not need to be motivated to do so” (Interviewee 28).

In summary, academics have been motivated by the government through market rewards approach in today's universities, including developing contract-based employment, establishing a new multi-remuneration system and designing pay for performance schemes. Academics do have much more pressure than before because they need to work hard to keep their position in the universities in terms of their teaching and research performance, and at the same time academics are effectively motivated by economic rewards towards improved teaching and research performance, but the problem of academic accountability also arises.

7.2.3 The influence of a fee charging policy on students

In the planned economy, there was free higher education and an equal grant for each student who passed the *National College Entrance Examination*, and the relationship between teacher and students was simply that of teaching and learning.

Since the government launched its tuition fees policy in 1997, all students have started to pay for their higher education. The concept of 'student as customer' has emerged gradually in today's Chinese universities. As a service supplier, the challenge faced by university administrators and academics is how to provide the best service for students. From the student point of view, however, the question is, as charged customer, how university students evaluate their education and improve academic study is discussed here too.

Developing student-centred management

In responding to the new challenges imposed by the need to charge fees, many universities have developed a process of student-centred management. The key point of this new management is to put students first and satisfy student needs in the best way. As one administrator described the approach consists of "doing everything for students and meeting students' every need".

Different universities have applied different strategies to their own education management. For example, in order to understand what students want, Yunnan University has established a new tutorial system for students in 2004. Under this new tutorial system, the key responsibility of the tutor is to look after students' daily life and communicate with students as much as possible. These tutors sleep under the same roof as students and eat with students at the same table. If students have any practical problem, they can get instant help from tutors.

A professor in Kunming University of Science and Technology (KUST) stated that, besides the emphasis on enhancing academic reputation, in the last five years KUST has invested lots of money to improve the university infrastructure and create a pleasant campus environment. This professor explained, "A nice physical environment can make student academic study more enjoyable, which is very important. Today's students pay fees to study here, we should do the best to make them happy, not only providing high standard academic teaching, but also providing a beautiful study environment" (Interviewee 65).

Another theme of a student-centred management is that of delivering student-needs-based service for students. In the past, university students received free higher education and they were assigned a job after graduation; by contrast, present students have to pay tuition fees for higher education and graduates have to find their own job in the market. Students are facing much more pressure than before, including financial pressure, study pressure and job-seeking pressure. Psychological problems have become a serious issue in today's universities. Therefore, new services have been developed for students in the universities such as psychological services, careers advice and the student help-line service.

"Today's university students are 'complicated' in some ways; they come from different family background, and face many challenges during four year study

period. Many ‘new’ problems emerged, the ‘new’ problem I meant here is not really new, it happened before rarely, but now it affected so many students, this is new, for instance, psychological problem like depression, hot-temper and suicide. To manage students today is much harder than before” (Interviewee 8)

To tackle this problem, different universities have used different ways. In Yunnan Finance University, there is an interesting moral course designed for students in international business school. For different study year, students are required to do some social work, for example, providing services for the elderly or doing childcare; In Kunming University of Science and Technology, there is a ‘be-a-successor’ project designed for students when they begin to study in the university in the first year. The key aim of this project is to help students to plan their four-year study in accordance with their future career. In Yunnan university, a student hotline service has been set up for students to provide twenty-four hour student services and also a psychological consultancy service has been developed to provide students with advice about various problems.

Study motivation

Most academic interviewees questioned in this research thought that today’s students are genuinely intelligent and can easily grasp new knowledge or new technology, but believed that their motivation to study is weak. Some interviewees also pointed out those Chinese students have many personality weaknesses, such as being “spoiled, selfish, impatient and lacking of co-operative spirit” (Interviewee 46). Much worse, these students are not interested in studying.

Many interviewees were confused. From the academics’ viewpoint, they thought students should study much more diligently and critically than before, because they pay tuition fees, but in many cases, academics found out students were ‘difficult’ to teach. Students do not care

what they are taught, they do not ask any questions in the classroom, and they do not want to have any homework after the class.

“There are very much fewer occasions that students ask questions in the classroom, and no one ask me questions even afterwards; the homework I assigned was finished in a rush. I felt students do not want to study, why they are here, because their parents want. Study motivation is very poor” (Interviewee 16)

One administrator argued that, a number of reasons can be adduced to explain student’s poor attitude towards university study. As she said, one possible reason is that, because attending university is the biggest wish for all students’ parents in China, many students’ parents did not go to university for various reasons, and their ambition is for their children to go to university to achieve their unfinished dreams; therefore, going to university is not the students’ wish, but rather they have to do it because of their parents’ aspirations;

Another possible reason is that, there is a long history of seeking good education in China, no matter how poor or how rich the family is, parents always send their children to receive as much education as possible. As a result, the whole Chinese education system is designed for higher education. Primary education is aimed towards a good middle school education; middle school education is aimed towards a good high school education and the high school education is aimed towards a good higher education. So, passing the *National College Entrance Examination* and going to university is seen by the parents and students as the only purpose for student study. When students come to university, there is no pressure for study any more and students do not know what to do either.

“Released from the tough competition of the *National College Entrance Examination*, new university students felt at a loss when they came to study at the university, they didn’t know what to do, because they always follow their

parent's wishes. In the university, there are no parents to tell you what to do and nobody cares about you. Therefore, during their spare time, some students are addicted to the internet, enjoying chatting with someone; some are keen on the social life, going to pub or cinema everyday; or some are busy with dating. No one likes studying, because their parent pay tuition fees, they do not care what to learn" (Interviewee 45)

Thirdly, the reducing rate of graduate employment is also one possible reason for students poor study attitude. Normally, study motivation is very closely associated with job employment, which provides the key study aim and motivates students to study effectively. Since the government cancelled job assignment and began to charge tuition fees, all students have had to find their own job in the market. However, finding a good job in a city is difficult, because there are too many graduates every year after the large growth in higher education. Apart from the best students, who have little worry about job employment, most of students have to seek jobs using their own family networks. As one interviewee said, "This is popular among students: achieving an excellent score is not as attractive as having a good dad" (Interviewee 57)

But, there are many job opportunities outside cities, such as in the western area and rural area, where graduates are highly needed, and no graduate wants to go, because these places are less developed and the living conditions are much worse than those in the cities. Most of graduates would prefer a low-pay job in a city, rather than a high-pay in the countryside. As this administrator identified, "Lack of a hard-working attitude is the key problem for today's graduates" (Interviewee 8)

Inequality problem

A problem that has arisen with the adoption of the new fee-charging system in recent years is inequality between students. As discussed in Chapter 5, there are various levels of tuition fee and living expenses for different universities, and generally speaking, tuition fees in elite universities are much higher than regular universities. In addition, the living costs in big cities are more expensive than those in small cities.

One interviewee said that the policy of charging tuition fees has deprived the opportunity for poor students to study in elite universities, because even if poor students achieve high scores, they cannot find external funding to afford to study at an expensive university, including four year tuition fees, living costs and travelling fees. As a result, many poor students were forced to choose a university with cheaper costs if they were going to be able to study.

“We have recruited many students with scores of more than six hundred in the *National College Entrance Examination* from all over the country, which is impossible in the past. One key reason is the lower study costs in Yunnan province regarding tuition fees and living expense. On the other hand, we have attracted many poor students to study in our university too” (Interviewee 11)

At the same time, the costs of sending one child to university has made lots of families become poor again; an ‘education-leading-back-to-the-poor’ phenomenon has emerged in rural areas (Interviewee 18).

“In the countryside, once having a child studying in the university, this family will become poor again, because multifarious fees in the university are too expensive, the rural families with low incomes can not afford this at all. They have to borrow money to pay for university study; sometimes, they have to give up the child’s education opportunity in the university. The equality problem has become much more serious than before.” (Interviewee 18)

In relation to such problems, the Chinese government has employed a range of methods to help economically poor students to pursue their studies. One example is the student loan. However, in practice, not many students are applying for student loans in the universities.

One interviewee pointed out that, the key reason why students are reluctant to apply for a student loan is that, students have difficulty in repaying the loan after graduation, because finding a job is not very easy in the market. Even if they do find a job, the payment is often too low to enable the student loan to be repaid. In addition, the bureaucratic procedure for obtaining a student loan is very complicated; it takes a long time to get the student loan into the personal account.

“The reason for not paying back the student loan is the low salary for graduates; they cannot afford a student loan. One of my students told me, taking Kunming as example, the living cost in Kunming at least is 950 yuan per month, including rent, bill, and transport allowance. But if graduates can find a job through good luck, they can at most earn 500-800 yuan per month, there is no chance for them to pay back the bank loan” (Interviewee 8)

In order to cope with financial problems, many poor students take part-time jobs to acquire funding for their studies, such as retailer, study assistant and catering. This has become a very popular phenomenon in today’s universities. The positive benefit is that, taking part-time job can reduce students’ financial indebtedness, help students to gain some work experiences and to develop some personal skills, such as team work and communication. In contrast, the negative influence is that too much time spent on the part-time job will affect student academic study, if students cannot arrange their time properly, academic study will suffer. Striving for a balance between doing a part-time job and carrying out academic study is a difficult task. As one interviewee stated,

“Many poor students supported their studies through doing part-time jobs outside universities, which is good, because this encourages students to become independent financially. But this has to have a limit, and it should not affect academic study. Some students take many jobs and spend much more time working than in studies, that’s not right, many students failed their courses for these reasons; students have to strike a balance” (Interviewee 46).

In summary, in order to attract more students and provide the best services, many universities have developed a student-centred approach to management and have put student needs at the forefront of their thinking. However, charging tuition fees has not provided strong incentives for students to value their education in practice, and study motivation is weak. And the financial difficulty has affected poor students’ attending options for universities and it has also impact on students’ academic study in the university. The balance between taking a part-time job and academic study has to be struck by many poor students.

