

Beiträge zur
HOCHSCHULFORSCHUNG

2 | 2011

Thema: Hochschulfinanzierung in Europa

Towards financially sustainable universities

by diversifying income sources

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Impressum

Beiträge zur Hochschulforschung

erscheinen viermal im Jahr

ISSN 0171-645X

Herausgeber: Bayerisches Staatsinstitut für Hochschulforschung
und Hochschulplanung, Prinzregentenstraße 24, 80538 München

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Die abgedruckten Beiträge geben die Meinung der Verfasser wieder.

Graphische Gestaltung: Haak & Nakat, München

Satz: Dr. Ulrich Scharmer, München

Druck: Steinmeier, Deinungen

Ausrichtung, Themenspektrum und Zielgruppen

Die „Beiträge zur Hochschulforschung“ sind eine der führenden wissenschaftlichen Zeitschriften im Bereich der Hochschulforschung im deutschen Sprachraum. Sie zeichnen sich durch hohe Qualitätsstandards, ein breites Themenspektrum und eine große Reichweite aus. Kennzeichnend sind zudem die Verbindung von Wissenschaftlichkeit und Relevanz für die Praxis sowie die Vielfalt der Disziplinen und Zugänge. Dabei können die „Beiträge“ auf eine lange Tradition zurückblicken. Die Zeitschrift erscheint seit ihrer Gründung 1979 viermal im Jahr und publiziert Artikel zu Veränderungen in Universitäten, Fachhochschulen und anderen Einrichtungen des tertiären Bildungsbereichs sowie Entwicklungen in Hochschul- und Wissenschaftspolitik in nationaler und internationaler Perspektive.

Wichtige Themenbereiche sind:

- Strukturen der Hochschulen,
- Steuerung und Optimierung von Hochschulprozessen,
- Hochschulfinanzierung,
- Qualitätssicherung und Leistungsmessung,
- Studium und Studierende, Umsetzung des Bologna-Prozesses,
- Übergänge zwischen Schule, Hochschule und Arbeitsmarkt,
- Forschung und wissenschaftlicher Nachwuchs, akademische Karrieren,
- Frauen in Hochschulen und Wissenschaft,
- Wissenschaft und Wirtschaft,
- International vergleichende Hochschulforschung.

Die Zeitschrift veröffentlicht quantitative und qualitative empirische Analysen, Vergleichsstudien und Überblicksartikel, die ein anonymes Peer Review-Verfahren durchlaufen haben. Sie bietet die Möglichkeit zum Austausch von Forschungsergebnissen und stellt ein Forum für Hochschulforscher und Experten aus der Praxis dar. Zwei Ausgaben pro Jahr sind in der Regel einem aktuellen hochschulpolitischen Thema gewidmet, die beiden anderen sind inhaltlich nicht festgelegt. Es besteht die Möglichkeit, Aufsätze in deutscher und englischer Sprache einzureichen. Hinweise für Autoren befinden sich auf der letzten Seite.

Die „Beiträge“ richten sich an Wissenschaftler, die sich mit Fragen des Hochschulwesens und seiner Entwicklung befassen, aber auch an politische Entscheidungsträger, Hochschulleitungen, Mitarbeiter in Hochschulverwaltungen, Ministerien sowie Wissenschafts- und Hochschulorganisationen.

Orientation, themes and target audience

The journal "Beiträge zur Hochschulforschung" is one of the leading academic journals in the area of higher education research in German-speaking countries. It is characterised by high quality standards, a broad spectrum of topics, and a wide reach. It links scholarly standards with relevance to practice and welcomes a wide range of disciplinary and methodological approaches.

The "Beiträge" can look back at a long tradition. Since its establishment in 1979, the journal has been published quarterly. It deals with changes in universities, universities of applied sciences (Fachhochschulen) and other institutions in tertiary education, as well as developments in national and international higher education and science policy.

The main fields are:

- patterns and organisational structures of higher education systems and institutions,
- governance and improvement of higher education processes,
- funding of higher education,
- quality assurance and measurement of performance,
- academic studies and students,
- transitions between the school system, higher education, and the labour market,
- research and academic careers, including early stages (PhD and post-doc),
- female careers in academia and elsewhere,
- interactions between the research system and the economic system,
- international comparative higher education research.

