

Analysis of External Risks and Prevention Pattern of Fund Raising of Private Universities

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Abstract The paper is to study the external risks of fund raising of private university, they includes policy risks, market risks, and social recognition risks. In addition, a diversified pattern of fund raising of private university would be established. The paper concludes that private university would be in trouble if they still rely on the single channel for fund raising to seek the further development. The authors suggest that, they should have the ability to reduce the external risks of fund raising and match for the competition in the higher education.

Key words External risks; Prevention pattern; Fund raising; Private universities

1 Introduction

In China, the private universities are the private higher institutions with Chinese characteristics. Compared with the public universities, private universities are facing greater market risks. More attention is paid on the development of private universities' exist problems. However, the study of analyzing the external risk of fund raising for private university gives rise to two main difficulties: one is that with our education market competition becoming increasingly fierce, the factors that influencing the development of private universities such as enrollment, macro policies, and market economy are dynamic changing and uncertain. The other is how to employ appropriate measures to avoiding the external risks of fund raising for private universities.

The single channel for fund raising for private universities is the primary reason that caused the shortage of funds of private universities which hindered the rapid development of private universities. According to the survey of fund raising for 38 private universities, there were thirty one private universities which raising funds by school fees occupied more than eighty percent of the whole income. Quite a number of private universities rely mainly on the students' tuition to sustain the school running.

At present, many scholars focus their study for the private universities on the policy environment. Very few studies address to the method of diversification of the financing. Our study in this paper is confined to analyze the external risk of fund raising for the private universities, and try to build diversified fund raising pattern. This paper consists of four sections. Section one begins by introducing the current problems and research emphasis of fund raising for the development of private universities. The external risks of fund raising analysis for private universities have been provided in section two. Section three present the measures to prevent risks of fund raising from external environment angel. Finally, conclusions for the whole work are put forward in section four.

2 External Risks of Fund Raising of Private Universities

The private universities, as the provider of quasi-public goods, take on the uncertain risks which are from policy risk, market risk and social recognized risk. All these external risks restrict to the realization of diversified patterns on fund raising for private universities.

2.1 Policy risk

Policy risk refers mainly to imperfect system or ineffective implement risks of policies and regulations which prevent the development of private universities. Our government has been exploring legalization road for non-state-run higher institutions. In 1950, the first national conference of higher education approved the interim measures for the administration of the private universities, which implement the policy of actively maintained, gradually changing and intensive subsidies. In 1993, the state education commission issued a set of interim regulations for private universities, which determine private higher institutions as the part of our higher education business. Furthermore, private education law and its implementation make relatively clear legal norms for the perspective of private higher education status, the rights and obligations of the government and the schools. However, the policy environment is not perfect for the private universities, which lead to the political risk of fund raising.

2.1.1 The absence of governmental financial subsidy

Ministry of education has defined private universities by public welfare characteristic, so that the government should give certain financial support to private universities. However, our private universities have received limited number of government financial subsidy. Moreover, the financial subsidy difference between the public universities and private universities is obvious. Table 1^[1] concretely describes the assets structure of private universities and table 2 shows American subsidy policy to private colleges which offers some benefit experience.

Table 1 Assets Structure of Chinese Private Universities

Assets structure	Organizers investment	Running accumulation	Social donations	Bank loans	State-owned assets	Others
average sample	38.55%	41.6%	2.39%	4.85%	7.46%	4.9%

Table 2 Income of American Higher Institutions

source of income	Nonprofit public higher institutions (%)	Nonprofit private higher institutions (%)
Tuition	18.4	42.4
The federal government	11.1	14.4
State	35.9	2.1
Local government	4.0	0.6
Private gift, Grants,	4.0	8.8
Donation income	0.6	4.7
Sales and service	23.0	22.2
Education activities	3.0	2.8
Affiliated enterprises	9.5	10.0
The hospital	10.5	9.4
Others	3.0	4.8

The data of American higher education is based on the statistics of education center and statistical abstract nonprofit public universities and private non-profit university data section.

Table 2 shows that the federal government treats the public and private universities fairly and equally. Even they offer subsidy to private universities more than public universities. Table1 shows that it is very limited that our government offer subsidy to private universities. This has prompted the lack of running funding onto the students. As a result, the tuition of private universities is obviously higher than public universities.

2.1.2 Unclear property right relations

In western societies, the property of founder for the private non-profit higher institutions should be organized by the third party of non-profit legal agency. Therefore, founders have no ownership of running schools and assets. However, the current administrative regulations in China have not set up reasonable norms. For the ownership of property of private universities, on the one hand the final ownership of investors has not definite; on the other hand, the public welfare cannot be guaranteed. Such a confusion of the relation of property right would lead the private universities to for-profit direction, which virtually increased the risks of raising funds of private universities.

2.1.3 Uncertainty of economic return

Education regulation formulates that no organization or individual could run educational schools or other educational institutions for the purpose of profit. However, "rational reward" has become the focus of private universities from the actual situation. According to the survey, the founders with no requirement of economic returns account for about 10 percent, but others with requirement of economic return account for a considerable proportion. In China, the investors could receive the reasonable economic returns after deducting expenses cost. As a matter of fact, this rules means that the founders of private universities should assume the corresponding investment risks while expecting corresponding income.

2.2 Market risk

Due to the single pattern of raising funds, private universities would be more dependent on the students' market than public universities. The fluctuations of education market would have great influence on the survival of private universities which increase the risks of fund raising.

