Analysis on Financial Support Policy of Private Schools in China: Based on the Principal-agent Perspective

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Abstract. The privatization of higher education in China is one of the main developing directions of higher education in the world. However, due to the lack of financial support policies and related laws and regulations, the private higher education has largely been restricted. The support of the government’s fiscal policy to the private schools is a trend of the development of education in China. This article discusses the incentive mechanism from the perspective of the principal agent, through the construction of the incentive mechanism, combined with the national conditions, puts forward the policy and suggestion.

1. The Formation of the Principal-agent Relationship in the Private School

Financial policy research in private schools, there is a principal-agent relationship between the government and private schools. The financial sponsor government is the principal, and the financial applicant private school is the agent. Private schools and governments have different goals. The government, as a financially funded financier, wants private schools to cultivate excellent undergraduates for the society. The government will allocate the financial funds accurately in the school library construction, the construction of teaching staff, research and teaching construction and other direction. But in reality, private schools in addition to providing higher education, as well as the pursuit of profit. Therefore, in many aspects of the expenditure of financial funds may be far from the will of the government, making the government is not satisfied with the quality of teaching and other areas in private schools.

2. The Problem of Government Financial Aid from the Perspective of Principal-agent Theory

The government is hoping that schools can reasonably use financial, improve use efficiency. But it is unrealistic and not economical to supervise the use of private schools directly. On the other hand, the number of funds is not all of the private school care, as well as the reputation of the school, the quality of research and teaching, the welfare of workers, private schools, earnings, etc. For the welfare of the employees and the profit of the private school, the private school has a tendency to violate the interests of the financial aid. However, if private schools can not strictly use the financial resources, financial sponsors may no longer be considered to give financial assistance to the school in the future, so that the long-term interests of the school will be damaged, which is every private school do not want to do.

In addition, the private colleges and universities for improving the competitiveness of schools, colleges and universities generally attach importance to the application of financial funds. Once the financial funds are approved, the private colleges and universities lack of detailed rules and regulations in the actual operation. Financial officers only audit the legitimacy of the bill, reimbursement only need formal invoices and signature of the person in charge, many detailed list of uncontrollable, resulting in the use of financial expenses without accountability. Poor sharing of financial resources, duplication of purchase, resulting in waste of resources, utilization is low, some equipment, improper maintenance and management, so that shortened life expectancy of fixed assets, resulting in another waste.
Another issue of government finances is expressed in moral hazard. Once the financial funds are approved, the contractual relationship will be formed in the financial applicant private school and financial sponsor government, in which the financial sponsor is the principal, the financial applicant is the agent. How to solve the problem of the applicant’s incentive or moral hazard is a problem that the financial aid government faces. In the process of financial management, there are many reasons for moral hazard, which is very difficult to eliminate moral hazard. However, morality is everyone’s inner constraints, without supervision, the cost is very low, and morality is at work all the time, the efficiency is very high. Therefore, the morality of human constraints is more important than the system constraints. In order to improve the credibility of university financial management, we must begin with the reduction of moral hazard. Otherwise, no matter how perfect the design, how accurate the audit criteria, programs, procedures, will not produce the necessary role due to moral hazard.

3. An Effective Solution to Government Financial Aid Issue From the Perspective of Principal-agent Theory

3.1 Establish an effective incentive mechanism

According to the theory of principal-agent theory, the incentive means that the client uses a certain value standard or some social welfare index, to make an agent to maximize its own interests by selecting or not to choose the criteria or objectives of the client, and finally, voluntarily or have no choice to act in accordance with the criteria or objectives of the client. Moral hazard in the principal agent relationship, the motivation of the goal is how to make the agent “consciously” to do their best to work, so that the agent does not have to take moral hazard behavior.

Specific to the incentive of financial funds, the client should make efforts to run the school of private schools is greater than the effectiveness of the utility. For example, establish a national professional association of the identification of institutions. These institutions are responsible for the development of curriculum standards in colleges and universities, to determine the curriculum evaluation procedures and methods, institutions which achieve the standard are publicity. This identification results, the government has become an important basis for the allocation of funds at all levels of the next. Results of this assessment have become an important basis for the government to allocate funds. In order to strive for the next financial funding schools will strive to reach the standard of running a school.