The journal publishes qualitative and quantitative empirical analyses, comparative studies and review articles which have passed a double blind peer review. It allows the communication of research results and provides a forum for higher education researchers and experts from the practical sphere. Two issues per year are usually dedicated to a current topic in higher education policy; the other two are open for diverse subjects. Contributions can be submitted in German or English.

The journal addresses researchers working on higher education, as well as policy makers, higher education managers and administrators of higher education institutions, ministerial staff, and representative bodies in the field of higher education and science. An editorial advisory board supervises the journal.

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Editorial

Obwohl Hochschulen als Zentren für Lehre und Forschung wesentliche Faktoren für die Entstehung neuen Wissens und für wirtschaftliches Wachstum sind, konnte die staatliche Grundfinanzierung des Hochschulbereichs in vielen europäischen Staaten mit den gestiegenen Ansprüchen und Kosten nicht Schritt halten. Daher sind Hochschulen zunehmend vor die Aufgabe gestellt, sich zusätzliche Einnahmequellen zu erschließen, um ihre Finanzierungsbasis zu erweitern und unabhängiger von schwankenden staatlichen Mittelzuweisungen zu werden. Dies war der Ausgangspunkt eines Projekts der European University Association (EUA) namens „European Universities Diversifying Income Streams“ (EUDIS), dessen Ergebnisse in dieser Ausgabe der „Beiträge zur Hochschulforschung“ dokumentiert werden.

Der vorliegende Band enthält mehrere der zu Artikeln ausgearbeiteten Vorträge der Abschlusskonferenz in Bologna vom 13. bis 14. September 2010. Nach einer Einführung über die Hintergründe und den hochschulpolitischen Ansatz des Projekts von Jean-Marc Rapp, Präsident der EUA, geben die Projektverantwortlichen Thomas Estermann und Enora Bennetot Pruvot einen Überblick über die wichtigsten Projektergebnisse zum gegenwärtigen Stand der Hochschulfinanzierung in Europa und die zukünftigen Herausforderungen. Die nachfolgenden Artikel enthalten unter anderem Good-Practice-Beispiele aus europäischen Hochschulen.

Nigel Thrift, University of Warwick, UK, skizziert die langjährige Zusammenarbeit der Universität mit großen Firmen und die unterschiedlichen Aktivitäten im Bereich des Technologietransfers, die erfolgreichen Unternehmensausgründungen, von deren Einnahmen die Universität profitiert, sowie die dort praktizierten Public-Private-Partnership- und Fundraising-Modelle. Mark Lammerts, Universität Delft, Niederlande, beschreibt die große Bandbreite und den Nutzen von Auftragsforschung an der Universität. Weitere Artikel befassen sich mit den Möglichkeiten sowie Erfolgen systematischen Fundraisings, reflektieren die Aufgabe von Hochschulmanagern, in ihren Institutionen ein unternehmerisches Denken zu fördern und befassen sich mit den staatlichen Rahmenbedingungen für finanzielle Autonomie sowie Hochschulautonomie im Allgemeinen.

Für das Bayerische Staatsinstitut für Hochschulforschung und für mich persönlich war dieses Projekt äußerst interessant. Insbesondere durch die anregende Zusammenarbeit im Lenkungsausschuss ließen sich interessante Einsichten gewinnen, wertvolle Vergleiche herstellen und neue Kontakte zu anderen europäischen Hochschulen knüpfen. Ein besonderer Dank gilt dabei dessen Vorsitzendem, Herrn Ian Creagh vom King's College in London, sowie Frau Enora Bennetot Pruvot und Herrn Thomas Estermann, welche eine große Last an Arbeit übernahmen.

Hans-Ulrich Küpper

Editorial

The present issue of *Beiträge zur Hochschulforschung* is one of the results of the collaboration between the Bavarian State Institute for Higher Education Research and Planning (IHF) and the European University Association (EUA) within the framework of the EUDIS project (*European Universities Diversifying Income Streams*). One of the project milestones of this project, which EUA and the IHF have undertaken with their partners between 2008 and 2011 on the diversification of university income, was the EUDIS Bologna conference, held on 13-14 September 2010. The following articles are based on contributions made during that conference and selected by the project team. As such, these case studies reflect not only a variety of issues that are connected to income diversification in higher education, but also the different angles and opinions that coexist today in Europe on this topic. EUA and the conference experts have worked together further on their presentations and case studies to adapt them for this publication.

