

Financial Ethics in the Usage of Public Funds. Evidence from the Romanian Higher Education

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Abstract

There is always a battle of principles when discussing public sector funding, with a special focus on education. This particular field calls for attention as Governments tend to consider it strategic in their planning, however not always sufficiently funded, nor sufficiently scrutinized despite numerous control mechanisms. While this study focuses on the Romanian context, findings may indicate similar practices in other national systems. An investigation of the unusually high vacancy rates in Higher Education, combined with the cost per hour for teaching activities related to these vacancies reveals a combination of mixed competencies, at a diluted staffing cost, which produces differential outcomes in regard to quality standards. The teaching act suffers and negative consequences can already be foreseen. A replicated pattern, found in all census data provides evidence that practice is widely spread, raising ethical issues. After depicting the findings, the conclusion speculates on the broader outcomes.

Key words: higher education, ethics, staffing cost

J.E.L. classification: I23, I28, J21, H52

1. Introduction

Romania has been discussing the underfunding of national education for more than two decades now. Annually, after the approval of the budget of the Ministry of Education, it is emphasized that the allocation has a significant percentage gap compared to other EU countries. Those involved in the debates represent all categories of experts, however the university environment experts are deemed more significant and visible. Noticeably, their discussion is focused on funding university activities, emphasizing the existence of a shortage of financial resources (Tilak, 2006; Jongbloed, 2008) with a major impact in generating the academics' demotivation.

In this general macroeconomic context marked by an approach with a strong political overtone, an even extremely superficial documentation generates a series of question marks related to the real situation. On the one hand, it can be seen that there is a positive trend in the teachers' income, especially academics. Given this trend, as well as other material signs regarding universities' activity- in contradiction with the claimed shortage, a research of the financial mechanisms of universities appears as a logical approach to explain those signs. On the other hand, a series of dilemmas are generated by the lack of studies dedicated to these mechanisms and, in particular, to the ethical issues that run alongside the financial management of public institutions. We must not lose sight of Friedmann's (1970) idea on the responsibility of the for-profit organization, the idea that it is possible to alter the behaviour of some public institutions, such as state universities. Even if the profit is not explicitly targeted, the issue of significant budget surpluses accumulated by the universities in the conditions of the claimed shortage remains to be discussed, in contradiction, however, with the positive signals of financial comfort for the academic staff in tenured positions.

Focusing our interest on the problem of public funding, with an emphasis on the universities' financial management and its ethical implications, we find at first glance that the activity of these institutions is carried out under many regulations, including ethical ones. All universities have codes of academic ethics, although the latter do not have an explicit impact on operational financial

management, except for aspects of the use of so-called European funds, i.e. projects based on European Union (EU) funds.

The overlap of interest concerning the ethics of financial management over the one regarding the observance of the traditional standing in society and of the mission of the public universities generates the direction of the present study.

2. Current theoretical background

Given the general concern to ensure a financial balance that allows for the universities to function, in case of insufficient income the generic solution is to reduce costs. O'Neil (2016), in his book "Weapons of Math Destruction", states, referring to funding from US universities: "An approach that is already gaining popularity is to reduce the number of tenured teachers by replacing [...] expensive professors, as they retire, with cheaper instructors or associate professors".

In terms of maximizing income, universities tend to implement specializations whose graduates are better paid in the labour market, which justifies charging them higher tuition fees. The consequence is that from the point of view of the specialization portfolio and subsequent curricula, and in the conditions of the so-called university autonomy - which translates in them selecting this portfolio - the Science, technology, engineering, and mathematics (STEM) specializations are preferred instead of humanist ones (O'Neil, 2016; Segal, 2011; Bybee, 2013).

This predilection seems to be in contradiction with the explosive development of private universities in Romania focused precisely on humanities specializations, because they responded to a high demand after 1990 and involved the lowest investment and operational cost levels (i.e. human resource costs and material costs). The costs' reduction sources are not numerous: on the material apportionment there is not much management can do, while, on the Human Resources (HR) side more opportunities arise. And even there, savings cannot theoretically come from the "primary funding" source, as the national PayScale for the public institutions staff, including academic personnel is an immutable framework that must be observed by law.

