

Evaluating Incorporation of National Universities in Japan

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In the wave of reforms in the relationship between governments and higher education institutions in many OECD countries, Japanese national universities were incorporated in 2004. One of the key elements of the new scheme was the ‘mid-term targets’ to be achieved in the subsequent six years, which functions in effect as a contract between the government and each university. The levels of achievement are to be evaluated in the sixth year, and the results would be reflected in the next mid-term targets and corresponding government funding. As of 2010, the first cycle of this process has been completed. What were the intended effects in the original design? How did it work in reality? Why are the consequences different from the expectation? These are the questions that addressed in this paper.

1. Incorporation of National Universities – Background, Design and Expected Consequences

Japanese National University as a State Facility Model

At the outset of this analysis, it will be useful to set forward a simple classification of the relationship between the government and universities. I argue that there are three major types of university, based on their historical backgrounds.

1) The State Facility Model, which comprises German universities and most of the university system in continental Europe. Taking after the Humboldtian ideal, the universities of this type are a part of governmental organisation with respect to the organisation and physical infrastructure. At the same time, these universities are conceived as a guild of academic members, who participate in a wide range of decision making.

2) The Private University Model, which comprises private institutions of higher education in the U.S. and in some other countries. Its origins were the endowed colleges in Oxford and Cambridge, which were introduced to the U.S. It evolved to a unique model of governance found typically in the Yale Corporation, where a Board of Trustees with a trusted fund owns and manages the university (Durea 2000). Subsequently, this scheme was given legal recognition through the Dartmouth Case.

3) The Government-Commissioned Model, which comprises the American State Universities and the British universities. They are legally separated from government, but are still dependent heavily on government subsidies.

The national universities in Japan, together with the German and other universities in the Continent, constitute what I called the State Facility Model. Universities of the State Facility Model are established by the state as a facility of the government – even though the universities are not exactly one of the arms of the government bureaucracy, they are in fact a part of the government organisation. Their activities are therefore defined as a function of the government, and have to be fully supported by the government. On the other hand, the academics in these universities are highly autonomous in their decision-making, with respect to not only academic matters but also pervasive areas. The heavy involvement of the academics in the process of decision-making and its execution inherits the tradition of medieval Guild.

Almost from its beginning, the construct of national universities in the mold of the State Facility Model involved various problems. The issues raised in the criticisms can be summarised in the following three points.

First was the internal conflict between state control and academic autonomy. Before the Second World War, there were some cases where the government forced the resignation of a few professors for their political opinions, and this case created a backdrop for strong sentiment against any sign of government control on national universities in the post-war period. In subsequent years, the focus of the conflict became not only political but also financial issues. The academics in the national universities were highly frustrated by the tight regulations on the finances forced by the Ministry of Education. These factors created a sentiment that favoured independence from government control.

Second, there had been a strong resentment about the disparity between the national and the private institutions. Provided with the heavy government funding, the national universities enjoyed much better infrastructure for education and research. At the same time, the national universities charged tuitions at the level about half of that in the private institutions. From the perspective of private institutions, there was little justification for the differentiated treatment.

Third, there have been claims that the national universities are managed inefficiently. It

has been argued that while they are protected by state support, the universities are exposed with little competition. Moreover, since the internal control of the national university has been given to the professors, there have been few mechanisms to ensure accountability.

Against this background, the pressure for fundamental reform mounted in the 1990s.

These factors collaborated to bring about the decline of the role of the State in higher education. In response to the difficulties, various countries instituted reforms, which can be generalised under the concept of marketisation. Marketisation in higher education refers to the introduction of various market forces to higher education. A concept used in close relation to this concept is 'Quasi-Marketisation,' which refers to the schemes where the government acts as one of the consumers of the services that higher education institutions provide. In the discussion below, I will use the term marketisation to imply both the marketisation in the narrower sense and quasi-marketisation.

It was proposed in these circumstances that national universities should be transformed into independent entities. In the State Facility Model, the national university has two sides. On one hand, it is a part of the government organisation. Its budget is specified in the national budget, and the purpose of the expenditure is specified in detail in the lines of budget. The faculty members and administrators are government employees. The facilities are properties owned by the government. On the other hand, the faculty members govern the academic side of operations.

In the new model, the government and the university are two separate legal entities. This raises two questions. First, how should the national universities be governed as an independent entity? Second, how should the relationship between the government and the universities be regulated? Obviously, the government loses its direct power to control the university, and yet the government provides support to the university. The support and the performance of the university have to be balanced, and proper incentives for efficient use of resources should be built in this regulation. In a way, it is a contract between the government and the university.

These questions show that incorporation of national universities is critically dependent upon the design of governance of the institutions and the device of latent or overt contract between the government and the universities.

Design and Expected Consequences

While the creation of the national university corporations (NUC) scheme was a direct product of many political and economic factors, the design of the scheme was based on a body of logic. It was influenced by the precepts of New Public Management or Institutional Economics that gained momentum in last two decades. At the core of the thought are the relationship between the 'principal' and the 'agent' and the explicit contract between the two.

The scheme of the Independent Administrative Agency is built on this concept: the government as the principal commissions an Independent Administrative Agency to achieve a public purpose. The terms are specified in the mid-term goals and plan; subsequently the level of achievement will be evaluated, and the result of which will lead to consequences including financial rewards or punishment, or even discontinuation of the contract.

It is argued that by separating the principal and agent, the agent will gain efficiency. The agent, free from strict and minute control by the government and having to face competition from other agents, is able to exploit local knowledge and initiate innovations. Moreover, it is given an incentive to gain efficiency through explicit goals. Provided with these mechanisms, the government is able to gain efficiency in provision of its services and become more accountable.

In order to realise the assumed function, it is imperative that the contract should be clearly stated with an instrument to measure the level of achievement. It is also necessary that the chief executive of the agent should be designated as personally responsible for the contract, although the institution as a whole functions as an agent for the government. The chief executive then directs the whole organisation towards achievement of the set goal, and the members of the executive board assist the chief executive.