EUA has now long developed work on the issue of financial sustainability of universities. The EUDIS project is one of the latest outcomes of this work. As an introduction, EUA President Jean-Marc Rapp provides the reader with the broader context and the rationale behind this study. The methodology and findings of the project itself are detailed in the following paper. The next contribution by Nigel Thrift, Vice-Chancellor of the University of Warwick, describes the case of one of the leading universities in Europe in terms of income diversification.

Articles then deal with different forms of income diversification for universities, such as fundraising and contractual work with the industry. This is followed by a reflection on the role of university leaders in fostering cultural change in their institutions and involving staff to ensure the success of the strategy.

The topic of income diversification also needs to include the funders' perspective; one of the paper summarises the efforts of the Dutch authorities to improve the framework conditions for higher education institutions to support universities in their efforts to diversify their income sources.

Finally, this volume ends with a reflection on the state of play of university autonomy in Europe, which is identified as a key condition for successful income diversification and long-term financial sustainability of higher education institutions.

We would like to warmly thank the IHF, its Director, Professor Hans-Ulrich Küpper and Dr. Lydia Hartwig for the excellent collaboration in both the project and the preparation of this publication.

*Thomas Estermann & Enora Bennetot Pruvot
European University Association*

The European University Association (EUA) represents and supports higher education institutions in 47 countries. As a centre of expertise in higher education and research, EUA supports universities by:

- Promoting policies to enable universities and other higher education institutions to respond to growing expectations regarding their contribution to the future development of a knowledge society for Europe;
- Advocating these policies to decision makers at different levels and ensuring that the voice of universities is heard;
- Informing members of policy debates which will impact on their development;
- Developing its knowledge and expertise through projects that involve and benefit individual institutions while also underpinning policy development;
- Strengthening the governance, leadership and management of institutions through a range of activities targeted at mutual learning, exchange of experience and the transfer of best practices;
- Developing partnerships in higher education and research between Europe and the rest of the world in order to strengthen the position of European universities in a global context.

Deutsche Abstracts

Jean-Marc Rapp: Eine Einführung in die Arbeiten der European University Association (EUA) zum Thema nachhaltige Hochschulfinanzierung

In diesem Artikel gibt der Präsident der European University Association (EUA), Jean-Marc Rapp, einen Überblick über die Arbeiten der EUA zum Thema nachhaltige Hochschulfinanzierung vor dem Hintergrund einiger wichtiger Entwicklungen in den letzten Jahren: die zunehmende Nachfrage nach Hochschulausbildung in Europa, steigende Studierendenzahlen und höhere Kosten, aber auch die Auswirkungen der Wirtschaftskrise und die eingeschränkte Finanzlage vieler europäischer Staaten. Ein Schwerpunkt liegt auf dem Zusammenhang zwischen der Forderung nach Modernisierung der Strukturen der Hochschulen und einer größeren Eigenverantwortung sowie der Notwendigkeit, durch die Erschließung zusätzlicher Finanzierungsquellen mehr Unabhängigkeit zu gewinnen.

Thomas Estermann, Enora Bennetot Pruvot: Europäische Universitäten erschließen sich neue Einnahmequellen: Ein Überblick über die Studie der EUA

Dieser Aufsatz enthält einen Überblick über das Projekt „European Universities Diversifying Income Sources“, welches die EUA in den Jahren 2008 bis 2011 gemeinsam mit einer Gruppe von Experten aus mehreren europäischen Ländern durchführte. Die Projektverantwortlichen Thomas Estermann und Enora Pruvot geben einen Überblick über den gegenwärtigen Stand der Hochschulfinanzierung in Europa, analysieren die unterschiedlichen Faktoren, die Universitäten an der Erschließung zusätzlicher Einnahmequellen hindern, und skizzieren mögliche positive Anreize. Eine wichtige Voraussetzung auf Seiten der Hochschulen ist, so die Schlussfolgerung der Autoren, dass diese pro-aktiv die jeweils für sie geeigneten Strategien entwickeln.