Therefore, saving was and still is based precisely on the usage of alternate teaching staff, commonly known as "associate" teachers.

In comparison, studies of the funding of universities in the USA and UK show that their managers are concerned with creating "surpluses". Their role is explained as follows: "Without surpluses, universities would be unable to deliver the scale of investment required to meet student demands, remain internationally competitive and continue to be financially sustainable" (Universities UK, 2016). In fact, surpluses are the difference between current income and expenditure on education and research activities. It should also be noted that "while less than 20% of income for teaching comes in the form of direct government grants, 66% of income for research comes from government. In total, only around 25% of the income that universities receive comes directly from government sources" (Universities UK, 2016). In association with these figures related to government funding, it is found that over 50% of education revenues come from fees paid by students; studies on this source aim at attracting students through sophisticated marketing programs focused on university rankings (QS World University Rankings 2022 Report).

In the case of public university systems such as USA and UK, the ethics issues of tuition fees-based funding have a main root in the way those programs are managed and only secondarily in the way management is done with financial implications on the faculty. However, it remains of utmost interest that the management, which implicitly aims to reduce costs with the human resource (mainly teachers), involves ethical issues related to the evaluation of the activity of their staff (Drumea, 2013; Anton, 2009; Bratucu *et al.*, 2017.). In addition, the practice of using doctoral students in the teaching process is another source of savings.

Using these western theoretical landmarks to guide the research of the theoretical elements of the Romanian context, we can immediately observe that the funding of public universities is made in a proportion of at least 80% of governmental sources, dedicated to education and calculated yearly as part of the national budget allocations (Bacanu, 2014; Orellana, Szeles, and Barrera, 2016). Revenues from student fees represent a fraction of the remaining 20%. As the portion of the budget dedicated to research through projects is minor, below 10%, and part of the research is implicitly funded by the education allotments, the solution of reducing costs with staff carrying out educational activities

seems to be lifesaving. The funding mechanisms are regulated by a series of laws, among which L1/2011 (Education Law) and L53 / 2003 (Labour Code) are the most significant.

L1/2011 stipulates that universities can operate with the long-term maintenance, in fact with a permanent maintenance of a significant vacancy rate. Although the teaching process associated with these positions has the same regime of realization and delivery to students as that related to the posts occupied by the incumbents, the related remuneration represents only a fraction of that for a tenured teacher. If for the positions of incumbents there is a national standardization set by L153/2017 (the law on the remuneration of staff paid from public funds, called the Law on Unitary Remuneration), for the vacancies' situation changes radically. Each university can decide its own hourly rate for the teaching process related to vacancies.

Obviously, both the so-called autonomy and its mode of operation in practice, as well as the transition from a generic decision-maker of the “university” type, to a concrete one of the “board of directors”, “senate” or “rector” type - will inevitably generate dilemmas, at least, of an ethical nature. It is more likely to generate major ethical issues at the institutional and national levels.

In this specific context of the Higher Education in Romania, the western practice of using doctoral students to reduce the costs of the teaching process immediately raises problems related to the quality management of the educational act, given that the *de facto* lawful standard requires the use of staff (already) holding such scientific title.

3. Research methodology

Discussing the financial management of a university with explicit benchmark to quality standards and ethical norms in the field is based on a series of official documents (e.g. Charter, various Reports, rules, regulations) of the respective organization. Financial management activities in the universities are carried out in accordance with legal regulations valid at national level. Also, the legal provisions are complemented by internal provisions, which, although they are created under the umbrella of the so-called university autonomy, must respect both the existing legal framework and the specific normative. For our topic, the reference is given by the regulations of the system of accreditation for the Romanian universities (ARACIS).

According to L1/2011, the rector of a university must produce an annual report on the state of the organization. The form of this report is compulsory by law. It must contain data on the status and use of human resources. From this section we have conducted our data collection on the balance between the positions filled by competition and the vacancies, which are filled by external individuals. The data on the use of funds for salaries are collected from the financial section of the same report and the annual financial result can be ascertained. Following a trivial calculation, the ratio between the total salaries paid to external incumbents (associated staff) and the ones destined to the holders staff that is used for vacancies can be obtained. Similarly, the nature of the annual and then the overall financial result can be seen.