Being one of the variations of the Independent Administrative Agency, the same argument should be applied as the justification of the construct of the NUCs. From this perspective, it is natural that the mid-term goals and plan, and the corresponding evaluation, should assume the core of the new relation between the government and the NUC. It is also understandable that the president of NUC has to be given unusually strong powers.

The underlying logic of incorporation of national universities can be summarised in a diagram presented as Figure/Table 1, where incorporation induces changes at each institution to produce desired effects.

The core of incorporation lies in three factors. First, the relationship between the government and the national universities are regulated by the mid-term goals and plans that are agreed upon by both parties. The government acts as the principal, and each university as agent, to produce services in education and research. Provided with those goals and plans, the government give subsidies to the institutions. In this sense, the relationship is regulated by an implicit contract. The level of achievement of the goals is evaluated at the end of the mid-term period, and the results are used to set the next mid-term goals and corresponding government subsidies. Meanwhile, institutions are given basic autonomy in both governance and funding. Each institution is presided over by the president as the chief executive officer, and the council appointed by the president makes basic decisions on management.

These reforms at the system level are expected to induce significant changes in each

national university. In particular, the changes in the following three aspects are important.

First, each institution is given specific goals to achieve. Rewards and penalty contingent upon achievement of the goals create strong financial incentives for the entire institution.

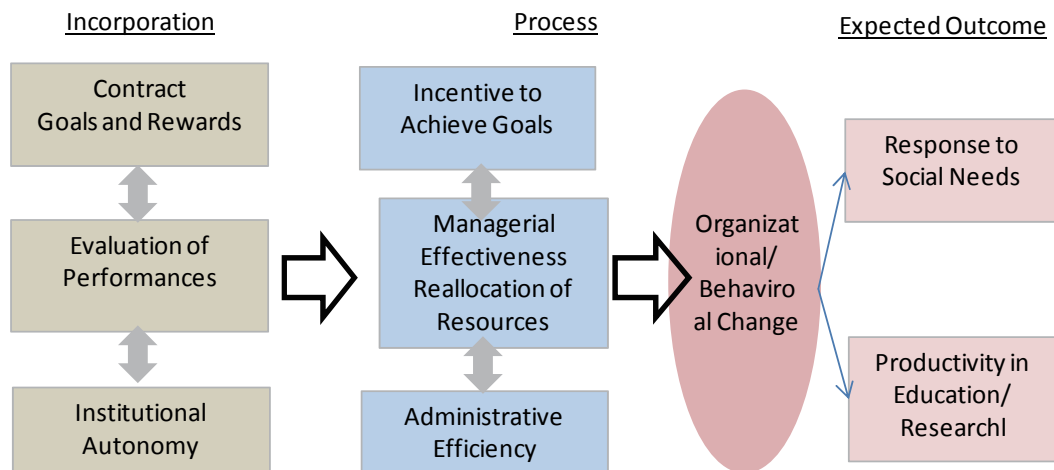
Second, the president and his/her council are provided with considerable power in the governance structure. They reallocate resources in terms of both faculty and administrative staff to achieve the goals.

Third, the administrative processes are liberated from minute bureaucratic control by the government. It will free administrators and faculty members from procedural works to invest a greater portion of their time on works directly related to education, research and community service.

These would affect not only the behaviour of faculty members and administrators, but also the behaviour and culture of the organisation. In the end, these factors would result in enhanced productivity in research, education, and other areas. Moreover, these changes will be achieved in the direction that society expects from the national universities.

In this way, incorporation would bring about better national universities. To what extent, was it realised in the subsequent years?

Figure 1 Design and Expected Consequences of Incorporation



2. Implementation

As of 1 April, 2004, the NUC Law was enacted whereupon all the eighty national

universities were registered as National University Corporations. The change can be summarised from three aspects: the contractual relation between the government and the NUCs, evaluation of performance, and enhanced institutional autonomy and power given to the management.

Relationship between Government and National Universities

Under the NUC Law, each NUC constitutes a legal entity under Civil Law. As a legal entity, it is able to sue other legal entities and can possibly be sued by others. It owns its own assets, which are called the capital of the corporation, consisting mainly of the buildings and land that were contributed by the government at the time of incorporation. In principle, it is supposed to be able to borrow funds, issue bonds or invest in other entities, but the government maintains strict conditions and restrictions. NUCs are legally independent of the government, and the relationship between them is regulated mainly by mid-term (six-year) Goals and the corresponding mid-term plan. The goals and plan in effect function as a contract between the two.

As the Law stipulates, the Ministry of Education assigns each NUC with mid-term goals that specify the goals to be achieved within the six-year period in enhancing the level of education and research, in improving efficiency in management of the institution, and in other areas. Based on this goal, the university should prepare a mid-term plan to achieve the specified goals, which should be approved by the government. Reflecting the criticism that this clause will give the government an overwhelming power over the NUCs, both Houses passed attached resolutions that required the government to respect autonomy of NUCs. In practice, the Ministry of Education asked each NUC to draft its mid-term goals, and then approved them without substantive changes.

Towards the end of the six-year period, the newly established Council for Evaluation of National University Corporations ('NUC Evaluation Council' hereafter) will evaluate the levels of achievement of the goals with the assistance of National Institute for Academic Degrees. The law states that, depending on the results of the evaluation, the government will examine the needs for continuation of the institution and necessary actions to be taken to the institutions. The last clause implies that the results may be related to the size of government subsidies to the institution. The resolutions of both Houses again draw attention to the possibility that this mechanism could lead to encroachment of academic freedom, and require request the government to take cautions. Further details in either the method of evaluation or the consequences of evaluation have not yet been worked out.

In the old system, the funds distributed to national universities were constituted as part of the government budget; they were classified into separate lines, and expenditure had to be

made for the designated purposes of each line. Tuition fees collected at the national universities were treated as the revenue for the national treasury. On the expenditure side, the national universities had to follow the budget and various government regulations in spending the funds. Moreover, the number of university personnel was kept under strict control by the government. On the other hand, necessary costs for operation of the university were in principle assumed to be borne by the government.