Nigel Thrift: Diversifizierung der Einnahmen an der Universität Warwick

Die Universität Warwick gilt aufgrund ihrer vielen unternehmerischen Aktivitäten als eine der dynamischsten Hochschulen in Großbritannien. In diesem Artikel beschreibt der Präsident der Universität, Nigel Thrift, die langjährige Zusammenarbeit der Universität mit großen Firmen, die verschiedenen Aktivitäten im Bereich des Technologietransfers und die erfolgreichen Unternehmensausgründungen, durch welche die Universität zusätzliche Einnahmen erzielt, sowie die in Warwick praktizierten Public-Private-Partnership- und Fundraising-Modelle.

Mark Lammerts: Herausforderungen von Kooperationen zwischen Universitäten und Unternehmen

An der Technischen Universität Delft in den Niederlanden bestehen seit Jahren strategische Partnerschaften mit großen Unternehmen. Dieser Artikel stellt die verschiedenen Formen der Kooperation dieser Hochschule mit der Wirtschaft dar: die strategischen

Partnerschaften und die unterschiedlichen Arten der Auftragsforschung, die Zusammenarbeit mit Firmen in Konsortien, die Bereitstellung der Forschungsinfrastruktur für die kommerzielle Nutzung sowie das dazu passende umfangreiche Angebot von Serviceleistungen, durch das die Universität zusätzliche Mittel akquiriert.

Joanna Motion, Adrian Beney: Die Bedeutung des Fundraising als zusätzliche Einnahmequelle im Hochschulbereich Großbritanniens

Auf der Basis eines kurzen historischen Überblicks über die Bedeutung von Fundraising in Großbritannien und den USA befasst sich der Artikel mit den Möglichkeiten, Hochschulen durch systematisches Fundraising und Werbung um potentielle Stifter zusätzliche Einnahmen zu erschließen. Hierzu werden erfolgreiche Beispiele angeführt und wichtige Voraussetzungen benannt, an erster Stelle die Notwendigkeit, Fundraising als wesentlichen Teil der strategischen Entwicklung der Hochschule zu verstehen und entsprechende personelle Ressourcen hierfür vorzusehen.

Sheila Gupta: Professionalisierung von Führung und Management

Damit eine Universität ihre Einkommensbasis ausweiten und sich neue Finanzierungsquellen erschließen kann, bedarf es geeigneter Leitungsstrukturen sowie motivierter Mitarbeiter und Mitarbeiterinnen. Der Artikel widmet sich diesem Thema und reflektiert die Aufgabe von Hochschulmanagern, innerhalb ihrer Institutionen und unter den Mitarbeitern ein unternehmerisches Denken zu fördern.

Michael Jansen: Hochschulfinanzierung – einige Erfahrungen aus den Niederlanden

Der Aufsatz beschreibt in wesentlichen Grundzügen die staatliche Hochschulfinanzierung in den Niederlanden und die Bemühungen der niederländischen Regierung, die Rahmenbedingungen für das Einwerben zusätzlicher Mittel zu vereinfachen.

Thomas Estermann, Monika Steinel: Hochschulautonomie in Europa

Obwohl in vielen europäischen Staaten und Hochschulen das Bewusstsein gewachsen ist, dass Autonomie eine wichtige Voraussetzung für moderne und erfolgreich handelnde Hochschulen ist, nimmt die staatliche Hochschulsteuerung vielfach noch eine bedeutende Rolle ein und beschränkt die Handlungsfreiräume von Hochschulen durch indirekte Steuerungsmechanismen, beispielsweise im finanziellen Bereich. Der Artikel beschreibt die unterschiedlichen Dimensionen von Autonomie hinsichtlich Organisation, Finanzierung, Personal und Wissenschaft und formuliert abschließend Empfehlungen zur Verbesserung der Rahmenbedingungen.

Abstracts in English

Jean-Marc Rapp: An introduction to the European University Association's work on financial sustainability

In this paper, Professor Jean-Marc Rapp, President of the European University Association, reviews the Association's work on the topic of financial sustainability in the light of the developments that have had an impact of universities in Europe in the recent years. That includes general trends such as massification and rising costs for higher education; but also the economic crisis that continues to affect the sector today. The paper also explains the connections between the EUDIS study on income diversification and the European policies in the field of modernisation of higher education. The European University Association takes the view that financial sustainability is crucial and conditional on reliable, sufficient public funding, and adequate autonomy to be able to explore additional funding options.