7.3 The impact of creating market rewards on the management of universities

7.3.1 Theoretical analysis

As argued in the earlier theoretical analysis of hybrid governance in Chapter 2, creating market rewards is an incentive instrument used by the principal to motivate the agent to work towards the principal’s aims. Applying the principal-agent model to the relationship between the government and universities, sees the government as creating two types of market incentive for universities through firstly reducing government funding and secondly developing private universities with the aim of motivating universities towards better performance and enhancing university innovation.

A decline in government funding can become a powerful impetus for university change. Resource dependence theory suggests that, when a needed resource becomes scarce, organisations must transact with external actors to obtain the crucial resource for their continued survival. And so organisational survival strongly depends on the ability to acquire the critical resource from external environment (Pfeffer and Salancik, 1978).

Therefore, after government financial cutbacks, acquiring external revenue from the market has become a major priority on the university agenda; revenue generation activities including developing partnership with industry, increasing student enrolment and commercialising academic research have been developed in many universities in Western countries. ‘Academic capitalism’—for-profit academic behaviours-- is growing in today’s academic world (Slaughter and Leslie, 1997).

In China, these effects can be seen as operating less strongly. There is no absolute threat to university survival consequent upon the decline of government funding since 1990s, because the basic university expenditures are still supported by the government budget.

“The main funding support comes from the government, although the government support has decreased recently, but it still can cover basic university expenses, for example, the staff salary and regular teaching costs” (Interviewee 50)

However, in order to enhance academic reputation and increase competition capacity in the market, the Chinese universities still need to generate more funding to compensate for reduced government funding. “The university wouldn’t develop forward without further funding support” (Interviewee 44). So the issues of what activities have been taken to seek

extra funding by the Chinese universities and what are the effects of these activities on university management are discussed in this section.

Creating market competition with private universities is also used by the government to motivate public universities to improve their performance. Based on the neoclassical belief in market competition, establishing private universities can reduce the inefficiency problem in higher education provision. The questions of have public universities been motivated by the establishing of private universities in China, and what are the impacts of private universities are examined here.

Therefore, in this section, the impact of two aspects of creating market rewards on universities is discussed: reducing government funding and creating competition with private universities.

7.3.2 Reducing government funding

The Chinese government has strongly advocated revenue generation since the decline of government funding in the early 1990s. In order to generate such revenues, universities have increasingly focused on marketing their services. Examples of such a focus include offering market-focused curricula and certificate-training courses, and consultancy services for enterprises. As well as these, three key approaches employed by Chinese universities to cope with financial difficulty include developing partnerships with industry, enlarging student enrolment and commercialising academic research. These are examined in turn.

Developing partnerships with industry

As a trial university testing out the new funding system in Yunnan Province, Yunnan Finance University has taken the first step to generate resource from the market and has made some progress.

Since year 2003, Yunnan Finance University has been developing partnerships with industry to compensate for the decline of governmental funding. For example, during the last few years, as the main partners of Yunnan Finance University, the Kunming Tobacco Company and the Yunnan Mineral Limited Company have donated nearly 2000,000 yuan in total to set up the teacher's awards and students' scholarships. The key aim of these scholarships is to motivate students to study hard and encourage teachers towards better performance.

In addition, the Yunnan Picture-Transferring Technology Company had invested 15,000,000 yuan to co-establish the school of computer and information science with Yunnan Finance University and the University Logistics Company had invested 73,030,000 yuan to co-develop student apartments and a student dining room.

These cooperation activities with industry have made strong contributions to university development.

“Yunnan Finance University has developed rapidly for the last two years, the large amount of social funding has played a major role in university development. Without this financial support, our university cannot go that far. And we still need to do more in the future” (Interviewee 52).

Developing partnerships with industry provides an important source of revenue generation, and in this respect, comprehensive universities or science-based universities have advantages. As some interviewees explained, knowledge-based universities are excellent sources of technical expertise and up-to-date scientific information, which is in high demand by many factories to obtain competitive advantage in the market. In return, universities acquire financial funding from industry.

“Higher education should serve market needs. In this respect, we have many successful examples of helping local enterprises’ technology innovation. As a science-based university, we are capable of doing so and we have been cooperating with some metal enterprises for a long time. Also, we have established three university-run enterprises. These partnerships and university-run enterprises open vital channels for transferring research technology to market productivity, which is not only to provide vital needs for developing key academic specialties, but also to make important economic contribution for our university” (Interviewee 11)

By contrast, liberal arts universities have difficulty in generating revenue directly from the market. To cope with their specialty weakness, marketing strategy is applied to help university to raise more incomes. Taking Yunnan Arts Institute as an example, it is hard for the university to establish continuing partnerships with industry or sell educational service in the market. However, some administrators in this university did not regard this as a problem, more as a challenge.

In pursuit of funding support from the market, one administrator in Yunnan Arts Institute had applied a marketing strategy to achieve this purpose. At first, he set up a new marketplace — choosing ‘Teng cong’ as a target. Teng Cong is a tourist location in Yunnan Province. Then he organised university expertise - including arts designing expertise, artistic photograph expertise, decoration expertise and musical expertise, to visit the county council in Teng Cong and told councillors that the university will design a special advertising program for this place without charge. After a month’s intensive work, this program was finished and named as ‘Ten-Angle-Teng-Cong’.

Since this program appeared on local television, Teng Cong has become a very hot topic discussed by local people and tourism in Teng Cong has doubled in a year. Since then, many

local business companies and other county councillors have sought cooperation with the university, and the economic benefits produced have been more than this administrator expected.

“We cannot blame private companies for trying to generate profit. If there is no profit for them, of course, they do not want to invest one penny with you. Once you have a very good product, they can see the benefit in the market; they will give you money automatically. This is a key principle for our university to find the market” (Interviewee 45)

With the help of a market approach, some universities create opportunities to develop partnerships with industry or society, as Yunnan Arts Institute demonstrated. But, there is difficulty for some narrow-specialty-based universities to acquire income through liaisons with industry. For example, Kunming Medical College (KMC) has had difficulty in developing partnerships.

Since the Chinese health service reform launched during 1990s, all hospitals in factories have been closed down, and factories do not provide their own medical services as before. As a result, cooperation between the medical university and industry is diminished. One interviewee from KMC complained that,

“Our funding still comes from the government; there is very limited space for our university to pursue revenue generation from society. We don’t have cooperation with industry, because the enterprise doesn’t have a hospital anymore since reform. And as a medical college, it is difficult to open our own hospital or clinic in the market, because we need massive investment, such as staff and medical facilities, and we cannot afford it” (Interviewee 25)

Although the development of partnerships with industry has been achieved in some universities, it is still hard work for universities to establish relations with profit-driven

investors or funders. Sometimes, academics or heads of school were frustrated or angry about the pressure of finding new revenue sources from industry.

“Apart from academic activity, I have to spent lots time going out and lobbying with businessmen to invest in my project, which consumes time and energy. As a professor I wouldn’t do this, but as a head of school, I have to get money to support the development of our school” (Interviewee 6).

Enlarging student enrolment

Since the charging tuition fees policy was launched in 1997, the student tuition fee has become a vital source of funding to subsidise university expenditure. Therefore, to cope with government resource constraints, maximising student numbers has become an important target for universities. As a result, various strategic initiatives have been employed by universities to attract new students in the market.

The basic principle of ‘survival of the fittest’ is important in a competitive market, which encourages schools or departments in the university to redesign their requirements and curriculum according to market needs and, by doing so, to attract more students and acquire more tuition fees. As one head of school pointed out,

“Why did we change our course name and specialty name? It is all about marketing, it is about how to attract more students in the market, more importantly, to increase more revenue for us” (Interviewee 56).

Developing new programmes closely connected to existing employment markets is a key way employed by many universities to recruit new students, and it is an effective source of revenue generation.

“In the past, we did not have a ‘business English’ specialty in our university; but this was demanded by the market, lots of international companies needed graduates. Therefore, we developed this new specialty in our economic school; teachers came from both the foreign language school and the economic school. Now this programme is very popular, and we had good economic incomes too” (Interviewee 38)

In particular, new degree programmes (postgraduate education) have been sought by many universities to acquire additional revenues from new student market. According to the funding distribution system in Chinese universities, the funding for one master student equals the funding for two bachelor’s students, and the funding for one doctorate student equals the funding for three bachelor’s students. Driven by this economic motivation, universities made more effort to recruit as many postgraduates as possible.

“In our university, today’s postgraduate number in a year is more than the sum of three year postgraduate enrolments compared to ten years ago” (Interviewee 8)

At the same time, developing a ‘professional master’s certificate’ programme is another approach used by universities to generate external funding from the market. The aim of this programme is not to prepare people for new employment but to target people already employed in the market for a further study. Unlike the traditional master students, they do not have a degree after graduation instead achieving master certification only. Therefore, the requirements for student quality are much lower than master students, and academic courses are often offered in the evening or at weekends. In return, student tuition fees in ‘professional master’s certificate’ are much higher than regular master’s students, because in most cases, the tuition bill was paid by the corporation or the government agency where the student works.

“We have been installed ‘professional master’s certificate’ for five years, which contributes the school budget importantly. Most students are employed; we do

not need to worry about graduate employment rate. In contrast, we built lots of networks with students through this programme, because some students are heads of company or the agency” (Interviewee 37).

Increasing student enrolment is an effective way to generate more income for universities, but not all universities take this strategy to increase funding. According to government policy, the standard of tuition fees is to cover at most twenty-five percent of higher education cost. Therefore, when the student training cost is too high, recruiting more students will not gain more revenue for universities, instead it will cost more university funding. As one director from Yunnan Arts Institute said,

“Basically specialties in our university are too costly, taking the piano specialty as example, it needs one-to-one teaching and purchasing a piano is very expensive, the tuition fee is far less than the training costs, so we cannot increase student number. We have to find other ways to generate funding” (Interviewee 61)

Kunming Medical College (KMC) faced the same problem that the student training cost is too expensive. Despite increasing student enrolment being advocated by the Local Education Committee, KMC has been downsizing the amount of student numbers due to high education costs since 2003. One interviewee in KMC explained that,

“Training a high-quality medical student is too costly, tuition fees are not enough. Despite the government policy of increasing the gross enrolment rate, we cannot do so. In response to decreased government funding, we have to reduce student enrolment, from 1000 students in 2003, to 900 students in 2004 and to 800 students in 2005” (Interviewee 29)

As a whole, there has been a rapid increase in student enrolment in the universities since mass higher education policy put into practice in 1999. In order to attract more students,

universities have lowered their entrance conditions and provided a lower-quality education service. The economic motivation has become the principal focus of the university agenda, instead of educational quality.

