Balancing organisational differentiation and integration

Finnish university reform

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Abstract

Strategic Planning in Three Finnish Universities

Our paper aims to empirically consider how Finnish universities will balance simultaneous organisational differentiation and integration when interacting with the surrounding society in the context of Finnish university reform. The aim of the reform is to strengthen capabilities of the universities to co-operate with their external environments. The reform is specifically concerned with legal status, and governance and management of universities. Corporate level strategic planning is one tool to cope with changing environments. This will be studied using the framework of contingency theory. The data of the study consists of corporate level strategies of three Finnish universities and interviews to the rectors of these universities.

I Introduction

The context of this study is the ongoing Finnish university reform. The new Universities Act was approved in 2009 and all the state-run universities will have a new legal status either as legal persons in public law or foundations in private law. One major goal of the reform is to improve universities’ abilities of action when responding to the diversified demands of their external environments. In practice, university-environment cooperation takes place at the departmental level and at the level of individual academics. Contractual engagements with external parties are prepared and often even signed at the unit level. However, it is the university that has the final liability over the contracts. Given this responsibility, coordination and integration of engagements with environment are of major interest to university senior management. Universities set strategic goals for their core activities and corporate level strategic planning is one important tool to cope with the changing environment.

Organisational differentiation refers here to processes and matters related to differences within university and between universities. Internal diversity has to do with such institutional traits as disciplinary diversity, cultural diversity, value diversity (Clark 1983), departmental diversity and stakeholder diversity (Crebert 2000, p. 73). Integration means harmonising the different components of university mutually reinforcing; and in which strategic management has a crucial role to pull policies and processes together (cf. Shattock 2003, p. 25).

Our paper aims to consider through the case study method how Finnish universities balance simultaneous organisational differentiation and integration in interaction with their environments. The structure of this paper consists of the six sections: after the introduction the second section describes shortly the Finnish University reform; thirdly, definitions of strategy developed by Mintzberg (1987) are presented; fourthly, contingency theory as a theoretical perspective is introduced and fifthly, the empirical data and findings are presented. The sixth section of this paper is focused on conclusions.
II The Finnish University Reform

The new Universities Act was approved by the Finnish parliament in June 2009. The overall university reform is specifically concerned with the legal status of the universities, their governing bodies, the appointment of the rector and the employment status of university staff. The general goals are to provide better opportunities for universities to cope with their surrounding society, to diversify funding bases and to increase university competitiveness and effectiveness.

A key characteristic of being an independent legal entity is having the authority to enter into binding contracts and to seek court enforcement of contracts in an organisation’s own name separate from individual members of an organisation (Milgrom & Roberts 1992). Thus, the universities will have new opportunities to act as individual legal entities and they will have extended capabilities to engage in commercial activities.

Institution-level governance in universities will be based on a supreme board and a senate. The board will be a strategic and financial steering body and the majority of its members will come from inside the university. It is also possible that a majority consists of external members if the university itself makes such a decision. The chair will be appointed among the external members. The senate will be responsible for academic issues.

The role of strategic management will be emphasised and it can be expected to be more prominent when more external members (40% of the board) than earlier (1-2 members) participate in governance of university. The internal environment of universities with respect to their decision-making structures and composition of decision-makers will thus change. Moreover, the increasing complexity of interaction with external environment brings various interest groups into planning and decision-making. The argument, that the university will possess increasing leeway in strategic planning along with the introduction of outside members is consistent with the view that a multi-stakeholder environment strengthens organisational autonomy. (Stichweh, forthcoming 2009, p. 5.)

III Strategies and Strategic Planning

Strategic planning is one major organisational tool to cope with a changing environment (eg. Hardy et al. 1984, Mintzberg 1987, Shatock 2003). Typically, a university has a diverse selection of strategies: for the entire organisation, for its units or for certain functions or services, staff and students. These strategies are often quite unrelated to each other (Hardy et al. 1984, p. 193). Indeed, the definition of a strategy itself can be vague. Mintzberg (1987) points out the following about a strategy: “strategy requires not one but five particular
definitions related to strategy: strategy as a plan, pattern, position, perspective and ploy”.