Thomas Estermann, Enora Bennetot Pruvot: European Universities Diversifying Income Streams: an overview of the study

This paper gives an overview of the study "Financially Sustainable Universities II: European Universities Diversifying Income Sources" led by the European University Association between 2008 and 2011. It describes how European universities are currently financed, and looks into the sector's expectations for future evolutions. It also analyses the many different barriers currently preventing universities from pursuing additional income streams and the possible drivers for stimulating income diversification. To address different funding challenges, including often declining public investment, universities need to proactively design their own strategies. Future financial sustainability depends not only on reliable, sufficient public funding, but also on the autonomy and support necessary to successfully explore complementary funding options.

Nigel Thrift: Income diversification at the University of Warwick

This article describes the specific approach of the University of Warwick – one of UK's most dynamic and progressive universities – to generate income. This includes a broad field of knowledge transfer activities and long-term relationships with big companies, commercial operations like Warwick Science Park, retail outlets, conference business and internet job business, as well as public-private-partnerships and philanthropic giving. It concludes that constantly identifying and growing new sources of income seems to be a vital role of the modern university which may also be the only way to keep independence.

Mark Lammerts: Challenges of university-business cooperation

Delft University of Technology generates between 15 to 20 per cent of the total income from contract work with the private sector which is above average on the European continent. This paper describes the different ways of Delft University to work with the corporate sector such as contractual research and working in consortia. It then pictures how it makes use of its extensive on-campus research facilities for partners from industry, and shows a range of services that are offered to third parties. The article concludes with a glance at success factors and pitfalls in working with the corporate sector.

Joanna Motion, Adrian Beney: Income diversification through philanthropy in UK higher education

Based on a short review on the importance of philanthropic giving in UK and in the United States, this article highlights the relevance of fundraising to generate additional income. It identifies fundraising as a competitive business, which needs to be an integral part of a university's strategic development, and which demands resources as well as leadership.

Sheila Gupta: Professionalisation of management and leadership

This article shows the importance of appropriate governance and management structures that support income diversification, and reflects the role of university leaders in fostering cultural change in their institutions as well as for engaging and motivating staff.

Michael Jansen: Funding conditions for research and transparency, some experiences in the Netherlands

External funding is an important topic in the Netherlands. In the financial field, some experience has been gained in the sphere of regulations, accounting and quality control. Measures are inspired by the desire to simplify financial transactions and to reduce red tape. In this paper some insight is given in the prevailing funding techniques in the Netherlands: how government funds are allocated to universities, and what rules govern the funding process. The importance of an efficient control mechanism is also discussed, giving attention to the measures implemented to guarantee the quality of the funded (research) output. The paper concludes with some recommendations, so that the Dutch experience might be used by other countries as an example of good practice.

Thomas Estermann, Monika Steinel: University autonomy in Europe

Many governments, the university sector and the European Commission have all recognised that increasing university autonomy represents a crucial step towards modernising higher education in the 21st century. However, the study “University Autonomy in Europe I”, conducted by the European University Association in 2009, highlights that, in practice, public authorities still play too central a role in the regulation of higher education systems. Despite the fact that public authorities in a number of European countries have moved away from direct state control towards more “indirect” steering mechanisms, universities often continue to lack autonomy in many crucial areas, particularly in terms of managing their finances. The paper analyses each dimension of university autonomy and ends with some key recommendations in order to enable institutions to make full use of their potential.

An introduction to the European University Association's work on financial sustainability

Jean-Marc Rapp, EUA President

In this paper, Professor Jean-Marc Rapp, President of the European University Association, reviews the Association's work on the topic of financial sustainability in the light of the developments that have had an impact of universities in Europe in the recent years. That includes general trends such as massification and rising costs for higher education; but also the economic crisis that continues to affect the sector today. The paper also explains the connections between the EUDIS study on income diversification and the European policies in the field of modernisation of higher education. The European University Association takes the view that financial sustainability is crucial and conditional on reliable, sufficient public funding, and adequate autonomy to be able to explore additional funding options.

