Chapter 1

Introduction

Higher Goals Require Better Management of Resources

Realization of any higher goal by the individual or by the organisation requires not only the zeal to reach it, but also the resources to attain it. If the resources are not forthcoming or if the available resources are not utilized efficiently, the relevant individual or the organisation, sooner or later, comes to grief and the goal-realization eludes them. This is because in this imperfect world, resources are limited and they have got alternative uses which are clamoured for by various ends of varying importance. Along with higher ethical ends and goals, Nature has given us intellect also which we have to organise in a scientific way to create knowledge for the better management of available resources and also for the discovery and creation of the fresh sources of income. This has to be done as a continuing process, because the need for resources is also continuous for maintenance and also for the development of the relevant entity.

University, particularly public university as an organisation is not a profit-making body. It does not endeavour to create profit as a surplus to be reinvested for expansion purposes. It has got a pattern of expenditure in the form of recurrent expenditure and capital expenditure and capital expenditure is meant for expansion and development of assets, equipments, buildings and infra-structural facilities.
Crucial Importance Of Financial Management For University

Modern universities are large institutions and they require huge resources to run them, maintain them and develop them. Money is a general medium of exchange, a common store of exchange value and a universal unit of account. Money represents real purchasing power to purchase and command real resources. Thus it is the question of finance and its better management and hence there becomes evident the crucial importance of financial management for any organisation, specially university which works under external and internal pressures.

Resources Shrinking And Government Support Dwindling.

In the present times, the enrollment of the students in the universities has been increasing rapidly and still there is a greater rush for fresh admissions, many of whom have to be denied reluctantly. Universities have to expand and develop and provide equipment and facilities for research. Thus the demand for resources is increasing by leaps and bounds. But what is the scenario of supply of resources?

In Jordan as in many countries of the world, it presents a pessimistic picture and sorry state of affairs. Resources are actually shrinking and government support is dwindling. In Jordan, On one hand, inflation is reducing the real resources of the universities and on the other, support from the government in the form of share in its tax revenue and grants is on the decline. In money terms when universities require more and more financial resources due to inflation for the purchase of the same amount of materials, equipments and the services of men, resources are alluding them away. Thus the universities in Jordan are sandwiched between the devil of inflation and the deep sea of resource crunch leading to chronic
budget deficits and financial crisis. But financial crisis at a deeper level is actually a management crisis. Money is a good servant but a bad master. When finance is not managed well, it becomes a master and when it is managed efficiently, it continues to serve as a servant. The dog should wag the tail and not the tail should wag the dog.

Financial Crisis the External Symptom Of Management Crisis

In this fast changing world, all individuals and all institutions face difficulties, but to find fault with these difficulties coming from the external environment and not to look within to find out errors in ourselves and in our management of resources and our style and structure of management is, to say the least, not a sign of maturity and wisdom. Growth, development and maturity lie in our response to outer challenges.

In the past, there was a time when man could not control the forces of Nature and he was very helpless. He had to adjust himself mostly psychically to the external world to create a balance. But in the modern world, two most interesting developments have taken place which can reduce Man's helplessness and make him a master of natural and social forces. One is the development of science and we are everyday observers of its wonders and the other one is the managerial revolution springing from the development of management and administrative sciences, specially financial management and experience based on them. That is why I believe, on the basis of my experience and observation that financial crisis is the external symptom of inner management crisis. If there had been a good management system in the universities with an efficient financial management structure as the integral and the most important part of it, budget deficits would not have become the chronic feature of public universities in Jordan and the financial crisis would have been averted. If
budget deficit appeared once, timely and effective steps would have been taken to nip it in the bud and in future, it would not have been allowed to raise its ugly head.

**Modern Techniques And Financial Management System Provide The Solution**

Modern methods and techniques of ratio analysis, growth indices, common-size statements, regression analysis, linear programming, forecasting, pert, variances, fund-flow analysis, income statements, balance sheet etc. would have turned accounting data into scientific information and would have not only bridged the information gap, but would have also provided guiding information to the policy makers to take the right steps at the right times. Besides, budget should have been turned into a good management tool. Accounting system, budgeting and control system, financial system—all would have been changed basically and planning and programming before budgeting and evaluation at the end of the financial process would have been introduced as the part of wider management system which would have ensured not only minimisation of cost, but also the initiation of fresh sources of revenue and the development of the existing ones. This would have led to reduction or control in total expenditure and enhancement of total revenue which would have given rise to balanced budgets in the present circumstances. There is no other correct alternative available also. The approach of mere drifting with the circumstances without any long-term planning to control and avert them and taking refuge to only stop-gap arrangements when the pressure of circumstances becomes too heavy, is risky and full of danger.
Reasons For The Present Study

This situation really presented a dismal picture, because when the available resources are inefficiently utilized, and wrongly distributed among faculties and departments, there takes place an increase in the costs per student. Thus increase in cost is not only on account of inflation or on account of provision of better laboratory facilities, better computer services or library services or other infra-structural facilities but also due to mismanagement of resources: There are inherent defects in the financial management system of the public university in Jordan which would specially betray when their services are most required.