The NUC Law stipulates that the NUCs are financially autonomous entities with their own budgets. After incorporation, the government subsidy was given to each university in lump sum, without any division by line item. In principle, the NUC was given basic autonomy in the expenditure of the budget.

With the enactment of the NUC Law, the government handed over most of the facilities, land and buildings to the NUCs. The evaluated prices of those facilities constituted the capital fund of each NUC. In contrast with the old system, in which the budget for a fiscal year had to be executed in the designated year and accounted for within the fiscal year, the NUCs were now permitted to carry the balance over to the next accounting period. Within limits, each university is free to make investments: it can borrow money either from the government or from commercial banks. It also can issue a bond, with the government's .

At the same time, the NUC Law stipulates that the finances of NUCs will be accounted for according to the NUC Accounting Standards, which are similar to the accounting standards required for business corporations. In the old system, the budget was divided into line-items, and the accounting procedure simply implied executing the budget according to the budget without any infringement of governmental regulations. In the new system, accounting takes the form of double-entry bookkeeping. The financial report has to include the balance sheet, profit and loss statement, cash flow statement and other necessary statements.

One of the critical issues in this reform was the level of government contributions to the NUCs. While the Law does not provide for specific mechanisms to determine the level of government contribution to the NUCs, the 2003 Report of the Experts Committee for Incorporation of National Universities outlined the basic principle. First, the necessary amount of total cost was calculated for individual areas of study employing a formula that involves such indices as the number of students, that of teachers and other expenses and their corresponding unit costs. From the required amount, the institution's own revenue is subtracted to derive the necessary amount of government subsidy. In other words, this method assumed the basic principle that the government had the responsibility to secure the necessary level of funding for each institution.

Evaluation and Incentives

The above discussion indicates that the backbone of the NUC scheme lies in the cycle encompassing Goal-Evaluation-Reward. That is, the success of the scheme is critically dependent on the power of the evaluation methods as the key of the cycle.

The Independent Administration Agency Law stipulates that the government can take a range of actions, including discontinuation, on the institution after deliberation on the results of evaluation. This principle applies to NUCs.

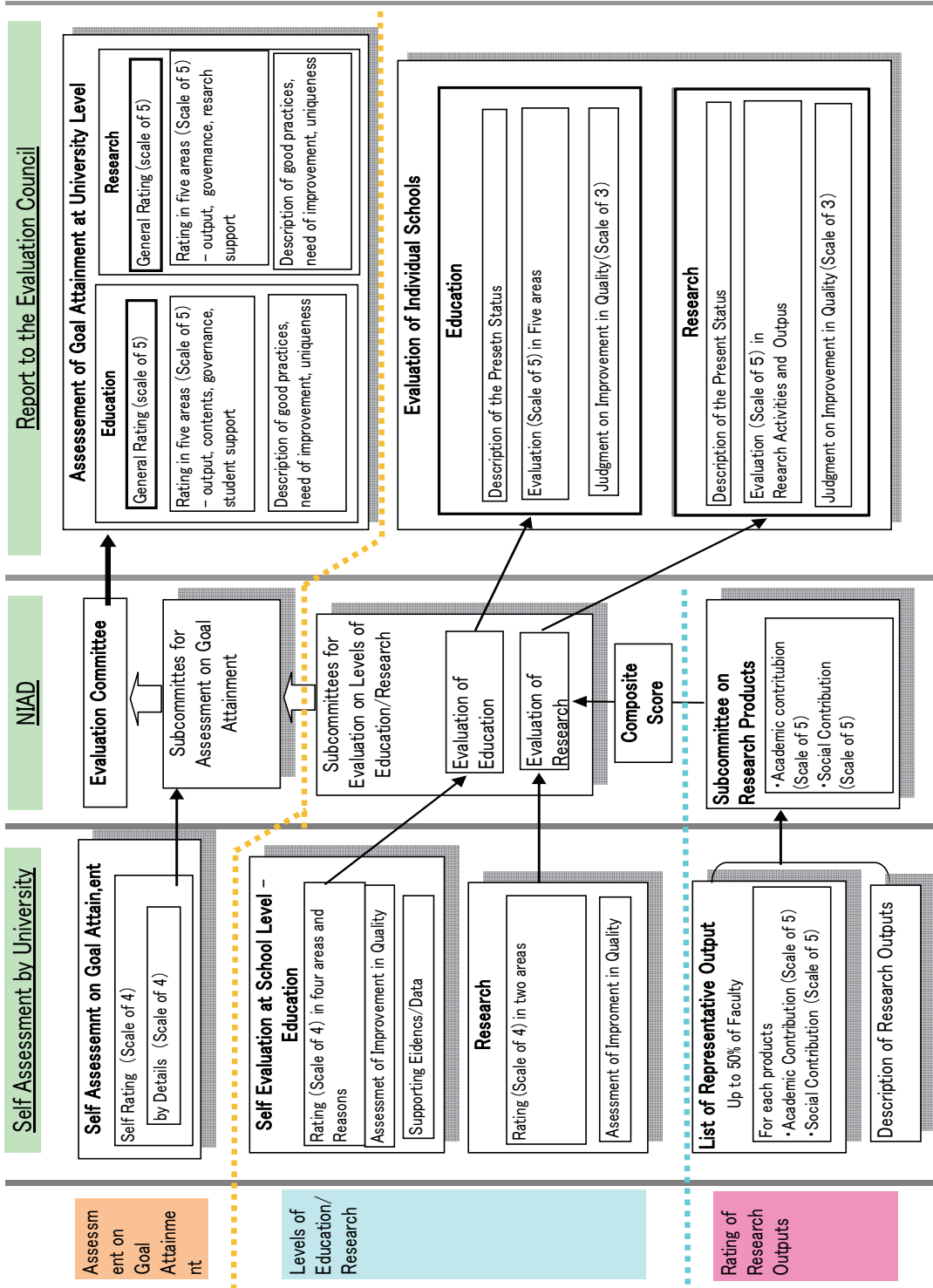
The process involves a wide range of practical questions. The central issue is that the mid-term goals, and accordingly the corresponding process of evaluation, have to cover the whole activity of a university. At the same time, the results of evaluation should be given a reasonable level of reliability. Since the results entail significant consequences for the NUCs including budget allocation, the lack of reliability should lead to a number of problems including the credibility of the scheme as a whole and the collapse of the incentive system that the scheme was supposed to create.

