Trading promises for money: effects of quantification in the German higher education sector

Maarten Hillebrandt and **Michael Huber** comment on the rise of managerialism and budgetary constraint

The failure and success of policies, organisations and individuals are increasingly marked by benchmarks, indicators or risk assessments. These numbers, however, do not only represent performance, but change perspectives and behaviour of both regulators and regulatees considerably. In the higher education (HE) sector, academics and faculties are progressively made to recast their activities in terms of quantifiable performances to ensure continued funding. Key performance indicators (KPIs) have come to redefine professionalism and quality. In addition, they have also added new criteria that are supposed to lead faculties to internalize external expectations, such as gender equality or research contributing to societal prosperity.

Such developments can be found across many other national higher education systems. Their effects, however, vary greatly. In the German HE sector, for example, the reach and scope of external performance-based incentive systems has been far more modest than in the English HE sector. This variation can be largely explained by an unwillingness – shared by universities and politicians alike – to differentiate the relatively opaque and homogenous university landscape that was established with great effort after 1945. Still, the fact that performance-based budgeting was introduced in combination with broad budget cuts meant that universities had to respond.

The rise in quantification has been accompanied by a shift from 'government by rules' to 'governance by numbers' – in other words, the collecting and processing of numbers to managerial ends. Numbers, such as KPIs, have come to form new calculative infrastructures for the resolution of resource allocation decisions and value trade-offs. Quantification is frequently seen as a natural companion to New Public Management (NPM) reforms. NPM-type decision making emphasizes, as far as quantification is concerned, comparability as a key requirement. This contrasts with peer-based academic decision making, which typically revolves around case-centric, argumentative evaluations (e.g. of a research article). NPM replaces these evaluations with rankings or benchmarks expressed in terms of quantified indicators. The underlying ambition is to make differences in quality and performance unambiguously visible and comparable.

This transformation did not fall from the sky, but evolved over time. To appreciate the main steps of reform in the case of Germany, we must recall the development of financial governance. Academic decisions were traditionally reserved exclusively for professionals. Academics developed their own methods to address the dilemmas and constraints triggered by research and teaching activities, while the state ensured the stability and continuity of the budget. Numbers already played a central role in this so-called cameralistic model of resource allocation, yet their application hardly amounted to a quantification in a managerial, i.e. performance-oriented, sense. The numbers of the cameralist system formed part of an inflexible budgeting system that ensured predictable and pre-structured university budgets. Each activity was captured in a separate financial title and volume defined the size of the allocations. Following the notion that each unit and staff member were provided with the resources they needed, cameralism could be typified as adhering to a 'pay per performer' model.

Unsurprisingly, the cameralist system left little room for either innovation, experimentation, or differentiation. Moreover, the fixed resource allocation for specific activities (book acquisitions, for example) meant that the legitimacy of the specified financial sums was only confirmed when all resources were indeed used up. This led to accusations of a 'December fever' of inefficient and wasteful end-of-year expenditure by universities.

In the early 1990s, an NPM-inspired 'pay for performance' model was introduced in an attempt to overcome the rigidity and waste inherent in the cameralistic system. This reform was Länder-specific rather than nation-wide, yet it marked a general shift from counting (i.e. operational volumes related to students and various resources) to quantification, where numbers turn into performance indicators upon which funding decisions are formed. On the basis of this general pay-for-performance model (called LOM after the German Leistungsorientierte Mittelverteilung), each of the 16 German Länder developed their own idea of quantification-based NPM, highlighting specific features and suppressing others (as is apparent in the varying 'baskets' of KPIs that were employed,

and the relative part of universities' budget that was freed for competitive allocation). A common theme, however, was the wish to replace the detailed budgeting characteristic of cameralism with global budgeting, which traces the steps from a centrally allocated, line item type allocated budget to one that is set on predetermined objectives and measurable factors. This was aimed at introducing incentive structures to help to detect quality differentials in the hitherto relatively egalitarian HE sector. Global budgeting, for example, removed expenditure deadlines, thereby avoiding the 'December fever' effect and offering universities a wider time-frame for financial planning. As it was also an exercise in cost cutting, the Länder introduced various combinations of KPIs to approximate a form of algorithmic steering that was to realize a competition-oriented notion of 'pay for performance'.