Strategy as a plan is an intended course of action and is developed consciously and purposefully. This is a typical, but narrow view on strategy. Strategy as a pattern means consistency in behaviour. However, behaviour does not need to be purposeful or have any connections to the intended plans. Strategy as a position links an organisation to its external environment with respect to a single competitor or a number of competitors. Strategy as a perspective is a perspective shared by the members of an organisation. (Mintzberg 1987.) Shared perspective is not self-evident within universities. The stimulation of coherence in actions and decisions can be seen as one feature of the whole strategic planning of universities (Maassen & van Vught 2002, p. 238). Strategy as a ploy has to do with gained advantage. (Mintzberg 1987.)

Strategic planning is rendered complex due to multi-actor nature of the university’s external environment. Moreover, the university itself is a conglomerate of various actors and units and have more than one integrated vision or one set of values (e.g. Maassen & van Vught 2002, p. 236). This makes strategic planning tenuous. The same applies for universities themselves (cf. Maassen & van Vught 2002, p. 233.) Imposing strategic planning on universities has, however, been found to affect the culture by raising awareness of the need to think strategically in a competitive environment (Cerbert 2000, p. 83).

This paper looks at strategic planning and strategic management from the perspective of organisational diversity and integration. The university’s nature as a loosely coupled organisation supports organisational diversity and fragmentation rather than integration (e.g. Mintzberg & Rose 2003, p. 289). It is obvious, however, that a minimum amount of integration is needed to retain diverse and distinct constituents and elements together.

IV Theoretical Perspective: Contingency Theory

Contingency theory is one of organisational theoretical perspectives focusing on relationships between an organisation and its environment. According to this theory, organisational actions and choices are limited by external environment. The external environment is important to know in order to understand structures and actions of organisations. Lawrence & Lorsch (1967) found that the most successful firms are those that are differentiated enough to deal with an uncertain and changing environment (see also Shattock 2003, p. 27, Stichweh 2009).

For the purposes of this paper, the question arising from the contingency perspective is: what external pressures are taken into account in strategies in order to respond for these pressures. Another facet of the question is how or indeed whether strategic planning supports consistency inside the institution. The
third task of the universities complicates and diversifies the university-environment relationships. This causes increasing pressure on strategic planning and management, rendering it increasingly challenging.

There is no single optimal way to cope with the environmental pressures and expectations (Lawrence & Lorsch 1967). Following Donaldson (1992, p. 32-33) "organizational performance is affected by the fit or misfit between the structure and the contingency". In this study, contingency theory is used to guide to study linkages between university strategy and external environment, and between university strategy and internal environment. From this point of view the environment of the organisation and the organisation itself are objects of strategic planning (Maassen & van Vught 2002, p. 233; see also Crebert 2000). Both external and internal environment are important with respect to organizational differentiation and integration.

V The Pilot Study

The empirical data of the study is from three Finnish universities; the University of Helsinki (referred hereafter as HU), the Tampere University of Technology (TUT) and the Helsinki University of Technology (HUT). HU is the biggest multi-disciplinary university in Finland and TUT and HUT two major universities operating in technical study fields. The proportions of external funding in the universities' financial statements were 77% (TUT), 59% (HU) and 54% (HUT) in 2008 (Kota 2008). A major part of the so-called external funding in Finland is, however, granted via state institutes. The proportion of actual enterprise funding out of external funding was more than twice the amount in the technical universities (HUT 30%, TUT 24%) than in HU (11%).

The document data of this study consists of the latest corporate level strategies of the above mentioned universities. The three universities are in different stages of strategic planning. The strategic plan for TUT, "Tampere University of Technology – Scientific University of Technology", was drafted in 2003. The HUT "Strategy 2015" was published in 2006. The strategic plan for the University of Helsinki results from a recent strategy process and was published in 2009. Semi-structured interviews to the rectors of the universities were conducted by the authors in spring 2009. The topics were: actual state of the strategy process in the institution; purpose of strategies and utilisation of strategic management in the university; challenges posed by the external environment; the contracting challenges.

Results: the Strategies

In the strategies reviewed, focus in external environment was on
Economic environment: demands for financial efficiency (TUT, HUT, HU), availability of knowledge and goods (TUT), restructuration of business life (HUT), funding policies of TEKES and Finnish Academy (HUT), funding within European Research Area (HU), economic recession (HU), demography (HU)

Geographical environment: internationalisation (HUT, TUT), climate change and other environmental problems (HU)

Political environment: structural development of Finnish higher education system (HU, HUT), other national higher education policies (HU, HUT), EU policies (HU)

International reputation (HUT, HU, TUT)

Competition, globalisation (HU, HUT), multi-partner collaboration (HUT, TUT)