The NUC Law stipulates that the evaluation of performance in achieving the mid-term goals is to be undertaken by the NUC Evaluation Council under the Minister of Education, with technical assistance from the National Institute for University Evaluation and Academic Degrees (NIAD). The NUC Evaluation Council was established at the same time as the universities were incorporated, and discussions were held about the detailed procedures for evaluation. Through this process, the Council encountered a number of difficult issues.

Because the mid-term goals encompass the whole area of university activities, and the government subsidy is given in a lump sum, the evaluation exercise needs to cover the whole area of activities. That implies that the Evaluation Council and National Institute for Academic Degrees (NIAD) have to evaluate the levels of research and education in every field of academic specialty, in addition to considering various service activities and the efficiency of institutional management. Moreover, it has to be completed for every NUC at the end of the six-year term. This will be a formidable task.

Because of its pivotal role in the construction of the NUC, the scheme of evaluation will need to be comprehensive and the most ambitious in the world. It needs to be comprehensive in three ways.

Figure 2. Scheme of Evaluation



First, it involves both the judgment on achieving the goals specified in the mid-term plan on one hand, and evaluation of the absolute levels of education and research on the other. While the logical construct of incorporation requires only the judgment on whether the mid-term goals has been achieved, it does not necessarily demands judgment on the absolute levels of academic abilities. The government and NIAD argued, however, that in order to make judgments on goal-attainment, one needs the basis of evaluation at every level.

Second, it requires both self-evaluation by the university and objective evaluation by NIAD. The Incorporation Law requires that the incorporated universities not be subject to arbitrary control by the Ministry of Education. In other words, the mid-term goals are set as an agreement by both the Ministry and individual universities. This principle applies to the evaluation procedure. Self-evaluation is also indispensable for practical reasons. Since the evaluation has to be undertaken for all eighty national university corporations at the same time, NIAD is not able to start gathering information by itself.

Third, its scope covers both education and research, at the institutional as well as the school level. While it is feasible to provide enough time and resources for evaluation of research, judgment on education could face serious difficulties. One should remember that in UK, where the Research Assessment Exercise has been undertaken for a number of years, assessment of teaching and education has not been fully implemented fully.

It is evident that such a comprehensive evaluation entails an enormous amount of cost if it is feasible at all. A more serious problem is how the results will be connected to the next mid-term goals. This critical point is still unclear.

Probably the most significant aspect is the relationship of evaluation to the government subsidy. While the NUC Law stipulates the framework of the NUCs and their relationship with the government, it does not specify the financial obligation on the part of government to support the NUCs. As a result, there is a substantial range of alternatives in the level and methods of financial support by the government. That, however, will be a decisive factor for the nature of the NUC in significant aspects.

There are three sets of important issues revealed in the process of implementation. The original design laid out in the 2003 Report of the Expert Committee for Incorporation of National Universities assumed that the government would remain responsible for securing the necessary level of revenue, calculated on a formula, for each institution. In other words, the government would maintain the 'Compensation Principle,' implying that the government would fully compensate for the gap between the calculated cost and the income earned by each university. This principle had to undergo a series of significant alterations in the following periods.

In the autumn of 2003, when the NUC Law had been enacted and the national universities

started preparation for incorporation, the Ministry of Finance released its own plan for funding the NUCs. This plan did not follow the Expert Committee that proposed a set of formulae to derive the amount of government contribution to each institution. Instead, the Ministry of Finance indicated that each NUC would be given the amount that the institution received in the previous year irrespective any change in the numbers of students and faculty members. A fixed rate of across-the-board reductions in government expenditure would apply to the allocated amount. In the case of NUCs, the rate will be 1 or 2 per cent. The Ministry of Education, under the political climate of government restructuring had no other way than to oblige.

In the short run, this may not be very different from the original design with respect to the amount of subsidy, but it implied a significant shift in the principle of government contribution - not only were any prospects for increasing the allocated budget closed, but also the compensation principle was abandoned.

Prior to the reform, each national university was given its budget separated into line items. Because the formula to calculate the allocated budget was known, it was clear how much each faculty would receive in the budget. Under this circumstance, the faculties had a strong basis for demanding allocation. On the other hand, the university administration was given very little room to manoeuvre.

With the transformation into NUCs, which receive government subsidy as a lump sum, the university administrators are given a considerable degree of arbitration. In distributing the fund to faculties and other constituent units, most universities set the basis at the previous year and then deduce institutional funding by applying the same rate across-the-board. Through this measure, most institutions increased the discretionary resources at the institutional level. Some institutions introduced redistribution schemes to provide incentives related to achievements in research. These reforms appear to indicate that the management at the institutional level is increasing resources at their own discretion.

Meanwhile, the disappearance of line items implies that each institution has to have sufficient ability in financial management in order to gain efficiency on the one hand and to avoid risks on the other. The Accounting Standards for National University Corporations was designated exactly for that purpose. For most of the administrative sections, however, it was difficult enough to introduce the new bookkeeping system. Moreover, the organisation of universities is extremely complex, with numerous sub-units cutting across each other. It is, in a sense, a nightmare for cost accounting. Moreover, each unit has its own source of income through research funding.

Legal Status and Governance

By stipulations of the Law, each national university corporation has a President, an Executive Board, an Academic Senate, a Management Council and Auditors. In this scheme, the President assumes the ultimate power and responsibility for decision-making and execution, while important decisions have to go through deliberation of the Executive Board. The Academic Council, upon request by the President, deliberates on academic matters and reports to the Executive Council and the President. Meanwhile, the Management Council, more than half of the member of which should be selected from outside the university, advises the President. The auditors are selected by the university, but are appointed by the Minister of Education and report to the Minister directly.