In today's universities, teachers' teaching hours have been doubled or tripled compared to before, and the number of students in a classroom has been increased to fifty, sixty even to one hundred. There is no time for teachers to ask student questions one by one, and it is impossible for teachers to deal with all study confusions in the class. The quality of students is poor. As one interviewee pointed out,

“More or less, the doctoral education is like the master's education; the master's education is like the undergraduate education; and the undergraduate education is like the college education” (Interviewee 3).

Commercialising academic research

As a consequence of striving to supplement governmental funding, academic research towards commercialisation is also an important way taken by universities to increase external income. Pursuing economic interests has become a new focus of academic research in today's Chinese universities.

In the past, there was no pressure for universities to generate more research grants from the market, because all research projects in the universities were supported financially by the government. However, with diminished state funding during 1990s, universities have started to generate funding through providing research services based on market demands. As a result, traditional basic research-oriented, disciplinary-based academic research has been gradually replaced by externally funded, problem-oriented applied research.

The major difference between academic research and applied research is that, applied research is not sole quest for pure knowledge or findings-focused research like academic research; by contrast, research results have to be able to be translated into real productivity improvements in the market or able to be used to solve real problems for enterprises. As one interviewee described, “Good applied research has to make a profit in the market”.

Kunming University of Science and Technology (KUST) has led the way in this area among universities in Yunnan province. Although Yunnan province is a place with rich nonferrous metal, there is poor technology to extract and purify metal from ore in Yunnan enterprises as a whole, which was a key problem causing economic loss for the government in the past. As a distinctive technology-based university, KUST has seized this market opportunity and generated more funding through doing applied research for local enterprises innovation.

“In accordance with the guideline of higher education serving society, we have done a great deal of applied research for local enterprises since 1990s. This year, eighty percent of research programmes consisted of applied research in our university, which provided a key source of our revenue generation. For example, in 2005, the government only provided 10,000,000 yuan funding, but we generated two times that amount through applied research, it was very good, because no one like us can achieve this amount research funding in the local area!” (Interviewee 11)

There has also been a growth of short-term applied and for-profit business research in other universities. In general, applied-based academic fields such as computer science, physics, medicine or engineering have much easier links to industry and commercial values, which are the main channels to make contributions to university fund-raising. More importantly, researcher personal interests in these fields can accommodate market-oriented applied researches successfully. One head of computer school said,

“Market needs decide our research orientation. Most of my research is high-tech-based software for industry, such as Yunnan Tobacco Company, enterprises or banks. As you know, computer science is an applied-based field; it should serve closely for market need, which is why this specialty emerges. Personally, I’d like doing something useful for the society. Of course, economic reason is important too, after all, today is market economy” (Interviewee 64).

However, sometimes, there is conflict between academic interest and market interest in the course of revenue generation activities. One head of school in Yunnan Arts Institute expressed his unhappy feelings on seeking a research contract in the following way:

“From my personal viewpoint, I don’t like to have contact with the businessman or the industry, how to say this feeling, more or less, I think, this is related to my characteristics as an artist. I have two roles to play, an artist and a manager, as an artist, I do not need to do so, but as a manager, the head of the school, I cannot do things according to my personal interests, I have to manage this in a wise way on behalf of all staff in the school... I have to try so many times to persuade them (businessmen) and keep telling them what benefits this research will produce, which is time and energy-consuming. But I have to, and I often treat this seriously as academic research, because there is no easy way to find money anyway” (Interviewee 6)

At the same time, with funding pressures, the autonomy of academics has been reduced. Academics in the universities have to spend much time to writing various applications and reports for different funders, which they should devote to the research itself. This is often felt to be a waste of time, “most of applications fail because the competition is very strong” (Interviewee 18).

All in all, the decline of government funding has motivated universities to innovate in various ways. The university response of developing partnerships with industry, marketing

educational services and commercialising academic research can be identified as an emergence of ‘academic capitalism’ in Chinese universities, but the level of market-orientation is lower than most universities in developed countries. As one interviewee explained, “Under limited investment methods and tight governmental control, the capacity for revenue generation in the universities in general is very weak” (Interview 43).

On the other hand, as found in this research, there are some side-effects from revenue generation activities in the universities, for example, selling educational services and increasing student enrolment that have affected the quality of higher education; commercialising academic research has caused a conflict between academic interest and market activity, and has reduced the freedom of academics.

7.3.3 Creating market competition

Creating market competition with private universities can be a very effective way to motivate public universities improving performance. Private universities tend to have flexible administrative structures, as discussed in Chapter 5, this has advantage that they can respond to market needs rapidly and provide academic specialties or design suitable programmes according to market needs, which is a major challenge faced by public universities.

However in China, the way private universities have developed is different from the experience in many countries. According to *the Stimulation Law of Private Education*, private universities have five freedoms, including an independent corporation, a separate campus, an independent management, ability to issue diplomas independently and a separate financial budget. Since the re-emergence of private universities after 1980s, the Chinese government has controlled private universities very tightly; today’s private universities cannot decide freely what academic programs to offer and how many students to admit; many private

universities cannot issue their own degree. Private universities are therefore not running independently.

“Despite the reality of being a private university, the Local Education Committee is in charge of all issues related to our university. Regarding student enrolment and academic programs, we have to report the plan to the Local Education Committee. We only can admit students and set up specialties according to the agreement of the government” (Interviewee 26)

An important reason for the popularity of private universities during 1990s is that, they can accommodate the needs of failed students, who have not passed the national college examination and seek a second chance to attend university. As one interviewee said,

“Nobody would choose a private university as their first choice, most students have failed to access public universities, then they just have to study in the private university charged with high tuition fees, because they are too young, most parents are reluctant to let them work so early” (Interviewee 53)

Another reason why private universities are attractive is that they can reduce government financial pressure and responsibilities. Since the late 1990s, the Chinese government has been advocating a large increase in higher education, but public universities cannot satisfy all student needs for higher education. As a consequence, establishing private universities is a good way to mitigate government financial problems. As one interviewee from private university pointed out,

“Why are private universities needed in China? I think the key reason is the financial difficulty for the government. In order to solve massive market needs for higher education with limited resource, the government has to encourage the development of private universities and attract more social funding for education, but public universities are always dominant, this is no doubt” (Interviewee 26)

Diversity is important for private universities to compete with public universities, but there is no big difference between public universities and private universities in terms of the education system. The academic structures in private universities are ‘duplicates’ of their public competitors, for example, curriculum structure, teaching skills and learning methods, because all private universities have to set up academic requirements according to *the Catalogue of Undergraduate Academic Disciplines*, as required by the government. The only difference is, as discussed in Chapter 5, that a private university is a collection of specialties that are currently popular in the market.

“The basic principle is what skills market needs, what academic programs we set up. In our university, there are many high-demand-driven programs for students, for instance, economics, computer, international business, and accounting. Basically, we set up course structure in the same way as public universities do. We have to comply with *the Catalogue of Undergraduate Academic Disciplines*, which is decided by *the Ministry of Education*, some political courses, such as Marxist course, Maoist course, we must set up for all students, this is not market rule. And a new specialty we can recruit students only after being approved by the government” (Interviewee 26)

In order to attract more students, most private universities have to set up lower admission requirements, because students in private universities are charged much higher fees than public universities, and not everybody can afford this “privilege of upper-class families” (Interviewee 53). So the quality of students is questionable. At the same time, most teachers in private universities are retired staff or full-time academic staff from public universities, and so there is a lack of a professional academic team in most private universities because of cost saving. “Most of our teachers come from public universities, because this is the cheap way to run a university” (Interviewee 26).

Also, the government has limited the scope for the development of private universities. According to the government policy, private universities can recruit students only after public universities have finished student enrolment, “This is not fair, because we have no equal chance to enrol students as public universities in the market, this feels more like we are the step-children of the government” (Interviewee 26). At the same time, this interviewee pointed out, that without government funding support, private universities have difficulty in competing with public universities. He put it as follows:

“To be honest, we cannot compete with public universities equally, because public universities have been receiving government funding for many years, therefore, they are well-equipped with facilities (hardware), much better than our university, we have to depend solely on student tuition fees, of course, we are in poor position. Also, there is unequal competition between public universities and private universities, the government always supports public universities in every way, this situation is just like a football player playing with the referee, there is no win situation” (Interviewee 26)

Some interviewees from public universities had made a similar point in terms of competition between public universities and private universities. They were very confident and strongly believed that there is no threat from private universities at least for ten years, because private universities can not win in competition with public universities whether it be in relation to university ‘software’ such as academic reputation and teaching staff, or for university ‘hardware’ such as teaching facilities, library and university infrastructure. “Private universities are used to release the government pressure for higher education provision” (Interviewee 42).

“Personally I do not think private universities are good enough to ‘grab’ our students, because public universities are always the first choice for students.