2.2.1 Student source

The survival environment of private universities would be largely determined by the quantity and

quality of student source. Today, our higher education market could not satisfy people’s needs for higher education in China. Therefore, the private universities have larger source of students. In the next ten years, China’s higher education would likely has less entrance of students with the popularization of family planning, the increase of family economic pressure, and the improvement of the national education degree, which would greatly influence the survival of private universities with the single pattern of fund raising.

2.2.2 Market competition

Currently, the higher education market has confronted the transition process from “traditional seller’s market” to “modern buyer’s market”. The first feature of “buyer’s market” refers to the competition of high quality product or service, which contribute to attract more needs. Therefore, some institutions unsuitable to the changing of environment would be eliminated in the competition.

2.2.3 High tuition

The tuition per capita of private universities is about twice the public universities’ according to the report of Chinese private university evaluation in 2009. For instance, the tuition from the top six of private universities has been presented in table 3^[2].

Table 3 Tuition of Private Universities

Rank	School name	province	science tuition (yuan)	liberal arts tuition (yuan)
1	JiangXi BlueSky university	Jiangxi	10000	8000
2	Hunan International Economics University	Hunan	12000	11500
3	BeiJing City University	Beijing	11750	11750
4	HuangHe S&T College	Henan	10000	9000
5	Xi'an International University	Shanxi	10000	8500
6	Yang'en University	Fujian	14500	14500

As the table 3 data, the six private universities have different standards of tuition fees in spite of the regional differences. However, it is the fact that the tuition of private universities is very expensive. Obviously, high tuition of private universities is more than the common families’ economic ability, which would lead to the severe risks of running school.

2.3 Social recognition risk

2.3.1 Social public recognition rate

With the improvement of the overall quality and economic income, people would not satisfy with the receiving of higher education, but to accept high quality and high level education. In addition, most of private universities only position themselves on vocational level, except a few private universities recruit students of undergraduate level. Furthermore, most parents and students regard the public universities as the first choice^[3]. The reason that many people don’t choose the private universities is not only the expensive tuition fees, but also the school’s quality distrust of them. Therefore, the social public recognition is the basement of the development of private universities in the future. Meanwhile, this would be the favorable conditions for raising funds of private universities.

2.3.2 Enterprise approval rate

For private universities, the students they trained would be regard as the product of their school, and the job market is their sale market. Therefore, a considerable number of private universities attaches great importance to the labor market demand and pay attention to employment guidance services. In addition, some schools have various cooperation with enterprises, and build different employment information web in order to provide students with labor demand information.

Table 4 Employment Intention of Different Enterprises

Choice Type	Private graduates is as good as public graduates, tend to choose		
	Public graduates (%)	Private graduates (%)	Others (%)
The state-owned enterprise	86.7	-	14.3
The collective ownership enterprise	50.0	-	50.0
Foreign capital enterprise	55.6	-	44.4
Domestic holding enterprise	75.0	-	26.0
Private enterprise	53.6	3.6	42.8
Undertaking	72.7	-	27.3
Government organizations	100.0	-	-

However, we have to admit that many enterprises have the discrimination attitude for graduates from private universities, and the rejected tendency for graduates from private universities is common in some enterprises. Table 4^[4] describes employment intention of different enterprises.

3 Diversifying Fund Raising Pattern

In the new round of competition process in the higher education market, part of private universities actively seek school-running features and reasonable market position, but they have been in the situation of a passive and disadvantages if they mainly rely on tuition and sponsor investment to maintain the school running. Therefore, private universities should establish a diversified pattern of fund raising to avoid risks if they would realize the sustainable development. Diversified pattern of fund raising for private higher institutions is established in figure1.

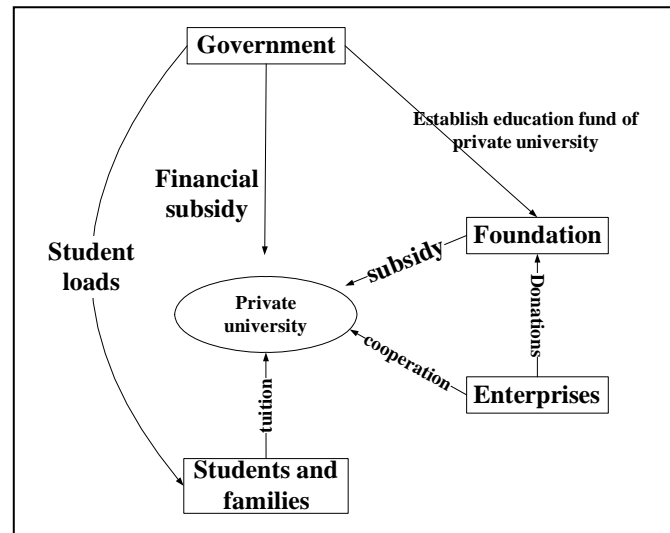


Figure 1 Diversified Pattern of Fund Raising for Private Universities

Private universities could gain financial subsidy from government. Meanwhile, government should provide students with loads. In addition, government would establish education fund of private universities to attract donations from all circles of life. Furthermore, Enterprises could donate funds to support the development of private universities, and also provide service fees by the cooperation with private universities. Private higher educational foundation provides funds to private universities through certain standards.

4 Conclusions

To sum up, this article explores the external risks of fund raising for private universities. Thereby, risks of fund raising such as policy risks, market risks, society recognized risks have been analyzed from external risk perspective. The whole paper reveals that private universities would be in trouble if they still rely on the single channel for raising fund to seek the further development. Therefore, establishing a diversified pattern of fund raising would help to avoid fund risks for private universities.

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