Regarding internal environment following elements were present:

Institutional governance and management: staffing policy (HUT, TUT), institutional administration (HUT), new university legal status (HU)

Institutional profile and identity: small institution (TUT), technical university (TUT, HUT), concentration of basic research in few units within the institution (TUT), dominating applied research (TUT), scientific culture (TUT), profiling as a research university (HU, HUT), a modern campus area (HUT)

Resources and infrastructure: a large share of external funding (TUT), teaching hardware (TUT, HUT), a small number of permanent staff (TUT), high research staff turnover rate (TUT), poor teacher-student ratio (HU, HUT), dispersed locations of the campus (HU)

Teaching: moving from teaching to learning (TUT), teaching and research technology (HUT)

University autonomy and freedom of research and teaching (HU)

The major strategic aim at TUT is to produce societal benefit. At HU, the quest for truth and knowledge is a value per se. The vision of HUT is reaching the position of an internationally highly ranked and attractive university which is known for its top results in research and teaching, renewal and societal effectiveness.
Results: the Interviews

After describing the actual state of the strategy process in the university, the informants were asked to name two to three most important purposes of strategy. The following came out:

- to set a clear direction and goals, to define ways to attain them (HUT, TUT) and to set a common development direction (HU)
- to act as a communication interface to internal and external actors (HU, TUT)
- to enable community involvement (HUT)
- to create consistency and inspiration throughout the organisation (HU)
- to respond to initiatives of the Ministry of Education (HU)
- to promote the idea of top university (HU)
- to create a long-term shared policy direction in merger situation (HUT)

The informants emphasised setting a clear direction as one major strategic purpose. In this sense, strategy was understood as a plan. Creating internal consistency was related to understanding the strategy as a pattern (HU); a top-university vision related to the strategy as a position (HU). In a merger situation (HUT) strategy was also seen as a perspective when facing shared policy expectations. (cf. Mintzberg 1987.)

Previous strategies were generally criticised as rhetorical, multi-purposive and poorly fitted for implementation, “They were merely lists of all good things.” (HU). Expectations towards the latest strategies were high. The new Universities Act was seen as an opportunity to develop university management towards strategic management. This was the case particularly in TUT and HUT. “Universities traditionally do not have the kind of management as understood elsewhere. The new law gives the possibility of real management; up to now university management has been mainly about persuading people” (TUT).

As to the strategy process in general, the TUT rector emphasised the importance of the process. It seemed that the strategic planning paradigm is moving towards strategy as a learning tool (see Crebert 1998, p. 4-5; see also Crebert &Daniel 1998). The ongoing strategy process was fuelled by an overall structural reform of the university organisation. The strategic planning model has changed from a top-down to a bottom-up one. The strategy working group had an external head which furthered open discussion; the role of the rectorate was more that of a steering group.

HUT will, by 2010, merge with two other universities in Helsinki metropolitan area. Therefore HUT did not at the moment update its own strategy. Along with the merger there begins a strategy process together with the other two universities. The aim is to establish a realistic strategy with an action plan on how to implement the strategy.
In HU the purpose of the strategy was more extensive than in two technical universities. The focus was on setting development direction and enforcing community integration. The current strategy in HU was the fourth strategy. According to the rector, the strategy process has progressed during the years, though the development has not been to any one direction. In the beginning, the strategy process was very top-down, then for some time there was more search for a bottom-up model. The latest strategy process was again very much characterized by senior management involvement.

**External Environment**

All three informants viewed the external environment more in terms of opportunities and strengths than weaknesses or threats. The major external conditions affecting the universities were:

- new university legislation (HU, HUT, TUT)
- global competition (HU, HUT, TUT)
- internationalisation (HU, HUT, TUT)
- building up reputation (HU)
- structures and needs of Finnish business life (HUT, TUT)
- national demographic conditions (HU, TUT)

Where the rectors of technical universities saw their national mission as “service” and creating “competitive advantage”, the rector of HU also spoke of the university’s “societal responsibility”. The rector of HUT emphasised thinking Europe-wide and globally: “this is something very central to be understood about change in the environment - finding the right methods is another matter altogether”.