This novel situation of performance-based budgeting on the basis of a shrunk overall budget forced universities to adjust their teaching and research activities. In Germany, strategies such as externalising costs to students or gaining income through private funds or endowments are limited. Instead, universities had to internally redistribute their scarce resources. In response, they began to collect their own quantified performance data and to build internal performance-oriented allocation models on the basis of that data. Thus, universities gradually internalized the external performance demands and accompanying financial pressures. The central administration, which had become an arbiter between the faculties, gradually transformed into a management department that started to develop its own strategic goals and ideas. This change was supported by a cascade of legal modifications over the last two decades.

The new micro-management system of financial resource allocation developed out of the LOM model. Like the LOM model itself, it formed a response to some of the existing system's structural shortcomings. Firstly, the performance model is extended to the intra-organisational level. Internal performance budgeting on the basis of quantified indicators offers a persuasive strategy by which small, 'digestible' alterations in faculty budgets can be used as a means of creating greater flexibility and manoeuvrability in the overall budget. Secondly, university administrations actively promote a university-wide 'profile' by privileging specific research projects over others. As the allocative algorithms of LOM are mainly focused on the distribution of resources intended for the faculties, central administrations were left with little

or no financial resources to develop university-wide strategic policies. Responding to this shortcoming, central administrations emphasized their managerial function by restructuring internal financial allocation models that now include a portion to be divided on the basis of an organisational 'strategic vision' that they themselves developed.

Faculties, in order to maintain levels of funding, are now encouraged to participate in a 'pay for promise' system in which central funds are allocated on the basis of project applications, i.e. activities with a limited time horizon that are based on anticipated research 'deliverables' or enhancements in teaching quality. The allocative algorithms of LOM are complemented by negotiations between central administration and individual researchers or faculties, in which the latter, more than ever before, are made dependent on the former's assessment. Although promises are frequently based on quantification, they are not retrospectively verified and the negotiation process reintroduces a degree of opacity and unpredictability, as strategic priorities shift over time and relevant KPIs shift as a result as well.

As LOM finance is given to universities as a lump sum to be internally allocated as seen fit, academic autonomy is therefore preserved in principle. Yet, over time a role reversal has become apparent, in which the university's central administration has changed from agent into principal. The administrative centre has gained influence both as addressee of external communication and negotiator with the state, and as arbiter and moderator of internal decisions. As such, NPM-based quantification has clearly lent the central administration growing agency at the expense of faculties' autonomy.

Central administrations have now begun to apportion (in some cases) considerable parts of faculty budgets on a competitive basis. As a consequence, and in spite of the fact that the faculties continue to be only loosely coupled, the success of one faculty (e.g. in form of additional publications or third party funding) now challenges the financial possibilities of all others. This is felt in faculty budgets and leads to changing strategic interaction with the central administration.

Besides competing to earn some of the funds back on the basis of project applications that contain quantifiable promises, faculties and their staff resolve the funding problem by amassing new savings to create a financial buffer by not using available – often even earmarked – resources. The strategy of

the 'December fever' has thus turned into a strategy of accumulating resources but without immediate pressure to spend them. This triggers issues of legitimacy (are departments allowed not to use earmarked resources?), economy (in a state financed system, when do savings become inefficient?), and morality (how much can students be deprived of chances?).

Studying such dynamics of quantification helps us better understand the internal operations of the German HE system and its modification over time, with regard to changing power relations in the constellation of HE actors, as well as the manner in which performance indicators come to form new stakes in resource allocation games. Recently, stakeholders in the HE sector have called for the reinforcement of the state's commitment to a stronger (unconditional) basic budget. For the moment however, German academics, like their colleagues in neighbouring countries, continue to experience both the managerialism and budgetary constraint that come with quantification-based resource allocation.

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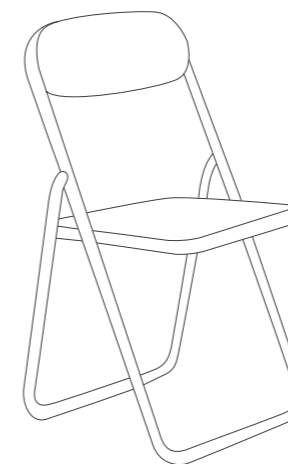
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