The president used to be elected by the Academic Senate under the old system, but is now appointed by the Committee for Selection of President. The committee consists of the same numbers of representatives from the Management Council and the Academic Senate; the President and the members of the Executive Board may join as the member. The presidential appointment is made by the Minister of Education, but the length of term and the exact procedure taken for the selection process are decided by each university. The Committee also has the power to relieve the president of duty through a similar procedure.

The scheme of incorporation does not necessarily require a change in the status of the workers from being government employees. However, the cabinet, which was politically committed to the restructuring plan of the government organisations, pushed forcefully the change in employment status. Meanwhile, resistance from the national universities failed to gain momentum. Consequently all the academic and administrative members of the NUCs changed their status from government employees to employees belonging to one of the NUCs. The pension and health-care funds, however, remain a part of that for government employees.

For each NUC, the first task for transition was to organise the basic governance structure. According to the NUC Law described above, each NUC established an Executive Board, Academic Council and Management Council.

The number of members of Executive Boards is stipulated by an Ordinance issued by the government, based on the size of the institution. Various surveys showed that by far the majority of the board members were recruited from the professoriate, most of them being former vice presidents and faculty deans. In many NUCs, particularly the large ones, the Boards included a non-academic member assigned to oversee managerial and financial matters. Many Board members carried the title of Vice President.

The Academic Board, as the NUC Law stipulates, consists mainly of faculty members. In most universities, its size, while not stipulated by any ordinance, tended to be smaller than the former University Council that it replaced. In most universities, the members were elected at

the faculty meetings. The new Council retained the conventions and procedures taken in the old Council.

The size of the Management Council was the subject of discretion of each NUC. In most cases, they included executives from local business firms. It was common to include a member from local mass media. Some NUC appointed former government officials.

Associated with these changes was the transformation of the faculty administrative committees. Under the old system, various administrative committees were organised under the University Council. These committees, consisting of only faculty members, were given the power and responsibility in execution of various functions such as entrance examination, coordination of curriculums and academic calendars, distribution scholarships. Under the new system, many of these committees were moved under the Executive Board and chaired by the assigned Board member. Also, some administrative staff became the members of these committees. This represents the shift from the old practices of participatory administration to a system where the Executive Council exerts stronger powers in decision-making and execution.

Because of the strong power given to the president, the selection process bears not only symbolic but also practical significance to the governance of the NUC. While the NUC Law required that the President should be selected by a president Selection Committee consisting of equal numbers of representatives from the Academic and Management Councils, it does not stipulate the details of the procedure. Depending on the design of the procedure, it may as well lead to a significant departure from the tradition of participatory governance.

As it turned out, most NUCs bypassed this problem by implanting the participation of faculty members in the new selection process. In most cases, the President Selection Committee decided to include a step of 'reference ballot,' in which individual faculty members cast a vote for a preferred candidate. The details of selection of the candidates and the specific rules for reference ballot differed substantially between institutions.

Closely associated with this is the procedure for dismissal of the president. The Law stipulates that, in the extreme case of loss of confidence in the president, the Committee can initiate the process of dismissal of the president. As described above, the president of an NUC is given an unusually strong power –s/he does not have any supervising body comparable to Board of Governors or Board of Trustees consisting of either perpetual or externally selected members. Even though the Ministry of Education, who appoints the President upon request by the Selection Committee, can be legally designated as the supervising body, it is unlikely that the Minister would dismiss a President except in extreme cases of infringement of legal requirements.

Since the NUC Law again leaves the details to the institutions, each individual institution

established its own procedures. If a significant number of the faculty members started demanding the dismissal of a president, however, the procedure may not be able to provide a firm base for a satisfactory solution. This issue boils down to the rather unusual design of governance of NUCs in the sense that the president exerts a strong power in both decision-making and execution, without any effective supervising body above him/her. This arrangement derives from that of the Independent Administrative Agency (IAA), which is meant to achieve gains in efficiency to achieve a goal set by the government.

This logic may be difficult to apply to higher education institutions which pursue a wide range of goals in the long run. Moreover, under the framework of mid-term goals and evaluation, it is likely that a president, who agreed on mid-term goals, leaves the position after the mid-term period. He/she then will not receive any punishment or reward resulting from the evaluation of the achievements of that period. In this sense, the contract does not provide a correct incentive.

The third issue is the relationship between the governance at the university level and that at the faculty level. While the National University Corporation law specifies the governance structure for the whole university, the relationship between the university-level decision-making and that at the faculty level is left to the discretion of individual universities.

Most of the NUCs left the arrangements basically unchanged. It is the faculty meeting, usually attended by all the academic members, that makes basic decisions at the faculty level. The dean of each faculty is elected from among the professoriate. Under this construct, it is logically possible that a faculty makes a decision that contradicts that of the whole university. Moreover, the deans work as the representative of their faculty and not as members of university-level administration. In effect, almost all NUCs maintain a meeting of deans, which, while lacking clear status in formal organisation, works as an important vehicle for managing the entire university.

3. Evaluation

It should be evident from the discussion above that incorporation in fact introduced a range of radical changes in the ways that the national universities operate. How were they received by the universities, and what are the problems? There are three major issues.

Instruments for Evaluation and the Link to Rewards

The first instrument is the effectiveness of the evaluation-reward scheme. It should be clear from the discussion above that the whole construct of the incorporated university is critically dependent on the evaluation and achievement of the goals specified at the beginning

of the term. The first mid-term period ended in March 2010, and the second mid-term goals and plans had to be specified before the end of the term, and the evaluation of the present cycle will have to take place in 2009 financial year.

As stated above, the evaluation system is indeed very comprehensive and thorough. Through the evaluation exercise, a composite index was derived for each NUC. The composite index was then translated into a reward/penalty through a formula determined by the Ministry of Education.