1 Introduction

EUA's Experts Conference "Towards financially sustainable universities II: diversifying income streams" was an important milestone of the EUDIS project, co-funded by the European Commission. In this project, EUA partnered with *HUMANE*, the network of university heads of administration; the *Bavarian State Institute for Higher Education Research and Planning*, and the *University of Bologna*, which hosted the conference.

The EUDIS project belongs to the second part of a work agenda that EUA set up some years ago around the topic of financial sustainability of European universities. This work is structured around three pillars, or key ideas:

- Universities must be able to identify and better understand the costs of all their activities and projects;
- Universities must maintain a reasonably diversified income structure to mitigate risks and enhance autonomy;
- But this cannot be achieved without sufficient and sustainable public funding.

This project came to a close in February 2011 and collected highly valuable data across Europe, through an online questionnaire to which many European universities responded, but also through site visits and through the constant monitoring of the impact of the economic crisis on universities' activities and financial structures. EUA is in a privileged position to achieve these tasks, with its membership of over 800 higher education institutions in 46 countries and the national rectors' conferences of 35 countries in Europe.

During the conference, EUA shared the findings of this project and invited high level experts from Europe and beyond to debate around the different conditions and aspects of income diversification. Participants from nearly 40 countries attended the event to share their expertise, whether as university leaders, national and European policy-makers, researchers, or partners. The conference therefore helped EUA elaborate clear messages and conclusions to inform policy-making both at national and European levels.

It is important to underline a few key points to better situate the importance of financial sustainability for universities in Europe in the context of EUA's work.

2 Universities' financial sustainability under threat

The costs of higher education and research have been growing rapidly. The reasons for this are well known; advances in the field of technology, particularly ICT and its wider usage in higher education and research, a growing participation rate, new societal demands on institutions, rising pension costs and tougher quality requirements are increasing costs and necessitate additional financing.

Despite the fact that universities are at the centre of knowledge creation and development, which itself is seen as one of the main motors of economic growth, public funding of higher education in most countries is not increasing or at least not increasing enough in real terms. "Massification" has led to the fact that the higher education budgets per student are relatively low in most European countries compared to Europe's competitors. Despite declarations of intent to increase spending on higher education and research, it is not very likely that public expenditure will grow significantly on average in Europe and therefore be able to keep up with rapidly inflating costs in the years to come. One of the reasons for this is that higher education and research have to compete with other priorities in public budgets (security, health, etc.). Demographic trends and an aging population point to the fact that the health sector is likely to take priority over higher education.

The recent economic downturn has furthermore contributed to the decision in many European countries to decrease the levels of investment in higher education and research. Such trends are particularly worrisome for universities across Europe, whose continuing dependence on public funding puts their future sustainability under pressure.

All the above reasons are forcing universities to respond by taking action. The first step is for universities to master their cost structures and identify the full costs of their activities for both internal and external purposes. While calling for vital additional financial support from public authorities, who have a responsibility for the universities'

long-term financial sustainability, universities also need to increase and diversify alternative sources of funding.

3 EUA's work on financial sustainability

Since the launching of its *Glasgow Declaration* in April 2005, entitled "Strong Universities for a Strong Europe", EUA has addressed the issues of autonomy, accountability and funding through promoting conferences and workshops, and engaging its members in an evidence-based debate on improving university governance and leadership competencies and updating funding structures.

Since 2006, EUA is conducting ambitious research on universities' financial sustainability. This issue was first addressed in a study "Towards Full Costing in European Universities", showing the need for supporting the implementation of full costing in Europe's universities. These findings are now taken further by the project "European Universities Implementing the Modernisation Agenda" (EUIMA), which promotes the implementation of full costing in European universities. A number of country workshops will bring together all relevant stakeholders to stimulate coordinated approaches on national and regional levels. Study visits to experienced universities will take a very hands-on approach and support those who have to implement full costing.

EUA's *Lisbon declaration*, adopted by its members in 2007, stressed the association's commitment to "identifying supplementary revenue streams for universities and to promoting modes of governance that support optimal transparency in financial management." EUA also committed to undertake "more comprehensive mapping of current public funding models, of their legal and financial environments, and of the supplementary income streams available."