If we study the financial management system of Yarmouk university we find that almost a century old system of line-item budgeting is used to prepare annual budgets and a concomitant cash-basis policy of accounting instead of a better accrual basis system is utilized which presents a false picture of real accounts. Also there is no good information system to provide meaningful information to the policy makers to help them in taking right policy measures at their appropriate times. Budget is a good tool for monitoring and controlling operations with financial implication, but it should be a part of a long-range plans of 5-7 or 10 years. Before budgeting, there should be programming of activities and then the budget may give detailed work plans to carry out those activities in specified periods of time and with predetermined financial resources for each of them. On my part, I would like to suggest the planning, programming and budgeting system for Yarmouk university and other public universities in Jordan.

I also observed that there was no overall full-fledged study of the financial management system of Yarmouk and other public universities in
Jordan. The financial management system in yarmouk university and other public universities in Jordan lack the above-mentioned modern and scientific features. So I decided to study in detail the financial management system of yarmouk university as a case study of the financial management system of all public universities in Jordan in order to draw attention to the major inherent defects of the accounting and financial management system of these universities with a view to suggest better, more efficient and more trustworthy alternative accounting and financial management system for yarmouk university and other universities in Jordan.

What This Study Aims At

This study tries to show how in a period of financial stringency an old university with a long tradition of collegiality and of faculty autonomy can take steps to modernize its management and particularly its financial management system. The study shows that the future well-being of the university is safeguarded better, by a more streamlined structure of higher management and the transformation of the present financial management system on the modern scientific lines and decentralized planning and budgeting process whereby faculty heads prioritize and cost their activities before passing them to higher management. The study emphasizes pervading of cost-consciousness at all levels of management.

Objectives Of The Study In A Nutshell

So, the main objectives of the study are as follows:

(1) To examine the accounting and the financial management system of yarmouk university as the case study for public universities in
Jordan in order to pinpoint its major drawbacks and suggest an alternative system on more modern and scientific lines.

(2) To evaluate sources of revenue and expenditure pattern of Yarmouk university specially and other public universities in general and to suggest other fresh sources of revenue and delineate ways to improve the present ones and methods to minimize cost and alter the pattern of expenditure to be based on healthier lines.

(3) To compute cost per student for every faculty and to examine how far revenue from tuition fees of the student cover it.

(4) To compare the total revenue (from the tuition fees) of every faculty with its total cost and to examine what percentage of total cost is covered by total revenue.

(5) To prepare an efficient and effective financial management plan for Yarmouk university to make its finances sound and budgets balanced.

Research Methodology

The study adopted analytical approach and used secondary data. Techniques like ratio analysis, common-size statements, growth indices regression analysis and break-even analysis are applied for the analysis and interpretation of data and verification of the hypotheses.

Chapterisation Scheme

(1) The first chapter is introductory and emphasizes the great importance of financial management system to be erected on the modern scientific lines for realizing the goals and objectives of the
university. It also mentions different statistical techniques used to analyse and interpret data and to verify the hypotheses in the light of data and the nature of research methodology.

(2) In the second chapter, the pivotal role of financial management in modern universities is highlighted. An effort has been made to clarify the changes in the external environment which requires basic change in financial management if modern universities are to survive. Wider scope and its integrative role between higher management and core financial process is also emphasized.

(3) In the third chapter, higher education system in Jordan is studied. 6 public universities, 12 private universities and 50 community colleges constitute the higher education system in Jordan under the guidance and broad supervision of Higher Education Council and the Ministry of Higher Education. In this chapter, the higher education system is studied and the issues and problems of higher education are examined and spelled out clearly.

(4) In the fourth chapter after giving the historical background of Yarmouk University, a brief outline is given of the expanse of its academic activities and its faculties, institutes and research centres. Then its academic and administrative structure and the accounting structure and financial structure are described. This chapter deals with the financial management of Yarmouk University in detail. Sources of revenue and its expenditure pattern and its budget deficits are studied in depth with the help of techniques of growth indices, common-size statements, ratio analysis and regression analysis. Faculty-wise cost analysis is also undertaken and the
percentage of cost covered by revenue is examined. Cost per student is also found out for analysis.

(5) In the fifth chapter, analysis of the budgeting and the financial management system of Yarmouk University is undertaken and the cash basis of accounting system and the line-item budget system are examined and their inherent defects are highlighted and in their place, the planning programming and budgeting system with its accrual basis of accounting is advocated. University’s policy of providing food, hostel accommodation and school teaching at subsidized rates is also commented upon.

(6) In the sixth chapter, conclusions are given.