As it turned out, the Ministry chose not to make the reward/penalty too large. Table/Figure 1 shows the NUCs that were ranked best ten and worst ten, according to values of the composite index and the amount of the reward or penalty as percentage of total subsidy from the government. It shows that the Nara Institute of Science and Technology had a composite index value of 70.00, and that gave them an additional subsidy representing 0.419 per cent of the total government subsidy. On the other hand, Hirosaki University was lowest ranked, and their government subsidy will be reduced by 0.417 per cent.

On the whole, however, the table shows that the financial consequences of evaluation were relatively minor. The reward or penalty was at most about 0.5 per cent, or one-two hundredth of the government subsidy. In absolute terms, the largest change for any university was about ¥20 million, or about US\$250,000. Moreover, for about the half of the NUC ranked somewhere in between, the proportion was about 0.1 per cent. The reward/penalty regime turned out to be a benign one. Considering the enormous cost, direct and indirect, evaluation incurred at the individual university level and at the National Institute for University Evaluation and Academic Degrees, the level actual financial consequences was disproportionately small. One may argue that the efficiency of the evaluation exercise was very low.

Since the power to stipulate the method for deriving the amount of reward/penalty is vested in the Ministry of Education, and the Ministry does not reveal the rationale for the specific form of the formula, it is difficult to analyse the reason behind this formula. One can imagine, however, that there are a few good reasons for it.

Table1. Composite Index and Financial Reward/Penalty as a percentage of Total Subsidy

	Rank	Name	Composite Index	Reward/ Penalty
Gain ↑	1	Nara Institute of Science and Technology	70.00	0.419
	2	Shiga Medical College	63.75	0.335
	3	Hamamatsu Medical College	60.64	0.291
	4	Tokyo Institute of Technology	60.17	0.444
	5	Ochanomizu Women's University	59.93	0.429
	6	University of Tokyo	56.87	0.193
	7	University of Fukui	54.50	0.198
	8	Tokyo University of Medicine	53.26	0.168
	9	Tokyo University of Foreign Studies	52.89	0.211
	10	Kyoto University	51.30	0.146
↓ Loss				
	77	Yamanashi University	38.18	-0.286
	78	Naruto Normal University	38.00	-0.252
	79	Asahikawa Medical College	37.75	-0.299
	80	Utsunomiya University	37.57	-0.385
	81	Kagawa University	37.20	-0.325
	82	Hokkaido Normal University	37.00	-0.313
	83	Kanoya University of Sports Sciences	37.00	-0.632
	84	Ryukyu University	36.40	-0.403
	85	Wakayama University	35.50	-0.559
	86	Hirosaki University	35.39	-0.417

First, even though the evaluation was undertaken under a very comprehensive and thorough system, one could argue that there are numerous points where the validity of evaluation could be challenged. If the financial consequences were too large, the evaluation scheme itself would have been faced with serious problems. Then the integrity of the whole scheme may collapse.

Second, even though the composite index was derived as weighted sum of evaluation results in research, education and other areas, the effective weights were different from the designated one. It is because the effective weight is determined not only by the formal weight but also by variances of the ratings at each area. If the variance is large, then the effective rate should be large. This is particularly important when one considers education relative to

research. Since research is relatively easy to rate on a firm basis, the rating of research has large variance. With education, the variance is small because of the lack of a definite basis for evaluation. Altogether, the composite index favours research. It runs counter to the original purpose of the evaluation scheme.

The third point is a fundamental one. Even though the evaluation scheme is designated to measure the degree of improvement rather than the absolute level of achievement, the results show that in general the large and prestigious institutions are rated higher. One could argue that those institutions had been in a favourable position in resource allocation for a long time. On the other hand, small local institutions have been left with limited resources. If the results are related to large amounts of resources, those institutions are likely to be the subjects of significant amounts of penalty. This may result in serious consequences for those institutions.