Honestly speaking, private universities provide a study chance for failed students; they have difficulty in competing with public universities regarding to this academic capability as a whole” (Interviewee 53)

However, as one government official argued, despite the fact that private universities are not strong enough to compete with public universities in general; they are able to compete with public universities with regard to some particular specialties. And this official also claimed that the government had some objectives towards motivating public universities to perform better through the stimulus of competition supplied by the establishment of private universities. As he said,

“Although the competition between public universities and private universities is very weak at this moment, it just is a start. The existence of private universities does give public universities some pressure, even though only a little at this moment, but public universities have to think how to compete with private universities in the long run” (Interviewee 15)

To sum up, based on the analysis of the research data presented here, the establishment of private universities can be seen as means of reducing the financial burden of the government for higher education, and as a way of meeting some part of the high demand for higher education in the market. There is an additional effect of providing a competition stimulus to public universities for better performance, although this is not very strong at this stage. This is because, operating as they do at present as a collection of popular specialties, private universities are lacking their own academic distinctiveness in the market. In addition, with poor academic teams, lower requirements of student admission and no government financial support, private universities find it hard to compete with public-funded universities.

7.4 Conclusion

This chapter has discussed the impact of the government creating a market rewards approach to motivate university and staff for better performance. As elaborated in Chapter 5, the market rewards approach includes developing contractual relations, establishing a new remuneration system, designing pay for performance schemes, charging tuition fees, reducing government funding, creating competition with private universities. The key findings of this chapter can be summarised as follows:

Firstly, the contract-based employment has provided strong motivations for university academics to improve teaching and research performance. In today's Chinese universities, contract-based academics have to strive to gain their senior professional title and academic degrees, and they have felt a much greater degree of pressure compared with the past.

Secondly, the new multi-remuneration system and the pay-for-performance schemes such as efficiency wages or piece-rate payment have motivated academics teaching and research enthusiasm, and academics have been motivated financially to do more teaching and researches, which has not only increased academics personal incomes, but also increased university research achievements and enhanced the university's reputation. However, as a 'two-edged sword', achieving economic benefits is becoming more important than academic value in some Chinese universities, and academic shirking and cheating behaviours can be observed on some campuses, such as taking a second job or article plagiarism.

Thirdly, the charging of tuition fees has necessitated the improvement of services by universities to meet student needs as much as possible and a new student-centred approach to management has been developed in many universities. However, on the one hand, tuition fees

policy has not motivated university students to value their education effectively. Many students' motivation to study remains weak; on the other hand, charging of fees has increased the inequality problem in today's Chinese universities, and financial difficulty has affected poor students' university choices and academic study.

Fourthly, the decline of government funding has put pressure on universities to acquire external funding from the market. Different universities have responded to this challenge in different ways. Developing partnership with industry, enlarging student enrolment and commercialising academic research have been used as the main methods to generate external revenue in the market, 'academic capitalism' has begun to emerge in Chinese universities. However, seeking large tuition fees from increased student enrolment has affected the quality of higher education, and commercialising academic research has caused a conflict between academic interest and market interest.

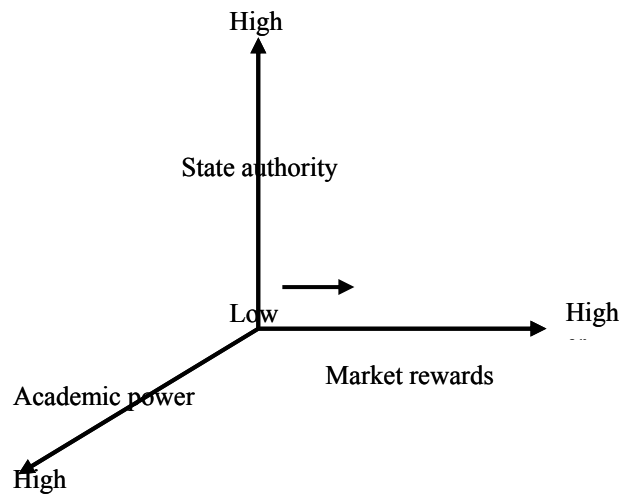
Fifthly, the establishment of private universities has mitigated government financial problem and accommodated the needs of failed students. Although there are five freedoms according to the law, private universities are still constrained by government policies with respect to their internal management, and the competition stimulus for public universities towards better performance has not been provided by private universities strongly. Lacking government funding support, a professional teaching team and good quality students, private universities find it difficult to compete with public universities at present.

All in all, the market rewards approach, such as contractual employment, the new multi-remuneration system, and reducing government funding has provided relatively strong incentives for universities and academics towards improved performance, and to some extent,

the incentive and shirking problems have been mitigated in Chinese universities, however, the cheating problem behaviours can be observed on some campuses.

Compared with the state authority dimension and the academic power dimension, the market rewards dimension has moved relatively further in the three-dimensional governance model, see **Figure 7.1**. In Chinese universities, the market rewards dimension has been changed from a very low level towards an intermediate level.

Figure 7.1 The Movement of Market Rewards



CHAPTER 8 CONCLUSIONS

8.1 Introduction

This thesis has developed a framework of using principal-agent theory to understand the reforms of the Chinese higher education system and has explored the issue of how changing governance structures can affect the incentives of the actors. In particular, the three methods of increasing incentives that are examined in the higher education context are reducing state authority, enhancing academic power and creating market rewards.

This concluding chapter consists of three key sections. Firstly, the key findings of the study are summarised in the light of the research questions identified in Chapter 1, the review of the theoretical framework discussed in Chapter 2, and the empirical studies examined in Chapter 3. Secondly, the policy implications of this study are examined in relation to the findings from the case studies, and the possible areas of future research are identified. Finally, the chapter concludes by arguing that university reforms need to be planned cautiously and considered as a dynamic and comprehensive process within the social, economic and political environment.

8.2 Research findings

Chapter 1 outlined the major research questions that the research aimed to answer. The following discussion summarises the key research findings, as a response to these research

questions. The theoretical research findings are discussed first, and then the empirical research findings.

8.2.1 The theoretical research findings

➤ What is hybrid governance?

As argued in the analysis of principal-agent theory presented in Chapter 2 and the empirical studies of higher education in Chapter 3, there are three attributes of governance structure in higher education institutions: state authority, academic power and market rewards. In a hierarchical governance structure in higher education, there is a very strong level of state authority, a very weak level of academic power and a very weak level of market rewards. By contrast, in a market governance structure, there is a very weak level of state authority, a very weak level of academic power and a very strong level of market rewards. Between these two extreme cases, any mixture of various levels of state authority, academic power and market rewards represents hybrid governance.

➤ How can hybrid governance control cheating problems in market governance and mitigate shirking problems in hierarchical governance?

➤ How can hybrid governance be analysed through an incentive approach?

Principal-agent theory suggests that a market rewards approach is likely to be effective in overcoming the incentive problem that leads to the shirking problem in the hierarchical form of governance embodied in the state control model. However, a move to market governance may reduce the shirking problem, it may at the same time produce a cheating problem.

Hybrid governance represents a compromise approach between the two extremes that offers a reduction in shirking problems when compared to the traditional hierarchical approach, without generating cheating as might be expected with the full market approach.

Table 8.1 shows different characteristics in different governance structures. Strong administrative control is the key characteristic of the hierarchical governance. For example, strong administrative control will usually involve regulations, reporting and performance management. These techniques can reduce the cheating problem, but are likely to increase the incentive and shirking problems. In contrast, the key characteristic of market governance is

Table 8.1 The Three Characteristics of Hybrid Governance

Governance structure	The key characteristic(s)	Example	The cheating problem	The shirking problem
Market	Market rewards	<ul style="list-style-type: none"> • Pay for performance • Charging fees • Competition • Contract 	+	-
Hierarchy	Administrative control	<ul style="list-style-type: none"> • Regulations • Performance management • Reporting • Sanctions 	-	+
Hybrid	Administrative control	<ul style="list-style-type: none"> • Regulations • Performance management • Reporting • Sanctions 	-	-
	Academic power	<ul style="list-style-type: none"> • Policy decentralisation • Increasing academic autonomy 		
	Market rewards	<ul style="list-style-type: none"> • Pay for performance • Charging fees • Competition • Contract 		

Note: + means increasing the problem; - means decreasing the problem

the use of strong market rewards. This would include techniques such as pay for performance, charging fees, competition and contractual relations, which can provide strong incentives for individuals, but cause cheating behaviours at the same time.

Combining elements of the advantages of both market and hierarchical governance, hybrid governance uses three incentive forces of state authority, academic power and market rewards in concert to reduce cheating problems in market governance, and to mitigate shirking problems in hierarchical governance in relation to higher education context, these three incentive forces are three key characteristics of the system of hybrid governance which China has been moving towards.

Hybrid governance can reduce cheating problems that market arrangements are subject to by means of regulations, reporting and performance management. Hybrid governance can also mitigate shirking problems that hierarchical arrangements are subject to by three key methods: reducing state authority (policy decentralisation), enhancing academic power (increasing institutional autonomy) and creating market rewards (pay for performance, charging fees, competition, and contract).

Therefore, in some circumstances, hybrid governance can organise transactions in a more efficient way than market and hierarchical governance.

8.2.2 The empirical research findings

➤ What forms has marketisation taken?

As analysed in Chapter 5, there are five main actions taken by the Chinese government in the course of marketisation reforms to motivate universities and their staff in Chinese higher education in post-Mao China. These are policy decentralisation, developing quality assurance,

reforming the university funding system, designing incentive systems and establishing private universities.

- What has been the impact of marketisation reforms on the management of Chinese universities and academics' performance?

As argued in the analysis presented in Chapters 6 and 7, the main impact of marketisation reforms on the management of Chinese universities and academics' performance can be summarised as follows:

Firstly, the analysis of the respondents' views indicates that the Chinese government has reduced its control of university development, in that Chinese universities have had more scope to suggest changes to their internal management systems. Nevertheless, the key aspects of university internal management are still under government control. For example, the government still controls the setting up of new academic programmes, the level of student tuition fees and the appointment of the university president. This indicates that the Chinese government still has considerable influence in many areas of higher education development. There is a distinction between the rhetoric of government policy suggesting a freeing up of centralised state controls and the practice of constraints the government continues to exert.