The technical field has traditionally close contacts with the surrounding society, especially business life. HUT has through its 200-year history operated with external changes closely, which, according to the rector, makes it different from traditional universities. A strategic goal was for HUT to serve the Finnish society in general and business life in particular. Competition today is international: “skills can be bought anywhere so being Finnish isn’t of particular advantage if you don’t have anything to offer.” (HUT, rector)

One facet of international competition is the competition for best researchers, teachers and students. “From the finance point of view, you get the image that we’re competing for money, but actually it’s brains we’re competing for” (HU). From university staff point of view, important competitive factors are facilities and existing personnel. As for students, it is the educational supply that counts. “They will go elsewhere, if their demands are not met: students and their parents today have the resources” (HUT).
Contracting with External Partners

For TUT and HUT the continuity of operations and the whole existence of the university were based on engagements with enterprises.

“Contracting is an absolute condition for our operations today. Earlier, it was otherwise. In 1970’s, for example, the contracting was hardly desirable.” (HUT)

“We have long traditions in contracting. This was the case when the contracting was regarded even a wrong activity... Nowadays, the contracting is the basis of our existence.” (TUT)

The interviewees characterised contracting with external partners as an organised and lawyer-driven activity. This is because all possible risks for the university are aimed to be identified and minimised.

The major challenges of contracting are that

- enterprises like to test how much risk they can transfer to the university (TUT)
- preparing the contracts is a long and complex process (HUT, TUT)
- a number of small and short-term contracts (HUT)
- the actual research is started before the signing of the contract (TUT)

Changes in the contracting environment have led to a situation where enterprises try to achieve limitless claim for damages to universities. The multi-phase, detail-intensive contracting rounds started with EU-funded projects and the Finnish funding bodies follow them accordingly. Research projects had not been interrupted due to complications in contracting, though this has been discussed in some single cases, “so the situation is not all that beneficial for academic work” (TUT).

The rector of HU regarded challenges in the contracting as something “that might be somewhat over-emphasised today”. According to him the importance of contracting will increase also for a multi-scientific university in the future. The challenges in contracting were alike with technical universities but risks varied a great deal between disciplines. Researchers as experts of their field are in the centre of the contracting activity, which raises into attention the question if the university can actually have a research policy of its own. The role of senior management is about providing possibilities by “opening doors” (HU).

Internal Environment

The major challenge in strategic planning was to bring the strategy to grassroot level. The organisational levels constituted a basic challenge to strategy implementation.
Internal contingencies found in the interview data:

**Leadership:** diverse perspectives in different disciplines (HU), personnel policy (HU), working in teams and alone (HU), internal communication (TUT)

**New internal governance structure:** implementation of new Universities Act (HU, TUT), organisational structure (HUT, TUT), new status of rector (TUT), background in operating as state agencies (HUT, TUT), foundation run organisation (HUT, TUT)

**Teaching and research:** integration of teaching and research (HU), management of education (HU), working in teams and alone (HU), student-teacher ratio (HUT)

**Resources and infrastructure:** multi campus university (HU), increasing student numbers (HUT), overloaded staff (HUT)

**Reputation:** new Aalto university (HUT)

The major challenges in strategic management were that

- communication tend to stop at department head-level (HU)
- departments are in different stages of development and require different strategic incentives (TUT)
- university as an organisation tends to cling to traditional models of doing things (HUT)

The rectors of the technical universities saw new strategic opportunities in the foundation run university organisation and in new composition of university governing bodies enabled by the new Universities Act. Specifically, the increasing number of external members raised expectations: “Externality enhances strategic activities. In the traditional university governance model, the internal board members actively guard the interests of certain groups, and if they do not succeed, they make sure that other groups do not succeed either. Therefore, the rector has to persuade folks and in the worse trade between different groups.” (HUT)

At the time of the interviews, the new legal framework of universities was not finished. The rector of HUT saw the prospect of losing the possibility of having majority of members external in university governing board worrying. According to him external members would be able to make strategic policy definitions without being affected by internal tensions of university.
The merger to create the new Aalto University was one major challenge in HUT. According to the rector, “It is not quite realistic to have the new university being world-class in 2020, but by then we may assume that the trust-based university has a working organisation. The specific challenges for Aalto-strategy are the creation of common definitions of policy, development of new ways to cooperate, the strengthening of student centrality, a clearer adoption of global points of view in climate-, environment- and energy-questions and bringing the strategy onto a concrete level especially in such matters as the student/teacher-ratio.”

All three rectors emphasised the personnel policy as a primary issue in strategic management. The specific challenge - and opportunity for - personnel policy was the aging and retirement of the boomer generations. This challenge was expressed by various ways by the rectors: “Personnel retirement brings new possibilities to personnel policy bearing in mind that we get right people to do right things” (HU). “For change to happen, in some cases at least, a generation change is necessary” (TUT), “In a traditional university, we have not yet learned to think that we should do something that we did not do before” (HUT).