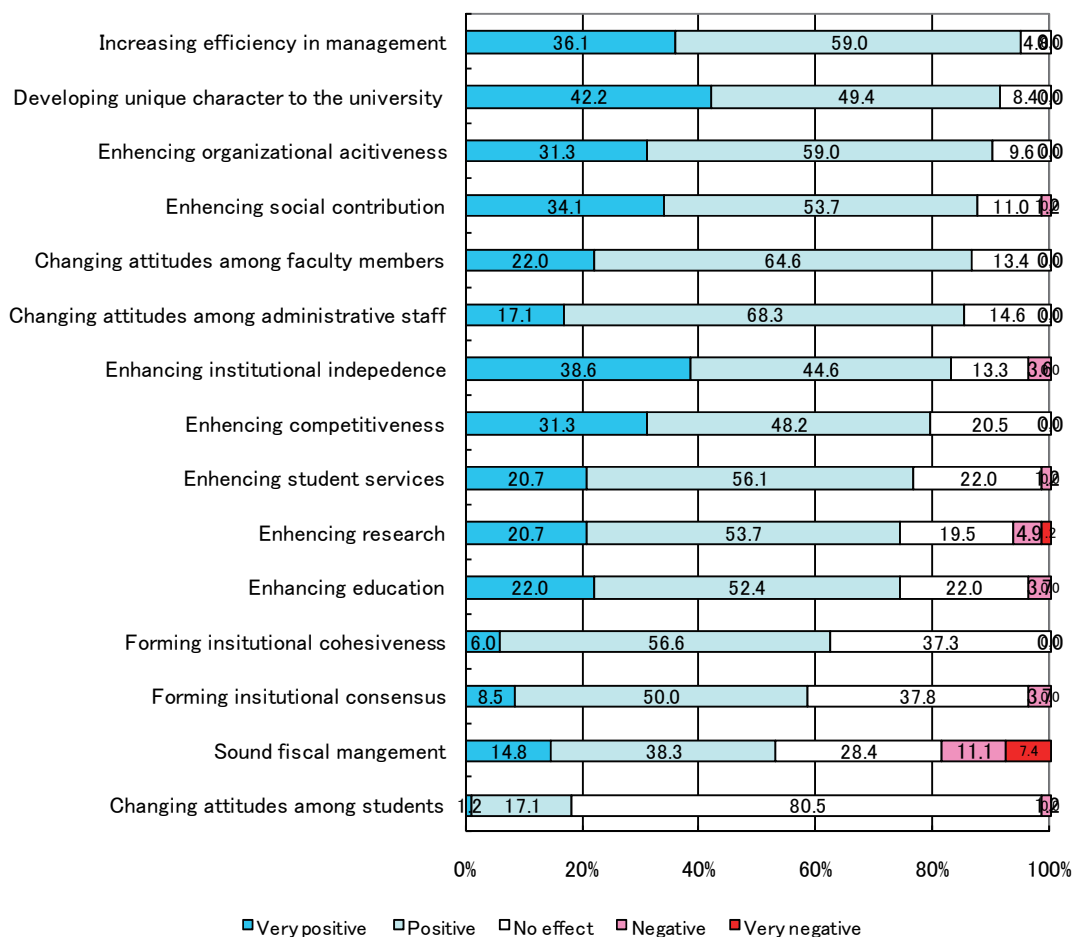
Managerial Effectiveness

The second viewpoint is the improvement in the effectiveness of institutional management. It was stated above that by introducing the Incorporation Law, the governance structure was drastically changed to enhance the power given to the top administrators, particularly the president and the board members.

In 2006, two years after incorporation, an survey sought the opinions of the presidents of national university corporations as to the consequences of incorporation. The results showed that, so far, overall, the presidents regarded incorporation had produced positive effects. In particular, they thought the reform made management easier and activities more efficient. It is in a way, this was a reflection of the frustration that they harboured under the old system of national universities (Figure 3).

In fact, as many as 95 per cent of the top officials think that incorporation has produced positive effects in enhancing efficiency in management. In addition, they found it to have had positive effects on enhancing uniqueness of each institution's organisational vitality.

Figure 3. Observations of Presidents on the Consequences of Incorporation



Source: Center for National University Finance and Management

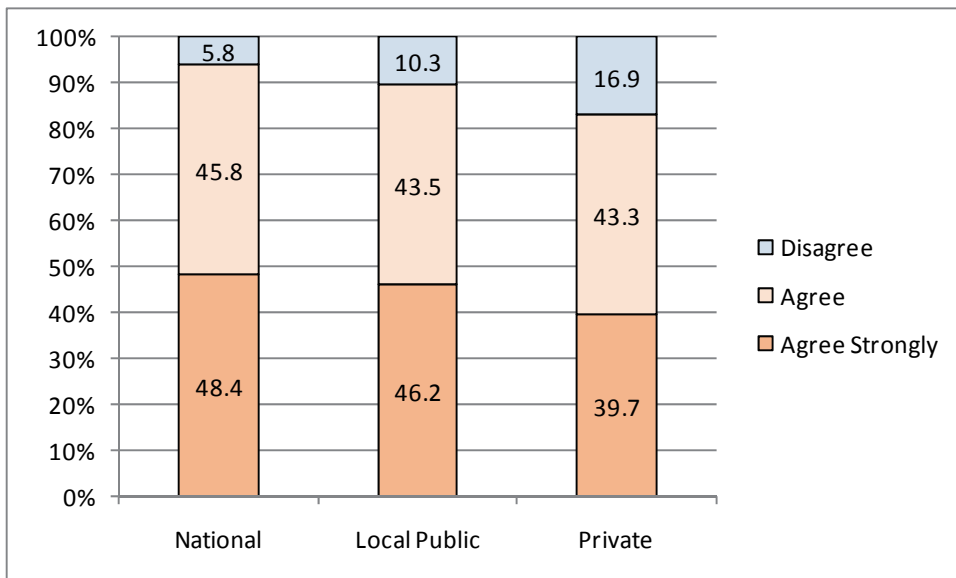
It should be noted however, they are less sanguine as to the effects on the level of research or education. In fact, the actual effects of increasing the power of the top administrators are not clear. A survey by the Center for National University Finance and Management showed that in general, the amount of the budget reserved by the central administration increased substantially. It is not clear how much they spent to redistribute the money to shift the pattern of internal allocation of resources. From the NUCs' annual reports it is difficult to imagine that internal incentives were increased to enhance prioritised goals.

The lack of radical change in resource allocation is closely related to the making of power in the universities. The Incorporation Law stipulates that the president to be elected by the election committee should be composed of representatives of faculty members and lay

members. The Board of Directors of Tohoku University, one of the Seven former Imperial Universities, decided in early 2005 that the next president would be elected by the President Selection Committee itself, not allowing direct involvement of the faculty members. Still, most NUCs selected presidents by popular election by faculty members but occasionally administrative staff also.

It reflects a strong belief among faculty members that they should be involved in selecting the president. One can argue that as long as faculty members select the president, it will be difficult for the president to initiate changes that run against the interests of faculty members.

Figure 4. Faculty Members' Opinion - Response to "Faculty Members Should Participate in Selection of President"



Source: '2010 Survey on University Faculty Members'

Center for Research in University Management, The University of Tokyo

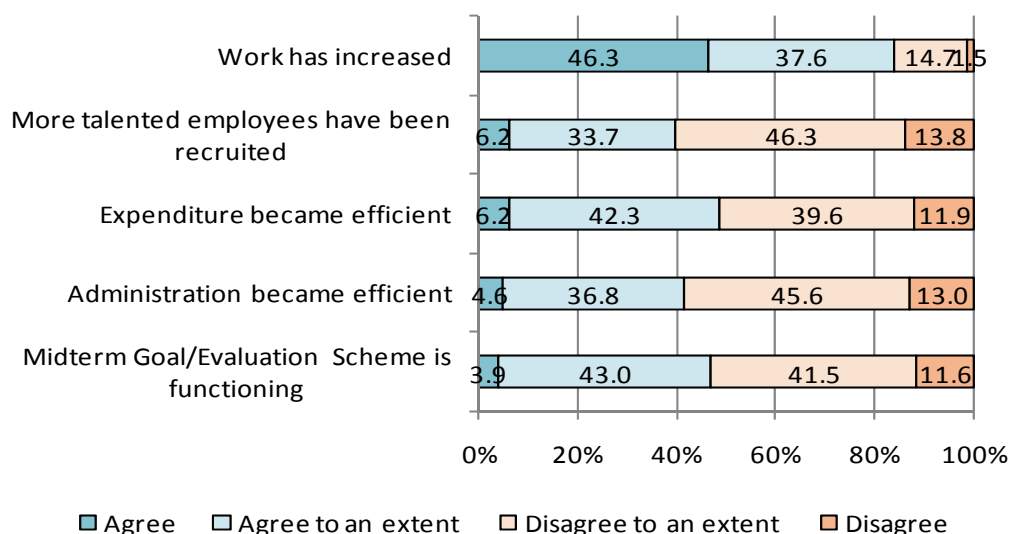
Administrative Efficiency

The third point of consideration is administrative efficiency. It was expected that by removing minute government regulations, administration would become more efficient in various ways.