From the point of view of many research interviewees, the implementation of quality assurance in Chinese higher education has made a positive contribution to academics' teaching performance, particularly formalising the administrative procedure in the universities. However, through the national evaluation programmes, Chinese universities are required to meet all targets set up by the government, and so university autonomy has been undermined; at the same time, the national evaluation requirements have placed many constraints on

academic teaching, university academics have to please both students and the university, and so academic power has also been reduced.

Secondly, evidence from research respondents suggests that in other ways university autonomy has been enhanced. Under the guidelines of the *Catalogue of Undergraduate Academic Disciplines*, Chinese universities can freely set up academic specialties and decide academic courses in accordance with their perceptions of market needs; under the guidance of relevant government policies, Chinese universities can design their own internal evaluation programmes and use various market strategies to recruit students in the market. They also can design their own incentive schemes to motivate staff for better performance. However, there are still tight governmental restrictions. Chinese universities cannot decide all internal management issues independently, for instance, academic issues, staff employment and student enrolment. As one respondent's argued in Yang et al. (2007, p. 590), university autonomy in China is like "dancing in a cage".

With regard to individual academic freedom, most of the academics interviewed in this research presented the view that university academics have greater freedom in relation to teaching and research, they can freely select teaching methods to teach students, choose academic textbooks for student study and carry out research in their own interest. However, the introduction of contract-based employment and evaluation programmes have led academics to improve their teaching and research performance to meet the requirements set up by the government and their universities. Academics now have to strive for higher academic degrees and senior professional titles in order to keep their position in the universities. Academic power has therefore become weaker and university academics have been subjected to more pressure than in the past.

Thirdly, there is a common view held amongst the interview respondents that, the reducing levels of government funding and the consequent need for charging tuition fees have provided a powerful impetus for university innovation. Seeking extra funding from the market has become a major challenge faced by many Chinese universities. The new directions of developing partnership with industry, enlarging student enrolment and commercialising academic research demonstrate that the trend of 'academic capitalism' has gradually emerged in Chinese universities and the market rewards approach has been applied effectively by the Chinese government to today's Chinese higher education system. However, according to interviewees' opinions, the general capacity for revenue generation is weak in Chinese universities, particularly in poor regions with a less developed market economy. Pursuing large tuition fees from increased student enrolments has led to reduction in the average quality of students and commercialising academic research has caused a conflict between academic interest and market interest.

Many respondents also argued that, the new multi-remuneration system and pay for performance schemes have provided strong incentives for university academics to improve their teaching and research performance. Workload allowances and teaching allowances have dramatically increased academics' personal income and made a teaching career more achievable than before; however, in the universities, extrinsic motivation has become more attractive than intrinsic motivation such as job satisfaction and job duty. Increasing financial rewards is becoming more important to academics than traditional academic values, and seeking monetary incentives has generated the problems of academic accountability in today's academic world, such as taking a part-time job, fighting for extra teaching hours and copying the ideas of others, and such problems have contributed a lot to creating a bad working atmosphere.

Fourthly, the move to charging tuition fees has provided a strong market incentive for universities to develop a new student-centred approach to management. Many research respondents pointed out that, university students have not been motivated by the new need to pay tuition fees to value their education. In contrast, students' motivation towards studying is weak in today's universities. At the same time, charging tuition fees has introduced a new problem of inequality. Financial difficulty has not only adversely affected the opportunities for less well resourced students to attend universities, but has also affected the quality of academic study that can be achieved by poor students who do manage to attend. Many poor students have been struggling to find a suitable balance between taking a part-time job and concentrating on academic study.

Fifthly, the research evidence shows that, the aim of establishing private universities by the Chinese government is mainly to attract social funding for higher education development and to meet high demands for higher education in the market. Creating market competition is less considered in the government agenda. Despite the fact that private universities have five freedoms according to the law, the key academic issues such as setting up programmes and deciding student enrolments are still constrained by government policies. Therefore, private universities are not running totally independently according to market rules. Offering a collection of popular subjects in the market, private universities suffer from a lack of academic distinctiveness, professional academic teams and government funding support. Private universities therefore struggle to compete with public-funded universities in the market.

- How can hybrid governance in Chinese higher education be analysed in the marketisation reforms in post-Mao China?

As discussed in Chapter 3, three dimensions in the governance model in higher education are, *the state authority dimension*, which measures to what level the government has power to decide university internal management issues; *the academic power dimension*, which measures the level of decision-making by university on internal management issues; and *the market rewards dimension*, which measures how strongly the incentive system rewards university performance.

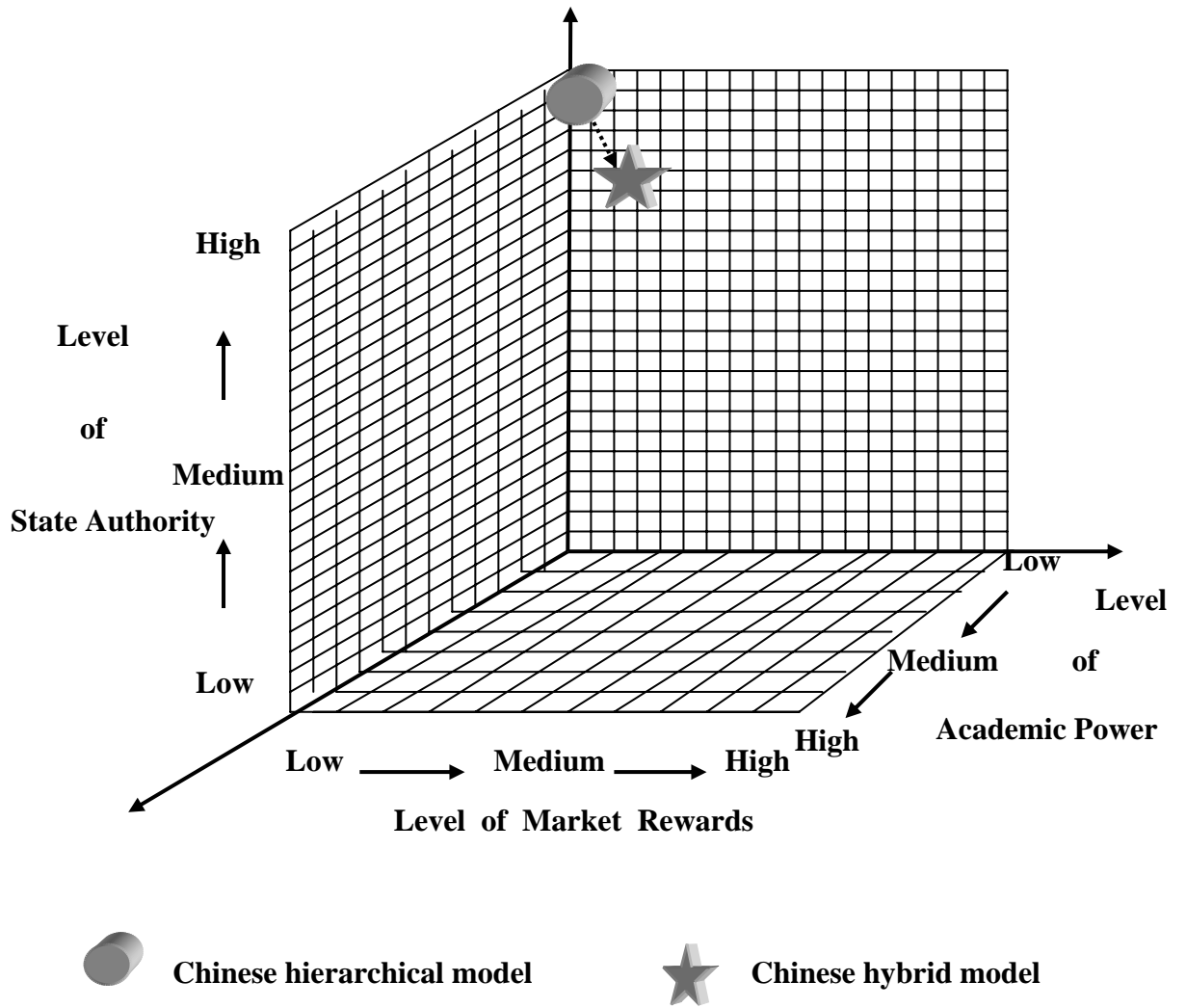
Based on the research data analysed in Chapters 6 and 7, it can be argued that the Chinese government has employed these three incentive methods to motivate Chinese universities and academics towards improved performance and that hybrid governance has replaced traditional hierarchical governance in higher education over the last two decades. The current development of hybrid governance in Chinese universities can be delineated in the three-dimensional governance model as shown in **Figure 8.1**.

Figure 8.1 demonstrates the movement of governance model from traditional hierarchical governance to the current development of hybrid governance.

According to the research findings, the Chinese government has developed a process of policy decentralisation to reduce state controls and increase academic power. However, as noted earlier, state authority has not in practice been reduced to a large degree, and it still remains at a high level. Similarly academic power in universities has not been increased a great deal, and still remains at a low level. The Chinese government has been introducing a number of policies to create market rewards, for example, reducing governmental funding, charging tuition fees and re-established private universities, these actions have provided relatively strong incentives for Chinese universities and academics towards improved performance,

therefore, roughly speaking, market rewards have moved from a very low level towards an intermediate level.

Figure 8.1 Hybrid Governance in Chinese Higher Education



8.3 Research policy implications and the future research area

8.3.1 Policy implications

This research has argued that the Chinese government has shifted the governance model from traditional hierarchical governance to hybrid governance in post-Mao Chinese higher education. Three incentive-oriented approaches have been applied to restructure the higher education system by the Chinese government with the aim of improving efficiency in higher education provision. Based on research findings and theoretical analysis, there are following policy implications that arise from this research,

Firstly, the hybrid governance model suggests that it would be very useful for mitigating the shirking problem in Chinese universities if the Chinese government could relax its tight control much further and allow more autonomy to Chinese universities.

