ADAPTATION OF MANAGEMENT METHODS IN NOT-FOR-PROFIT ORGANIZATIONS – THE CASE OF BUESPA

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Abstract

In the last 15 years, both the philosophy and the tools of management, successfully applied in the business sector, have increasingly spread in not-for-profit organizations. A huge variety of business concepts and methods are available for the realization of performance-oriented thinking. However, the selection and adaptation of these methods according to the characteristics of another sector is far from being simple and includes several possible pitfalls. In our paper, we will examine the adaptation of management concepts and methods in the case of Budapest University of Economic Sciences and Public Administration, the leading organization of higher education in Hungary.

Introduction

Efficiency, effectiveness, goals, impacts, responsibilities – the key notions of performance-oriented thinking and performance management, that are generally held to be applied mainly by private sector organizations to improve their activities. Viewed in a historic perspective however, efficiency has always been an expectation for the operation of public organizations as well: in Max Weber’s definition of bureaucracy rationality and efficiency are the most important elements. Though the management of private and public organizations has long been based on the ideology of efficiency, the limitation of this approach is widely known for now: it only deals with the question of how things are happening, while ignoring why.

Nowadays, efficiency has been replaced by performance, which beside efficiency also implies the achievement of higher level goals and desirable long-term impacts. In the last 15 years, both the philosophy and the tools of performance management, successfully applied in the business sector, have increasingly spread in public organizations.

Educational organizations, especially the ones of higher education are very interesting for our research for several reasons. First, because the players of the higher education industry represent different sectors: public, business, and non-profit institutions are all present. Moreover, universities researching and teaching business administration as part of their portfolio (their number in Hungary is quite high) are supposed to be better prepared and more open to use management methods that proved to lead success in business-like organizational settings.

The Budapest University of Economic Sciences (BUES) has always been famous for its innovative approach to university administration and for its excellent international reputation. Besides reforming the institution itself, the academic staff and students also played leading role in the democratic transformation of Hungary, especially in the implementation of the institutions of a market economy.

In 1999 – after the decision to merge BUES with the School of Public Administration – an emblematic figure of innovative strategic thinking, also an internationally respected scholar

1 Budapest University of Economic Sciences and Public Administration
and researcher of business administration, was elected as the new rector of the university. His program initiated a strategic renewal of BUESPA focusing on adapting the management methods and organizational solutions that proved to lead success in service organizations in the developed countries. In spite of the relative success that the new university management reached during their first term in developing and implementing a significantly new organizational and management model, in December 2003, the rector was not re-elected.

Our research aims to describe and analyze the process of the strategic renewal of BUESPA, the adaptation of business-like organizational and management methods. We would like to find the reasons of the contradiction between the relative success of strategic renewal and the rejection of the rector and his team by the opinion leaders of the university.

**Literature Review**

Over the 1980’s there was a move in the public sector of Western European countries and the U.S. towards the New Public Management (NPM). This movement began in the United Kingdom under Prime Minister Margaret Thatcher and in the local governments of the U.S. The NPM doctrines have quickly achieved mainstream influence, and generated administrative reforms over Europe and the United States. Most of the attributes of NPM are generally shared by the public administration academics. Its main undisputed characteristics are (Gruening, 2001):

- separation of politics and administration;
- accountability for performance, performance auditing, performance measurement;
- privatization, contracting out, budget cuts;
- decentralization;
- strategic planning and management, competition;
- changing management style, personnel management, flexibility;
- more extensive use of information technology.

On the grounds of these attributes the NPM is clearly separated from the traditional model ("old public management") as it is summarized in Table 1.

<table>
<thead>
<tr>
<th>Traditional model</th>
<th>New public management model</th>
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<tr>
<td>Emphasis on goals and codification</td>
<td>Emphasis on realization and use of law</td>
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<tr>
<td>Regulation of processes</td>
<td>Regulation of output</td>
</tr>
<tr>
<td>Emphasis on the public service provider</td>
<td>Emphasis on the client/customer</td>
</tr>
<tr>
<td>The administration directly organizes the service</td>
<td>The administration entrust external service provider with the organization of the service</td>
</tr>
<tr>
<td>Accountability according to the special sectors</td>
<td>Cooperation of sectors, complex projects</td>
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Table 1. Attributes of the “old” and “new” public management (Halász, 2001)

These changes and reforms have got many possible causes, but there is no consensus about their priorities. According to the original notion, the NPM was the consequence of the economic recession and tax revolts. Nowadays, the success of NPM is often explained by the increasing complexity and interdependence of the social sub-systems.
These phenomena are likely to have contributed to the rise of the nonprofit (civil) sector, too. In the Western states the nonprofit sector plays an important and growing political, social and economic role. In the background of this process the failure of the welfare state and the neoliberal economic policy, as well as the revolution of information technology (Salamon-Anheier, 1996) are the most widely mentioned tendencies.