A first assessment that can be related to the usual ethical norms is made by assessing the transparency of the rector's report and the way in which the data we associate with this study are exposed. The respective assessment is corroborated with the one regarding the transparency regarding the salaries according to L153 / 2017.

In the continuation of the research scheme, an identification of the legal provisions that have an impact on the subject must be made. In L1 / 2011 there are provisions regarding the remuneration of the staff filling the vacancies. These provisions must be logically correlated both with those regarding the remuneration of the holders of the same law, and with the general provisions regarding the remuneration of L 153/2017 and L52 / 2003. Beyond these aspects, it is necessary to report the findings to the ethical and quality standards (Quinn *et al.*, 2009) of the field.

4. Data collection, results, and discussion

A review of public universities in Romania shows a census of 46 organizations. In reference to the portfolio of specializations, and for the purpose of the analysis, they can be divided into the following 6 groups:

- 16 comprehensive universities,
- 6 "classic" universities,
- 6 polytechnic universities,
- 4 agronomic universities,
- 5 medical universities *and*
- 9 arts universities.

Given the small size of the staff of art universities compared to other universities, the study excludes them and only focuses on the rest of 37 universities. The study explores data from all the 37 universities, without sampling.

The process of searching and reading the rectors' reports revealed that in the list of 37 universities there are only a few problematic cases, where the lack of up-to-date data (e.g. Polytechnic Bucharest and SNSPA) or their exaggerated schematization (Bucharest Construction University) does not offer a sufficient image for the present study. On the contrary, the advanced transparency practiced among medical universities is noteworthy.

Although it does not have a direct impact on the research in the current study, the review of the way in which the 37 universities complies with the provisions of Law no.153/2017, regarding PayScale for the personnel in the public sector, shows that the number of those who show a low transparency and prove ingenuity in circumventing the law is much higher than in the previous case, forming a majority. Only a few universities, especially medical ones, comply with transparency requirements. For all non-compliant universities, the fact that such data is available on the intranet of that organization can be accepted, thus minimizing the ethical significance of non-compliance.

The focus of the study on the situation of vacancies provides a quasi-complete picture of the situation to date (academic year 2020-2021). Without oversimplification, but only by averaging the proportion of vacancies, we emphasize that the vacancies rate in the Romanian academia ranges between 30% and 50%. This is a significant proportion, and difficult to explain or to justify by lack of funding (not at all the case if we look at the budgetary allocations for Education sector in the last 5 years). Some universities exceed 50% vacancy rate, if we take as reference data from 2019. This being stated, we cannot ignore the possible effects on the overall quality of the teaching process given the undersupply with qualified personnel in the Romanian academia.

The merit rankings which induce differences in the personnel PayScale, based on merits and special achievements on a 4 years period deserve a special line of discussion. As rectors increase the number of staffing tables positions in the cyclic years in which merit rankings are awarded, the number of vacancies is expected to exceed more frequently a 50% barrier for those years in particular. In the comprehensive universities, 10 of the 16 entities have over 40% of the positions in the vacant category. In the "classic" universities group, all 6 universities are close of the 50% threshold by 3-4%, and 2 universities even cross it over. Medical universities are in the range of 30-40%, with values closer to 30%, averring the most fitted occupancy rate among the assessed organizations.

Based on this data, it can be immediately assessed that there are major issues related to compliance with the claimed quality standards of the educational process. Romanian academia holds a position in the international rankings based, among other criteria, on the business continuity and quality standards' endurance, while a brief analysis of the teaching staff structure (in terms of incumbents-temporary teaching staff ratio) show less than auspicious terms. Why is this a possibly significant issue? If we start from the presumption that the legal provision on a holder's possibility to undertake an additional maximum number of teaching hours is equivalent to one norm, it can be inferred that a significant number of positions are covered, inevitably, by external staff. For these, there is no quality verification and validation procedure at the national level. The problem of covering teaching activities with appointees that have not passed the same quality standard checks as the incumbents is of obvious concern; additionally, issues like discrimination, lack of fair and equal admissibility filters, and lack of equal expectations between temporary replacements and incumbents - are to be pointed out. Also, from the point of view of the paying students (but also from the scholarship ones – through indirect funding via supporting parents' taxation), irregularities on the teaching capacities of their educators are to be at least disclosed, if not remediated.