As analysed in Chapter 2, a higher level of state control in hierarchical governance can reduce the cheating problem of market governance but cause shirking problems. Therefore, hybrid governance can reduce state controls by a certain amount and increase the autonomy of the agent with the aim of mitigating the shirking problem in hierarchical governance.

According to empirical studies, a new strategy of ‘steering from a distance’ (Marceau, 1993) has been applied by many governments around the world in last two decades. Under this strategy, there is no strict government control and detailed regulations on higher education management; the main function of the government is to set “the framework within which institutions, students and employers can interact” (Marginson, 1997, p. 65). Through various mechanisms, the government pays more attention to monitoring and controlling university

performance, quality and funding (OECD, 2003), “the rise of the evaluative state” (Neave, 1988, p. 8).

In contrast with traditional hierarchical control, universities have more freedom to manage themselves based on market demands. Although patterns of university autonomy are very diverse, as for instance defined by Mahony (1992, p. 14), there is a consensus that at a minimum institutions should be free from government interference in relation to 1) course content; 2) methods of assessment; 3) the conduct of research; 4) the appointment of staff; 5) and the free expression of views and opinions. In particular, universities in OECD countries enjoy considerable freedom to determine their own policies and priorities in a wide range of activities, such as staff employment, student enrolment, and academic structure and course content (OECD, 2003).

Compared with the experiences from developed countries, evidence from research respondents suggests that Chinese universities have little autonomy regarding internal management, there is little space for universities to decide academic structure, staff appointment and student enrolment independently.

The implication is that it would be beneficial for the Chinese government to further reduce controls and allow universities greater freedoms to act on their own initiative in the future. Such freedoms might for example extend to electing the university president, deciding staff appointments and setting up the academic structure.

Given China’s unique social, cultural and historical realities, it can be expected that, the Chinese government will nevertheless still play a significant role in university development. However, the way of implementing university autonomy can be designed differently for

different universities, for example, as one interviewee suggested, the more prestigious universities might be granted greater autonomy, and the government might grant universities differing levels of freedom based on the capability of the university's self-management.

Secondly, the hybrid governance model suggests that it would be useful for controlling the cheating problem in Chinese universities if quality assurance could place more emphasis on the quality of teaching and research performance, instead of focusing on administrative procedures.

The key purpose for developing quality assurance is to reduce cheating problems and make universities more accountable for their performance within a framework of giving more freedom, as discussed in Chapter 3.

However, research interview data indicated that the requirements of the current quality assurance in Chinese universities are impractical and less interested in the quality of teaching itself. The role of reducing cheating problems has not yet developed significantly in today's quality assurance in Chinese higher education. In practice quality assurance can lead to waste of resources, as demonstrated in Chapter 6. Evaluation requirements need to be tailored towards monitoring the quality of teaching and research and towards mitigating the cheating problem in higher education, rather than providing simple bureaucratic control.

In addition, it might be useful to design evaluation requirements based on experts coming from different academic level universities in different regions, and to develop different assessment systems for different universities, instead of the current 'one-size-fits-all' strategy.

For example, the system might be based on higher standards for top universities, basic academic requirements for regular universities; and different evaluation programmes for

research-centred universities and teaching-centred universities. The system might also incorporate different evaluation systems for public universities and private universities.

At the same time, ranking systems and a resource distribution approach can be used in quality assurance as effective methods to motivate universities and academics towards improved performance, which can reduce the incentive problem in the hierarchical control system, as seen in most developed countries.

Thirdly, the hybrid governance model suggests that it would be helpful for reducing the shirking problem in Chinese universities if the Chinese government could reform university decision-making processes and involve more academics in university internal management.

Across many other countries' education systems, academic authority is emphasised. Based on his discussion of British universities, Moodie (1980) argues that

“within the universities, broadly speaking, the prevalent outlook may be summarised as ‘knowledge is authority’. By this is meant that the right to decide in any area ought to be shared among the knowledgeable, with those knowing most having the greatest say, and the uninformed having no say” (quoted from Clark, 1983a, p. 158)

As discussed in Chapter 6, most of Chinese academics are isolated from university decision-making process, therefore, the rationality of policy-making can be questioned in terms of university internal management, and the shirking problem arises. Therefore, the Chinese government might need to reduce administrative power and increase academics' contribution to university internal management, with the aim of mitigating the shirking problem in Chinese universities. For example, academic professors or heads of schools should engage in a university policy-making group.

Fourthly, the hybrid governance model suggests that it would be helpful for mitigating the cheating problem in Chinese universities if the system of academic monitoring could be developed further; at the same time, intrinsic motivation should be strengthened in Chinese universities.

Creating market rewards has provided strong incentives for university academics to improve their performance regarding teaching and research, as two sides of a coin, too much attention paid to economic incentives can push university academics towards cheating behaviour. Such behaviour indicates poor quality teaching, article plagiarism and fake research findings in the universities, as discussed in Chapter 7. Although there are some administrative controls employed in some universities, more effective monitoring methods should be established to mitigate academic cheating problems. For example, developing research and teaching peer review system, stressing student evaluation programme, and designing powerful sanctions.

At the same time, cultivating intrinsic motivations for academics should be strengthened in the universities, such as job satisfaction and job duty, which is an important and fundamental way to reduce the cheating and shirking problems in Chinese universities.

Fifthly, the hybrid governance model suggests that it would be useful for reducing cheating problems in Chinese universities if the Chinese government could give private universities more freedom to deliver higher education in the market; and encourage academic diversity in the development of private universities.

Market competition can provide strong incentives for universities to reduce cheating problems in higher education provision. Although the key reason for establishing private universities in China, as many research respondents pointed out, is to reduce the state financial burden and

meet high demands for higher education in the market, as discussed in Chapter 7, the Chinese government should encourage competition between private universities and public universities, and help private universities to cope with some severe problems, for example, lack of funding, lack of academic diversity and lack of professional teams.

At the same time, the Chinese government should free up its control of private universities and allow private universities to decide all internal management issues independently, such as setting up academic programmes, recruiting students and granting degrees in responding to market needs. By doing so, a strong incentive can be provided for private universities and the development of private higher education can be promoted in the long run.

In addition, to compete with public universities, academic diversity is the key for private universities, as Levy (1999) suggests that, “to make a difference, for better or worse, private higher education must bring something important not otherwise found in the higher education system” (p. 15).

Therefore, the Chinese government should encourage private universities to create their own distinctiveness for survival and to compete with public universities in the market, for example, developing short-term studies, applying new approaches to teach or creating new modules which the market demands.

8.3.2 Future research areas

As discussed in Chapter 2, it is argued that the three most important incentive forces used to construct a hierarchy-hybrid-market governance model are authority, ownership and rewards. This is not to say there are not other incentive forces. Such other forces include culture and trust. However, this thesis has focused on what is considered to be the three most important

forces. But it may be possible for future work to develop the approach established in this thesis by considering the importance of culture and trust.

Also, a useful idea for future research is to expand the data collection to cover other regions in China, which might produce a pattern of hybrid governance in different areas with different economic levels: for example, the hybrid governance model might be closer to the hierarchical model in a poor area, and by contrast, the hybrid governance model might be more closer to the market model in a rich area.

Another potential research project is to design international standard measurements to compare hybrid governance in different countries, for instance, selecting countries around the world, for example, eastern countries like Korea, Japan, and Singapore, western countries like United States, United Kingdom, Germany, and Netherlands; or selecting countries according to their economic development, such as developing countries and developed countries. Doing so would classify the pattern of hybrid governance in the worldwide picture, and policy implications might be drawn differently in terms of the development of higher education as a whole.

8.4 Conclusion

This research has argued that hybrid governance is more efficient than market and hierarchical governance in some circumstances, because hybrid governance can effectively use three incentive forces to reduce both the cheating problem of market governance and the shirking problem of hierarchical governance. However, it might be asked: which form of hybrid governance is the best structure for higher education institutions for all countries?

This is a complex question and there is no precise answer for it. The reason for its complexity is that different countries have different social, political and economic environments, there are different capabilities in terms of state authority, academic power and market force under these environments, and these environments are changing all the time. As discussed in Chapter 2 and Chapter 3 in this research, there is no universal optimal hybrid governance to minimise transaction costs as a whole, and so there is not an optimal hybrid governance in higher education institutions for all countries.

‘What governance ‘fits’?’ One critical standard of selecting governance structure is, as recommended by Clark (1983b), “fit is a matter of balance among alternative forms for effecting national governance. Too much emphasis in any one direction, for example on state command, produces an imbalance that leads to a fit in a different meaning of the term!—a sudden and violent attack of disorder, a convulsion, an exacerbation of troubles perhaps leading to prolonged sickness” (Clark, 1983b, p. 27).

In China, given the reality of a huge population, a vast extent of geographical location and a particular transition period, it can be argued that there is a much more complicated social, economic and political environment than in any country in the world. This suggests that Chinese higher education reform is a particularly difficult problem and that the Chinese government can not simply import any hybrid model from any country to restructure its own higher education system.

Although the research findings demonstrate that a strategy of establishing hybrid governance has been applied by the Chinese government to reform higher education system, the movement from traditional hierarchical governance to the new hybrid governance is limited. One key reason is that no one can tell which governance is the optimal structure to balance

state authority, academic power and market rewards in the best way for Chinese higher education.

Therefore, in the same way as many other economic reforms have proceeded in China, the Chinese higher education reform also rests on “groping for stones to cross the river” (Ross and Lou, 2005). In other words, the best way to restructure hybrid governance in China has to be, based on experience from counterparts of Western countries, and the Chinese government has to try different reforms in relation to the three incentive forces in flux: state authority, academic power and market rewards. In this way learning from its mistakes, step by step, it will eventually establish the optimal hybrid governance for Chinese higher education institutions.

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APPENDICES

Appendix 1

Introduction Letter

2nd September 2005

To Whom It May Concern:

This is to certify that Zhi Hui Wang is registered full-time (37.5 hours per week) for the degree of PhD (Research) in Local Government Studies at the Institute of Local Government Studies, a department of the School of Public Policy, University of Birmingham in the United Kingdom.