From this point of view, incorporation seems not only to have failed to produce the expected effects, but also resulted in rather negative consequences. A survey of administrators in Spring 2001 (Figure/Table 6) found that administrators are at best neutral in their evaluation of the consequences on efficiency of administration and resource uses. More than

half of the respondents disagreed with the statement that incorporation made administration more efficient. About half of the respondents did not consider that the scheme with specified goals and evaluation of achievement is functioning.

Figure 5. Consequences of Incorporation on Administration
- Administrators' Assessment



Source: '2010 Survey on University Administrators'
Center for Research in University Management,
The University of Tokyo

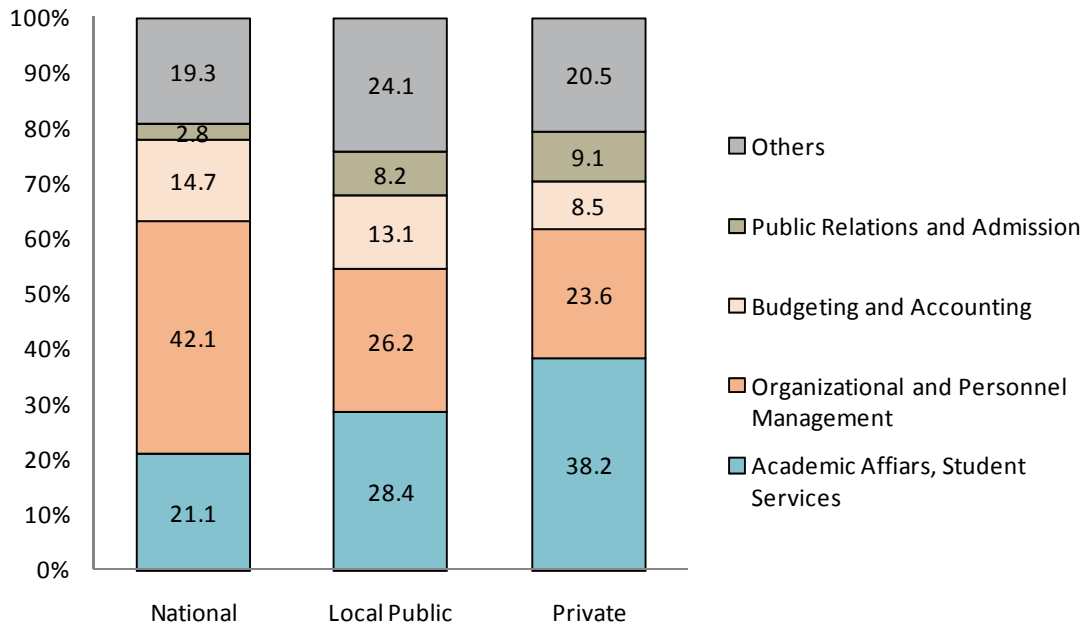
On the other hand, they felt that incorporation actually increased their workloads significantly. An overwhelming majority of the administrators agreed with the statement that workloads increased after incorporation.

It is true that the process of organisational transformation accompanying incorporation was considerable. But considering that this survey was conducted six years after incorporation, the response cannot be considered to reflect temporary problems. One could suspect that the results show that while new schemes for managerial control were introduced, various practices and regulations from the pre-incorporation period are still alive. Under these circumstances, administrators have to work according to two principles at the same time.

As a consequence, the administrative works is heavily inclined towards meeting various types of regulatory and administrative requirements. Figure/Table 7 shows the distribution of administrative work by their major assignment. It is apparent that 42 per cent of

administrators in national institutions are assigned to ‘organisational and personnel management’ as compared to 26 per cent in local public and 24 per cent in private institutions.

Figure 6. Distribution of Administrators by Major Assignment



Source: ‘2010 Survey on University Administrators’
 Center for Research in University Management,
 The University of Tokyo

On the other hand, the proportion of those assigned to ‘academic affairs and student services’ was only half of the corresponding figure for private institutions. It is apparent that incorporation has not succeeded in enhancing administrative support for education and research.

4. Conclusions

The uniqueness of the NUC model of Japan is that it was designed to follow closely the theoretical models of new public management. The actual implementation, however, was influenced by political factors and the internal inertia at the institutional level. Such a construct engendered a number of contradiction and ambiguities.

One can attribute the problems to the gaps between design and implementation. It is also possible that there were significant problems in the original design itself. It is at least clear that there are significant contradictions and ambiguities in the details of the incorporation scheme. As a result, the reform has not yet achieved what it was originally expected to achieve.

Moreover, the current political climate moving towards radical restructuring of government organisations and reduction of government outlays has started to threaten the basis on which the original design of NUC scheme was built. If things move further in that direction, the NUC scheme may lose its original characteristics and shift to a different entity.

Despite all these problems, I argue that incorporation should not be considered to be a failure. In various ways, the changes were necessary, even though the design of the change was obviously immature.

The issue for the future lies in how the scheme of incorporation can be linked with behavioural changes of both academic and administrative members to bring about higher levels in education, research and other activities. The linkage mechanism is much more complex and difficult to achieve than assumed before. Here lies a new frontier for higher education studies.

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