The rise of new public management and the growing role of nonprofit sector have led to an increased attention to the performance of public services (Hood, 1995). In the Western countries the public and nonprofit organizations began to apply different management systems, among which we could find many cases for the adaptation of different strategic management approaches, management accounting and control mechanisms, and performance measurement and evaluation methods (e.g. Voelker-Rakich-French, 2001; Quinlivan, 2000; Elefalk, 2001).

These management system applications in the public and nonprofit sector are aiming the development of customer-orientation, mission-driven management, and results-oriented service evaluation, based on the measurement of outcomes rather than processes. This approach is in accordance with the philosophy of the new public management movement as it was stated in Table 1.

Of course, private sector, public sector and nonprofit sector are still different categories with special context. Moreover, in our research it seemed advisable to distinguish sub-sectors within them. In the next section we will introduce our model on the sectors of social activities.

There are different approaches to classify the sectors of social activities. According to the traditional thinking the “visible, formally existing” sectors are the sphere of business, public, and nonprofit organizations, while households and gray/black economy constitute the “less visible, informal” sectors. With regard to our research, the first three (visible) sectors have relevance.

The primary goal of a private (business) organization is to serve consumers’ needs to achieve profit. The organization makes independent decisions and takes risks. An important condition for this type of organizations is the market context. In the Hungarian higher education there are only some organizations in this segment, representing less than 10% of the total value of the industry.

The different institutions of central and local governments fall under the category of public organizations. By definition the common attributes of these institutions are that their operation is financed by central or local governmental sources, their goals and activities are defined in a top-down way, and their organizational structure is hierarchical. The majority of higher education organizations are public ones. They represent almost 90% of the total value of the industry.

The widely accepted definition of the nonprofit sector is rather new, it is a result of the 1992 research program of the Johns Hopkins University (Salamon-Anheier, 1996):

1) These organizations are not profit-oriented, their profit is not divided among the founders.
2) These organizations do not depend directly on the central or local governments.
3) These organizations operate within formalized frames.
4) Volunteering and philanthropy play an important role in their operation.
5) The public benefit is one of their main values: they act on the community’s interest.

In Hungary, there is only a few institution of higher education that can be characterized as non-profit.

In many countries as well as in Hungary the three sectors could be clearly distinguished in the aspect of law and regulation (see Figure 1). The boundaries of the sectors are more blurred,
however, if we see the daily operation and the financial sources of these organizations as well (see Figure 2). As a hypothesis, we suggest that due their mixed characteristics the overlapping sub-segments in the second model may play a catalyzing role in transmitting managements methods and tools among different sectors.

![Figure 1. The three sectors in the perspective of law](image1)

![Figure 2. The three sectors in the perspectives of financial sources and the daily operation of organizations](image2)

Higher education industry contains organizations from almost all of the segments of our “overlapping” sector model (Figure 2). Most of the universities in Hungary, especially the ones covering the fields of economics and business administration, are in the boundary of public and private sector, since they provide both public services financed by the state and market services financed by the customer.

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2 According to the Hungarian Act on Nonprofit Organizations „Public company” is a business organization acting for public benefit. As such, it has a non-distribution constraint, but it can retain its profit for the development of its core activity.
One of the most important questions concerning the adaptation of management methods in not-for-profit organizations is that which concepts and methods have the most potential to adapt in a “non-business” setting. Common agreement seems to have formulated on the next items:

- strategy formulation based on stakeholder analysis and core competence model;
- integrating strategic and operative planning and control (the most popular model is the Balanced Scorecard);
- integrated mid-term planning and budgeting on the basis of performance needs and affordable costs (rather than on the costs of previous terms);
- transparent, decentralized organization structure consisting of responsibility centers;
- customer-orientation and customer satisfaction;
- process reengineering;
- outsourcing of non-core activities;
- multi-sector co-operation;
- total quality management;
- performance measurement and evaluation at organizational, unit, and individual levels.

Even taking into account the catalyzing effects (described in connection with Figure 2), the adaptation of a business concept or method in a non-business (or only partly business) environment needs time and effort. Based on our practical experiences the following steps are suggested:

- Careful selection of business methods according to their appreciation in business environment as well as to their ease of adaptation.
- Adaptation, that is making changes on the model with special regard to the similarities and differences of (sub)sector characteristics, cultural patterns, and traditions, while “keeping the strength” of the original concept or method.
- Provision for the human and technical infrastructure of the implementation (training of managers, availability of consultants and supporting IT applications).
- Initiation of pilot projects.
- Using successful projects as benchmark within the given (sub)sectors.
- Applying a supporting change management strategy as opposed to a power-based or manipulative one.