Mrs Wang's registration commenced on 1 May 2004 for a minimum period of 36 months.

She is carrying out research on the impact of marketisation on Chinese higher education. The aim of the research is to examine how universities are changing and pursuing opportunities offered by the new environment of education reform and marketisation.

I would appreciate any assistance you are able to give Mrs Wang during her visit to China regarding her studies.

Yours faithfully

Michael P Hughes
Head of Department
INLOGOV
School of Public Policy
University of Birmingham
United Kingdom

介绍信

学号： 590037
2005年9月2日

尊敬的先生/女士：

王智慧女士是我系地方政府研究中心的一名全日制在读博士生（学习期限：01/05/2004-01/05/2007，37.5小时/周）。目前，她正从事于市场化对中国高等教育影响的一项课题研究，该课题主要是探讨在高等教育改革和新的市场环境下大学是如何寻求机遇发展自己的。

王智慧女士将于二零零五年十月至十二月回中国进行课题实地调查研究(10-12/2005)。在她回国收集资料期间，希望能得到您的大力支持，对此我将表示最诚挚的感谢！

此致

敬礼

Michael P Hughes

地方政府研究中心主任
公共政策学院
伯明翰大学
英国

Appendix 2

Interview questions

1. The local officials (half hour) (Introduction at first)

- 1.1 What is the relationship between the government and universities? And what do you think university autonomy and why?
- 1.2 Has the government financial support for universities been changed after marketisation reforms? And why?
- 1.3 What are your opinions on the development of private universities (policy support, creating competition)?

2. The president of University (half hour) (Introduction at first)

- 2.1 From your point of view, what is the key reason for marketisation reforms in Chinese higher education? And why?
- 2.2 What do you think the relationship between the government and universities? Has it been changed over time and why?
- 2.3 Is there any change in terms of university management after the decline of government funding? Why?
- 2.4 What do you think of university autonomy in relation to the following issues and why?
 - 2.4.1 the finance issue: whether the university can freely decide own budget,
 - 2.4.2 the student issue: whether the university can freely set up tuition fees and enrolment requirements,
 - 2.4.3 the education issue: whether the university can freely decide academic structure and the content of courses,
 - 2.4.4 the staff issue: whether the university can freely employ staff and decide salary,
 - 2.4.5 The general management issue: whether the university can feely decide administrative structure and external contact,
- 2.5 What are your opinions on marketisation in higher education? And why?

3. The heads of School (an hour)

(Introduction at first)

- 3.1 At present, what is the key source of school funding? Is there any difference after the reforms in terms of school financial support? Why?
- 3.2 Has the school management system been changed after the reforms and why?
- 3.3 What are main channels for the school to generate revenue (partnership with business or industry, selling educational service)? Do you feel pressure regarding to funding generation? And why?
- 3.4 What do you think of university autonomy? Do you have power to make own decisions on setting up courses, recruiting student, doing research, employing staff and deciding budget in the school? Why?
- 3.5 What do you think academic power in the university? And why?
- 3.6 Are you a member of university decision-making group? And why?
- 3.7 What do you think the competition between public universities and private universities?
- 3.8 What do think marketisation in higher education? And why?

4. Academic staff (half hour)
(Introduction at first)

- 4.1 Do you feel financial pressure as a teacher working in the university? Does it matter? Why?
- 4.2 Have you got freedom in deciding setting up courses and selecting teaching methods as a teacher in the university? Why?
- 4.3 What do you think the relationship between academic staff and administrative staff? And why?
- 4.4 What do you think academic freedom? And why?
- 4.5 What are your comments on today's university students (study attitude, motivation and cooperation)?

课题名称：市场经济对中国高等教育的影响

第一次访谈问题

1. 政府官员（半小时）

自我介绍

1.1 在市场经济下，您是如何看待政府与高校的关系？又是如何看待大学自主权的，为什么？

1.2 政府对高校的经费拨款在改革后有区别吗？为什么？

1.3 您是如何看待私立大学的发展（政策扶持、促进竞争）？

2. 高等学校校长（半小时）

自我介绍

2.1 您认为什么是主要原因促使高校走向市场的？

2.2 您是如何看待政府与大学的关系？为什么？

2.3 政府经费的缩减对学校管理有影响吗？为什么？

2.4 您是如何看待高校的办学自主权？为什么？（财权，人事权，行政机构设置，课程设置，招收学生）

2.6 您是如何评价高校市场化行为的？为什么？

3. 学院院长（一小时）

自我介绍

3.1 目前，学院经费的主要来源是什么？这与市场经济改革前有何不同？

3.2 经费来源的变化对学院管理的方式和理念有什么影响？为什么？

- 3.3 学院筹集经费的渠道有哪些？您有筹资方面的压力吗？
- 3.4 您是如何看待高校的办学自主权？在下列管理方面学院有自主权吗？
（招募学生， 课程设置， 课题研究， 人事聘用， 预算管理）
- 3.5 您是如何看待大学教师的权力的？为什么？
- 3.6 学院院长参与学校政策制定吗？为什么？
- 3.7 您是如何看待公立大学与私立大学的竞争的？为什么？
- 3.8 您是如何看待高校市场化的？

高校教师（半小时）

自我介绍

- 4.1 作为一名高校教师，您有经济压力吗？那您又是如何克服的？
- 4.2 在课程设置、教学方式、培养学生方面您有自主权吗？为什么？
- 4.3 您是如何看待教师与行政人员的关系？
- 4.4 高校教师自由吗？为什么？
- 4.5 您是如何评价今天的大学生（学习态度，进取心，合作精神）？

Follow-up interview questions

1. Local government official (half hour)

1.1 What do you think the establishment of quality assurance in the universities? Why?

1.2 Is there any economic reward for the excellent university in the assesement at national level or at provincial level? Why?

1.3 Is there any ranking system employed by the government after the national assessment? Why?

2. The head of school (an hour)

2.1 What are main characteristics of today's university remuneration system? And what is the key difference between the old distribution system and the new remuneration system? Why?

2.2 What reward methods has the school been used to motivate staff (economic rewards or administrative control) for excellent teaching performance? And why?

2.3 What kind of motivation methods has the school been employed to promote staff for excellent research performance? And why?

2.4 Have you got any performance evaluation schemes for staff in your school? Why and how often?

2.5 What do you think quality assurance (benefits or weaknesses)? And why?

2.6 How did you develop the self-evaluation programme in your school?

2.7 Have students got involved in staff evaluation programme? And why?

2.8 Has the school designed some rewards schemes for excellent performance? And why?

3. Academic staff (half hour)

3.1 What do you think about the present remuneration system in your university?

3.2 Have you been motivated by the rewards schemes at school level or university level? And why?

3.3 What do you think of the national quality assurance system? Is that helpful for improving your teaching? And why?

3.4 Have you got pressure from the self-evaluation programme in terms of teaching and research performance? And why?

第二次访谈问题

1. 政府官员（半小时）

- 1.1 为什么国家要对大学进行评估？
- 1.2 对考核优秀的大学，国家或省对其有任何奖励吗？为什么？
- 1.3 评估后，国家对评估结果进行排序吗？为什么？

2. 学院院长（一小时）

- 2.1 大学的工资分配体系有哪些构成？新旧体系的主要区别在哪里？为什么？
- 2.2 学院有哪些机制用来激励教师改善教学的（经济的或行政的）？
- 2.3 学院用什么机制来促进教师进行课题研究的？
- 2.4 学院有对教师进行评估吗？为什么？多长时间进行一次？
- 2.5 您如何看待大学评估的（益处和弊病）？为什么？
- 2.6 学院是如何进行自我评估的？
- 2.7 学生参与教师评估吗？为什么？
- 2.8 学院对优秀教师进行奖励（物质或精神）吗？为什么？

3. 高校教师（半小时）

- 3.1 您是如何看待大学工资体制改革的？
- 3.2 您认为学校或学院奖励机制有效吗？为什么？
- 3.3 您是如何看待大学评估的？评估对改善您的教学有帮助吗？为什么？
- 3.4 学校的自我评估对您的教学与课题研究带来压力吗？为什么？

Appendix 3

Interview Procedure

----- Research on higher education management in China

1. Part One: introduction

- 1) introducing the researcher (career and academic background);
- 2) introducing the research (the key purpose of research and key aims of this interview, interview time)
- 3) relevant questions (permission of the interview to be recorded or note-taken, confidentiality)

2. Part Two: face-to-face interview

- 1) Preparation: checking tape-recorder (battery, microphone, tapes); note-taking (interview time, interview place, key points)
- 2) conducting interviews: interviewee introduction at first and interview questions followed (asking questions in a proper voice, explaining questions if not very clear, probing relevant questions)
- 3) checking if all questions being asked

3. Part three: closure

- 1) switching off tape and close notebook
- 2) thanking for your help

Appendix 4 Relevant University Documents and Evaluation Requirements

Further Strengthening and Monitoring Teaching Quality in Yunnan University

According to the spirit of document No. 4 (2001) stipulated by the *Ministry of Education*, the following requirements are set up to improve teaching quality in Yunnan University.