An important strategic aim was to increase the student/teacher ratio but both monetary and human resources were seen to be scarce. In HUT, work health controls showed that 1/3 of the professors had a work at the limit of health-risk. One problem was the position of post-doctoral researchers, who often have short-time, unstable working arrangements (HUT).

**VI Conclusions**

The major goal of this pilot study was to consider how strategies and strategic planning enhance organisational differentiation and integration in the context of university-environment interaction. The pilot study concerning three Finnish universities showed that universities aimed to find fits between their external and internal environments as stated in contingency theory (cf. Lawrence & Lorsch 1967). However, universities’ relationships to their environments are complex. Any single factor cannot be extracted from the environment to study its exact effect on university strategic planning.

External environment was the source of adaptation particularly for two technical universities. The big multi-disciplinary university expected that also the environment hears the university. In this sense, the university viewed the communication as a two-way rather than one-way process. Regarding economic environment the two technical universities seemed to be more dependent on their external funding sources and partners than the multi-disciplinary university. This implied that contracting and engagements with external environment were basic requirements for the whole existence of the two technical universities.
Competition, structural changes and new university legislation were the prominent groups of factors observed in external environment. Competition is played out on local, national and international fields. Structural changes are related mergers and enhancing cooperation between the institutions. With respect to internal environment the new university legislation means changes in structures and in ways of university governance and management. The new legislation was seen particularly as an opportunity to develop current management and especially abandon the persuasion and bargaining. Instead of bargaining organisational integration was aimed to by reforming university level governance and management.

All this raises the question whether in the future the university management will pursue the interests of the academic society or the society in general? The concept of society itself is more than one-dimensional. For the technical universities the interests were mostly on Finnish society, but the multi-disciplinary university emphasised also responsibility to the overall global society. A specific question related to the theoretical framework is: what is the primary external environment of the university?

Strategic planning does not have long traditions in the case study institutions. In all three universities the tendency was to move to more detailed strategies. Operationalisation of strategic goals was demanded by the Ministry of Education. Accordingly, it seemed that the informants deemed that the major purpose of the strategy is a plan that sets a clear direction and goal, and further shows how to get there (cf. Mintzberg 1987.)

Other message from the interviews was that all three rectors emphasised institution-wide participation in strategic planning and that the strategy process was regarded more important than the strategy document (product) itself. Strategic planning can also be seen as a learning tool that strives to create a sense of common goal and direction institution-wide (see Crebert & Daniel 1983 p. 3). In the case study institutions a process learning paradigm was also present. Thus, one issue for a follow-up study might be to analyse the strategy process and its shift in time.

References


Empirical Data

Helsinki University, Helsinki University Strategy
Interview with Rector of HU, 1 June 2009

Interview with Rector HUT, 28 May 2009

Tampere University of Technology, Tampere University of Technology & Scientific University of Technology, 2003.
Interview with Rector TUT, 27 May 2009
Annex 1

Current strategies in the case universities

HU

Strategy and policy programs 2010-2012

- Helsinki University strategy
- Staff Policy Program
- Research Policy Program
- Teaching and Study Policy Program
- Societal Interaction Policy Program
- Management and Management Support Policy Program

Strategy and Policy Programs till the end of 2009

- Helsinki University Strategy 2007-2009
- Strategic Planning in Helsinki University
- Staff Policy Program
- Research Policy Program
- Teaching and Study Policy Program
- Management and Management Support Policy Program

Other Plans

- Plan for Lifelong Learning
- Principles for Development of Societal Interaction
- Language Principles
- Innovation Programme
- Equality Plan
- Plan for Structural Development

HUT

- Strategy 2015

Sector Strategies

- Strategy for Lifelong Learning 2007
- European Policy Statement 2007
- Staff Strategy 2006-2010
- Strategy for Swedish Language Matters 2003
- Data Administration Strategy 2003-2006
- Information- and Communication Technology Appliance at Technical University 2004
- Facility Strategy 2006
- Research Activity Strategy 2003
- Public Relations Strategy 2006-2010

Other Strategies

- Päijät-Häme Area Development Strategy for Universities and Universities of Applied Sciences 2010

TUT

- Tampere University of Technology, Tampere University of Technology ? Scientific University of Technology, 2003