**Methodology and results**

The methodology of our research is primarily qualitative. It has been carried out by participative observation, interviews, and questionnaires with open-ended and closed questions. The quantitative analysis based on the organizational database has been focused on the indicators of BUESPA performance during the strategic renewal process. Formal positions fulfilled by the members of the research team in the period of investigation helped to get access to additional information.

The first phase of our research was the description of the formal renewal process. Our main focus was to list the elements of the overall organizational and management system that were changed, to describe the essence/direction of the changes, and evaluate the consistency of these changes with the strategic goals and objectives that have been set up at the very beginning of the process. In this phase we examined the formal elements of the organizational and management system, since these elements are more easily observable. The summary of the results are shown in Table 2.
<table>
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<tr>
<th>Steps of change (in chronological order)</th>
<th>Essence/direction of the change</th>
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<tr>
<td>Implementing strategic planning system</td>
<td>Strategy formulation based on stakeholder analysis and core competence model. Widespread involvement and communication (internal and external too).</td>
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<tr>
<td>Implementing management control system including:</td>
<td>Faculties defined as mission centers, professional and technical service units as service centers, units of administration as expense centers. The accounting system was supplemented by the elements of management accounting like product line costing, cost center accounting and responsibility accounting.</td>
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<tr>
<td>- defining responsibility centers (expense, service, and mission centers)</td>
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<td>- renewal of cost accounting</td>
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<td>- implementing management reporting</td>
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<tr>
<td>Separation of academic and administrative management of the university</td>
<td>The principal behind was to let academic staff focus on research and teaching and establish a professional administrative staff to provide efficient background services.</td>
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<tr>
<td>Outsourcing of non-core activities</td>
<td>All of the maintenance and other technical services were outsourced reaching an immediate decrease in costs.</td>
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<td>Implementing new financing forms including:</td>
<td>The proportion of financial sources from business organizations increased from 1% to more than 10-15%. Some of the forms of financing (like corporate chairs) were implemented in Hungary for the first time.</td>
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<td>- company chairs,</td>
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<td>- investments in infrastructure financed by business organizations,</td>
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<tr>
<td>- public private partnership in research and teaching.</td>
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<tr>
<td>Professionalizing public relations, intensifying external and internal communication</td>
<td>Establishment of professional PR and communication staff. Renewal of the homepage of the university. Developing a portal and intranet for intra-organizational communication. Regular communication forums at University, Faculty, and Department levels</td>
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<tr>
<td>Rebuilding and enhancing academic community</td>
<td>Taking a leading role in inter-university committees. New forms of co-operation of domestic and international academic institutions.</td>
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<tr>
<td>Implementing strategic HR systems including:</td>
<td>The principle behind the changes is performance-based evaluation in spite of seniority-based career paths.</td>
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<td>- individual performance expectations and evaluation</td>
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<td>- career planning system</td>
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<tr>
<td>- enhancing incentives system</td>
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<tr>
<td>Renewal of financial planning, budgeting and transfer pricing systems</td>
<td>The second step of implementing a comprehensive management accounting and control system aiming at enhancing transparency and decentralized responsibility for performances and resources.</td>
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<tr>
<td>Development of quality management system</td>
<td>The new system meant not only systematic and comprehensive quality control including feed-forward elements as well, but also this information served as a basis of decisions on the curriculum and the careers. BUESPA was audited according to the EFQM model.</td>
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Table 2. Formal elements of strategic renewal
As Table 2 shows that the elements of the change process were consistent and intended to serve the accomplishment of a clear strategy of renewal. The performance of BUESPA also showed significant progress from volume, financial, and reputation point of view. But at the same time, complexity caused serious problems in intra-organizational co-ordination, and – especially in new fields of teaching activity – quality problems because of missing capacity with the necessary expertise and experience.

**Conclusion**

This case study is a part of a broader research agenda aimed to explore and enlighten the differences between the management concepts and methods applied in private business organizations and the model adapted in not-for-profit organizations. The research places emphasis on the sector-specific explanations and the diffusion process of management methods from the private to not-for-profit organizations.

This paper summarizes the results of the first phase of a research project aiming at describing a certain adaptation process in an organization of the Hungarian higher education industry. The management of Budapest University of Economic Sciences and Public Organization launched a strategic renewal program aiming explicitly at adopting management concepts and methods that proved to lead success in professional services organizations. The change process was planned and executed in a consistent manner, and characterized by intensive communication, building on the involvement of a significant part of past and present members and stakeholders of the organization. Even from performance point of view the renewal process showed significant progress, the management failed on the election after their first term.

The next phase of the project will focus on formulation hypotheses about the possible reasons of this failure. The basis of the next phase should be further literature review focusing on case studies and analysis of similar projects. More intensive information collection about the informal, behavioral elements of the examined change process is also a must.
References