Teacher Credentials and Responsibilities

1. University teacher has to have credentials as a professor, associate professor, lecturer, and teaching assistant;
2. The leading teacher has to have excellent academic knowledge and teaching experience, and have at least a lecturer title;
3. Non-teaching staff have to abide by the following requirements: a researcher can teach students only after being assessed successfully by the teaching department; a foreign teacher has to be evaluated by the international department before taking any teaching task;
4. A professor or associate professor has to take one or two academic courses each term;
5. The leading teacher has to improve his or her teaching skills, strengthen basic education, highlight the key part of knowledge and cultivate student innovation;
6. Any new course before opening to students has to be assessed by the school experts, and the teaching plan and teaching content has to be reported to the teaching department.
7. If any teacher cannot attend the class for any reason, he or she should ask the deputy head of school for leave beforehand. It is not allowed to ask any on-studying master students to teach;
8. Any academic course is not allowed to be adjusted, cancelled or replaced in private. Once found out, the relevant teacher has to be punished according to *the regulation on teaching accident in Yunnan University*;
9. The head of school has full responsibility to assign teaching obligations to each

teacher. After the assessment of the teaching department, the president of university will sign the teaching certificate and grant each teacher;

10. Each teacher has to cooperate with any teaching evaluation activities;

Basic Requirements for Academic Teaching

11. Preparing teaching: a teacher has to prepare teaching content according to the teaching plan. Teaching has to focus on the basic conception, the basic theory and the basic requirements for each chapter, also the appropriate teaching skill is required;
12. Teaching: a teacher has to teach students with a clear voice and standard language; the theory has to be illustrated precisely and the conception has to be introduced clearly; a teacher has to motivate student studying positively and the mutual-study is encouraged between student and teacher;
13. A teacher must attend the class on time, arriving at the class late or leaving early are not permitted; academics must dress properly, it is not allowed to bring into class anything irrelevant to teaching. A teacher has to dress properly;
14. A student has to attend class on time, it is not allowed to arrive at the class late or leave early; during the studying, a student is not allowed to talk to anyone; student has to ask relevant teacher for leave; and a student has to dress properly.

Relevant Teaching Issues

15. A teacher has to organize number of group discussion every term according to the teaching plan to improve students' ability in terms of analyzing, problem-solving and presentation. At the same time, a teacher needs to give some assignments to students after teaching and correct assignment properly;
16. Self-study is a useful study approach. A teacher should provide opportunities for students' self-study, help students set up studying plan and select suitable studying technique, and teach students how to find useful reference books and collect relevant information;
17. Any selected teaching material has to follow the requirements "*the regulation on publishing, selecting and awarding in Yunnan University*";

18. Each school has to organize regular teaching research every term, discussing the teaching plan, the teaching skills and the teaching syllabus, selecting good teaching materials and teaching reference books, organizing teaching observing activities and encouraging teachers to learn from good examples;
19. In order to improve teaching quality in the university, teaching assessment is required by means of student internet assessment and school expert assessment. More details see the document “*the assessment regulation on academic teaching in Yunnan University*” (2006);
20. These regulations come into effect from this date, and the teaching department will deal with any enquiries.

The Regulation on Staff Salary in Yunnan Business School

Article 1 The Basic Guideline

- 1.1 The key purpose of designing an effective salary system is to maximize staff’s motivation on job enthusiasm and initiative;
- 1.2 Based on the principle of “giving priority to efficiency and consideration to fairness”, staff salaries are designed in a flexible way by with a combination of staff’s contribution, workload, job duty and academic certificate.

Article 2 The Main Elements of Staff Salary

- 2.1 The monthly salary consists of a degree allowance, workload allowance, teaching allowance (for extra hours), school-year allowance and bonus;
- 2.2 The salary components

2.2.1 Degree allowance

Academics with doctorate certificate receive 1200 yuan degree allowance per month; academics with master certificate receive 600 yuan degree allowance per month; academics with bachelor certificate receive 400 yuan degree allowance per month; others receive 260 yuan degree allowance.

2.2.2 Workload allowance

2.2.2.1 Professor

(1) Job duty: teaching undergraduates ten hours per week, supervising twenty undergraduates with ten yuan subsidy per student and a reward of one thousand yuan per student for the postgraduate study;

(2) Workload allowance: four thousand to eight thousand yuan per month for teaching workload; four hundred yuan per month for academic development workload; research workload allowance is distributed in according to *the regulation on research rewards in Yunnan business school*.

2.2.2.2. Associate professor

(1) Job duty: teaching undergraduates twelve hours per week, supervising twenty undergraduates with eight yuan subsidy per student and a reward of one thousand yuan per student for the postgraduate study;

(2) Workload allowance: two thousand and five hundred to three thousand yuan per month for teaching; three hundred yuan per month for academic development workload; research workload allowance is distributed in according to *the regulation on research rewards in Yunnan business school*.

2.2.2.3 Lecturer

(1) Job duty: teaching undergraduates fourteen hours per week, supervising fifty undergraduates with six yuan subsidy;

(2) Workload allowance: two thousand to two thousand and five hundred yuan per month for teaching; two hundred yuan per month for academic development workload; research workload allowance is distributed in according to *the regulation on research rewards in Yunnan business school*.

2.2.2.4 Teaching assistant

(1) Job duty: teaching undergraduates fourteen hours per week, supervising fifty undergraduates with four yuan subsidy;

(2) Workload allowance: one thousand and five hundred to two thousand yuan per month for teaching; research workload allowance is distributed in according to *the regulation on research rewards in Yunnan business school*.

2.2.3 Teaching allowance (for extra hours)

In order to encourage more teaching in the university, apart from the regular teaching obligations, professor will be paid 35 yuan for each extra teaching hour, associate professor 30 yuan per extra teaching hour, lecturer 25 yuan per extra teaching hour and teaching assistant 20 yuan per extra teaching hour.

2.2.4 School-year allowance

The staff school-year allowance will increase twenty-five yuan per month after being in the school for one year;

2.2.5 Bonus

Staff will be rewarded for excellent performance after every term in accordance with *the regulation on rewarding staff in Yunnan business school*.

Article 3-10 (omitted)

Appendix4. 1 The Assessment Requirements for Academic Teaching in Yunnan University (for school experts)

Teacher name		Course name	
School		Specialty	
Assessment index	Assessment sub-index	Total score	Assessing score
Basic teaching requirements (24%)	Having teaching syllabus	6	
	Using standard language, good handwriting	6	
	Enthusiasm, spirit	6	
	Teaching naturally	6	
Teaching quality requirements (42%)	Teaching clearly, highlight the key points	10	
	Well-preparation, teaching smoothly;	8	
	Having more academic information	8	
	Teaching knowledge in width and depth	8	
	Update information or achievements	8	
Teaching methods (34%)	Encouraging student self-study and innovation	10	
	Having lovely teaching atmosphere	10	
	Multi-teaching methods (case study, media, pictures)	6	
	Own special teaching style	8	
Total assessing score		100	
<p>Comment:</p> <p style="text-align: right;">Signature:</p> <p style="text-align: right;">Date:</p>			

Appendix4. 2 The Assessment Requirements for Academic Teaching in Yunnan University (for students)

Assessment index	Assessment sub-index	Assessing score			
		Very good	good	ok	poor
Basic teaching requirements (30)	1.teacher having high responsibility, attending course on time, no course being adjusted or cancelled	A	B	C	D
	2. giving assignments and correct carefully	A	B	C	D
	3. emphasising teaching discipline	A	B	C	D
	4.having teaching syllabus, good teaching materials	A	B	C	D
	5.using standard language, good handwriting	A	B	C	D
	6. dressing properly	A	B	C	D
Teaching quality requirements	7. teaching clearly with logic, using suitable case studies	A	B	C	D
	8. teaching academic knowledge with width and depth	A	B	C	D
	9. having update information and achievements	A	B	C	D
Teaching methods	10. organising discussion with students, encouraging innovation	A	B	C	D
	11. using multi-media teaching skills, case study, discussion methods	A	B	C	D
Teaching effect	12. being interesting, popular	A	B	C	D
	13. being useful for understanding basic theory, basic skills and basic study approaches	A	B	C	D
	14. being helpful for student learning and for future development	A	B	C	D
Student comment					

Appendix 5

Universities of “Project 211”

Peking University; Renmin University of China; Tsinghua University; Northern Jiaotong University; University of Science and Technology Beijing; Beijing University of Posts and Telecommunications; Petroleum University; Beijing University of Chemical Technology; China Agriculture University; Beijing Forestry University; Beijing University of Chinese Medicine; Beijing Normal University; Beijing Foreign Studies University; Beijing Broadcasting University; University of International Business and Economics; Capital University of Economics and Business; Central University for Nationalities; Beijing Institute of Technology; Beijing University of Aeronautics and Astronautics; Beijing Polytechnic University; Central Conservatory of Music; Nankai University; Tianjin University; Hebei University of Technology; Taiyuan University of Technology; Inner Mongolia University; Dalian University of Technology; Northeast University; Liaoning University; Dalian Maritime University; Jilin University; Yanbian University; Northeast Normal University; Harbin Institute of Technology; Harbin Engineering University; Northeast Agriculture University; Fudan University; Tongji University; Shanghai Jiaotong University; Shanghai University; East China University of Science and Technology; Donghua University; East China Normal University; Shanghai International Studies University; Shanghai University of Finance and Economics; Shanghai Second Medical University; Nanjing University; Southeast University; China University of Mining and Technology; Hohai University; Southern Yangtze University; Nanjing Agricultural University; China Pharmaceutical University; Nanjing University of Science and Technology; Nanjing University of Aeronautics and Astronautics; Soochow University; Nanjing Normal University; Zhejiang University; Anhui University; Xiamen University; Fuzhou University; Nanchang University; Shangdong University; Ocean University of China; Zhengzhou University; Wuhan University; South Central University of Finance, Economics, Political Science; Huazhong University of Science and Technology; Wuhan University of Technology; China University of Geosciences; Central South University; Hunan University; Hunan Normal University; Zhongshan University; South China University of Technology; Jinan University; South China Normal University; Guanxi University; Chongqing University; Sichuan University; Southwest Jiaotong University; University of Electronic Science and Technology; Southwest University of Finance and Economics; Southwest University of Science and Technology; Sichuan Agricultural University; Yunnan University; Xi' an Jiaotong University; Chang' an University; Northwest Polytechnic University; Northwest University; Lanzhou University; Xingjiang University; The Second Military Medical University; The Fourth Military Medical University; National University of Defence Technology.

(source: <http://www.moe.gov.cn>)