For principals, the principal (private school board) can take both short-term and long-term material incentives. On the basis of the principal’s basic salary, the board of directors awards the agent through bonuses, subsidies and benefits. Because these rewards are variable, there is great flexibility in the space. At the same time reward the visibility cycle is short, so that agents (principals) directly benefit. Long term material incentives can make the principals have a sense of belonging. Non material incentives, including post stimulus and spiritual motivation. The board of directors will provide a variety of preferential treatment according to the work performance of the agent, including social status, the exercise of power, comfortable office environment, travel abroad, etc. At the same time, the board of directors can conduct regular assessment of the agents to determine their qualifications, to produce a sense of pride as a principal or to give greater power. In this way, the president will take the school interests as their own responsibility, based on the development of the school, minimize opportunistic behavior.

3.2 Establish a sound constraint mechanism

Constraint is a reverse incentive, refers to the external pressure by internal and external supervision organization and market competition, the agent of the formation of self-discipline is very strong, in order to satisfy their own utility maximization problem. At the same time, reduce the lazy and immoral behavior, and strive to achieve the maximization of the interests of the client. To enable agents to form a strong self constraint, so as to meet their own utility maximization, while reducing the problem of lazy and immoral behavior, and strive to achieve the maximization of the
interests of the client. To enable agents to form a strong self constraint, so as to meet their own utility maximization, while reducing the problem of lazy and immoral behavior, and strive to maximize the interests of the principal.

Therefore, the agent can be constrained from the following aspects:

First, strengthen the audit supervision. At present, the private schools have developed their own funds management system, and the internal audit department of the university supervises the use of funds. But the reality is that the number of auditors is obviously insufficient, the level is not enough, the knowledge structure is also relatively simple, professional knowledge is not wide enough, can not really achieve fair and reasonable supervision. Because the independence of the internal audit department is not high, the supervision and management object is often the staff of the school, supervision is not enough, thus we must improve the independence of the internal audit department. In addition, the supervisory authority of the state organs is high, so it is necessary to strengthen the supervision of the state audit institutions on university funding.

Second, improve the financial support policy, the relevant management laws and regulations and performance evaluation system. Policies and regulations on the financial support of the government are not perfect, the use of funds and the regulatory responsibility of the system in many aspects of the law are not clearly defined. The absence of legislation will directly lead to confusion in the management of financial funds, prone to scientific corruption. With the increase of national financial funds, improve the management system of funds, establish accountability mechanisms, strengthen the management and supervision of funds is imminent. In addition, in order to effectively observe the behavior of the relevant personnel, we have to run a scientific and rational performance evaluation. At the same time, fully mobilize the initiative and creativity of stakeholders, to maximize the efficiency of the use of assets.

Third, the government began to intervene in the internal governance of private schools. The supervision commissioner or party secretary of the private school has become an important force in the internal governance of the organization. This appointment mode, which is different from the appointment of the president of the private school, vice president, is also different from the appointment of principals, vice president of Public Universities. It is a common practice for the government to participate in the internal governance of the private schools in this mode.

Fourth, establish the internal supervision mechanism. For principals, private schools can establish internal oversight mechanisms to regulate the board of directors, the supervisory department and the principal’s power balance mechanism. Private schools in our country adopt the internal supervision through the establishment of the supervision department. Through a special department to supervise all the school affairs, including the supervision and examination of the principal’s personnel management and property operations, the formation of a strong school of supervision and checks and balances. This forms a strong supervision and balance of school agents. At the same time, to provide information for the school board, to strengthen the management of the board of directors. Reduce the “moral hazard” and “adverse selection” problem of the principal. It is not enough to establish the supervisory department to supervise and manage the president, but also need to improve the democratic management system. Private schools mobilize the whole school teachers and students to participate in school management through creating a democratic management atmosphere, in addition, to increase the transparency of the management of the principal, to prevent the principal’s opportunism behavior. Specifically: in personnel management, increase the participation of teachers, the rational introduction of talent. In the financial management, establish a strict financial budget system to improve public financial operations. Strengthen the supervision and management of school staff financial.

References