The negative consequence of the vacancy situation is accentuated by the correlation with the ratio between salary expenses for incumbents and those for vacancies. As the latter represent only about 20% of the other (or less even in a number of the assessed universities), it can be reasoned, in conjunction with the vacancies' rate, that the unit price per teaching hour for an activity related to a vacancy position represents only 25% of that of a holder.

From the consultation of the legislation on the cost/hour in question, it can be seen that – legally – this is to be set by each university. Moreover, in the sense of constructing a dilemmatic ethical context of this hourly cost, L1/2011 stipulates that it is established by the board of directors of each university. Knowing the composition and the way of selection of the staff for this council (all appointees being in a direct dependent relationship with the appointor), it can be presumed that the respective decision is ultimately taken by the latter, the rector. Even if the decision is based on data provided by the financial department, its subjective and discretionary nature cannot be ruled out.

On the other hand, the budgeting of the activities of a Romanian university is based on the number of students, not on the number of positions needed to support the activity related to that number. Under these conditions, the balance of income and expenditure that is formed by utilizing as human resource for teaching activities holders for 50% of the positions only, while for the other 50% the cost per hour is 4 times less, will leave at the rector's disposal a supplement of public resources, that become thus over-allotted. This is without counting the extrabudgetary resources that come rounding this budgetary snowball.

Finally, and in order to close the research circle of the topic and to properly assess the principles of the managerial ethics, it remains to study the financial result of the universities, included in the same report of the rector. Surprisingly, but in line with the above observations on the differentiated PayScale for incumbents vs. temporary staff, we find that most universities have annual budget surpluses. These are substantial, and as we observe that the current legislation allows their retention by universities and that these surpluses are not taxed as profits, obviously the accumulated "reserves" are more significant each year.

The existence of these surpluses, correlated with the way the salaries for vacant positions are set up via pay-per-hour tool, thus become a consistent and disturbing ethics issue. It is clear that the source of these surpluses is the low cost for the hourly teaching activities, provided by external temporary staff, under existing vacancies.

5. Conclusions

The corroborated existence of anomalies in the public funding policies and the financial management of the universities creates the conditions for the violation of the quality standards in the educational process. These breaches generate a series of specific ethical issues, subsumed to the main one, which consists in accepting an inferior quality engendered by the way human resources are managed. Thus, maintaining a quasi-permanent segment of an oversized vacancy segment, even without discussing the financial implications, is dilemmatic.

An even more important ethics issue is the human resources management model guided by an objective to obtain a budget surplus; this is achieved by using the pay-per-hour method, using a much lower cost of service for vacancies activities than a position held by an incumbent. The ethical aspects related to the motivation of teachers who perform activities in the "pay-per-hour" regime are as complex as those related to the use of external (temporary) staff not validated by any national academic professional competition.

Finally, the present research highlights the major ethical dilemma associated with the option of rectors through which universities accumulate substantial surpluses, which have no justification for the normal conduct of the annual budget of a public institution. The accumulated surpluses are even more difficult to justify from an ethical point of view, as the Romanian legislation does not allow, naturally, their use for investments, which have a separate governmental allocation regime. The circumstances of the salary management for the vacancies aggravate the justification of the surpluses. In fact, this way of transferring resources from the natural recipient to doubtful objectives associated with dilemmatic beneficiaries presents complex legal issues, which for the moment, are ignored or tolerated by the public funds' dispensers.

A thorough verification of these practices would be advisable not only from a technical (accounting) point of view, but mainly from an ethical perspective, for all the reasons stated before. As such, in the words of the former US presidency candidate A. Stevenson “[...] Bad administration, to be sure, can destroy good policy, but good administration can never save bad policy”. The adage is, once more, demonstrated by reality in the most corrosive way.

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