This is what the EUDIS study is focusing on, looking at raising awareness of and identifying good practices in the field of diversification of income streams in universities across Europe.

Financial sustainability also plays a major role in EUA's current work on university autonomy. Institutional autonomy is strongly connected to the topic of income diversification. The ability to freely allocate and manage financial resources, to establish partnerships and raise income from the private sector, are crucial elements that fully contribute to the universities' long-term financial health.

This agenda is summarised in two of the 10 key success factors that EUA and its members identified in the *Prague Declaration* last year, which states the importance of "Increasing and diversifying income: to achieve financial sustainability, by implement-

ing sound accounting practices that identify the full costs of all activities, diversifying the income portfolio and securing adequate public funding, thus providing the basis to fulfil the university's core missions over the long-term."

It also underlined the need to "Shape, reinforce, and implement autonomy: universities need strengthened autonomy to better serve society and specifically to ensure favourable regulatory frameworks which allow university leaders to design internal structures efficiently, select and train staff, shape academic programmes and use financial resources, all of these in line with their specific institutional missions and profiles."

Finally, the EUDIS project has in particular provided crucial input for the European University Association's policy position on higher education funding released in April 2011. Entitled "Working together towards financial sustainability for European universities", the position underlines the key factors that contribute to promoting financial sustainability for Europe's universities.

4 Current policy processes

At European level, the *Modernisation Agenda* from 2006 pointed to nine areas where action would help universities to modernise. One of these points states the need to "reduce the funding gap and make funding work more effectively in education and research", and reminds us that the Commission proposed that governments spend at least 2 per cent of GDP (including both private and public funding) on higher education.

In this Agenda, the Commission also calls for more output-oriented funding and for universities to take responsibility for their financial sustainability, including proactive diversification of funding, albeit restricted in the Agenda to the research mission of the university.

This Modernisation Agenda is now being reviewed and new objectives will undoubtedly be proposed by the Commission during autumn 2011. Evidence from the EUDIS project also substantiates part of EUA's response to the European Commission's consultation on the Modernisation of Higher Education in Europe. EUA's response highlights the factors that the association believes are crucial in the years to come for supporting universities' further development, and thus for determining the strategic direction of higher education, research and innovation in future. The response highlights the need for reliable and sufficient public funding as well as improved funding mechanisms, such as funding on a full cost basis and further simplification, in particular at European level.

The European Union has also set the frame for its "2020 strategy", which is to follow the Lisbon Strategy. Building on its Prague Declaration, EUA has submitted a response on behalf of its members to highlight the role of universities in advancing the European Knowledge Society. Stressing the need for increased investment in higher education and research, EUA has called for clear investment targets to ensure the progress of all member states towards agreed objectives.

The conclusions of the conference and the findings of the EUDIS project are contributing to and underpinning EUA's future policy recommendations in this regard.

5 Debate on funding simplification

In parallel to these developments, European policy-makers have grown aware of the need to *simplify Commission funding*, especially for research. This is of major importance for universities, who are beneficiaries of the 7th framework programme and its soon-to-be successor. EUA is taking an active role in these discussions and has just recently contributed to a series of events on simplification of funding regulations organised by the EU Trio Presidency (Spain and Belgium in 2010, Hungary in 2011). EUA has also represented the higher Education sector's views in dedicated hearings in the European parliament and informed the general rapporteur on the university sector's views for the report on simplification.

EUA argues that simplification needs to cover the full funding cycle and that rules need to be consistent, stable and respect the diversity of Europe's universities. EUA also calls for an urgent change in the implementation and interpretation of rules based on trust, as argued in EUA's response to the consultation on the review of the financial regulation, the rules of which apply to Commission funding.

EUA's work with its member universities, the EUDIS project and the previous work on funding have contributed and will contribute to gathering all the necessary evidence to take part in such forums and activities at European level.

6 Economic crisis

Finally, income diversification in higher education cannot be discussed in isolation to the national circumstances. By mid-2009, it did not seem that the financial crisis had a strong impact on higher education across Europe; however, EUA's continuous monitoring has shown that the situation, although very diverse from country to country, has evolved in such a way that many European countries have had to proceed to cuts in higher education and / or research funding. In some countries, the crisis has also had an effect on the balance between autonomy and accountability. In some

cases, governments try to go back to more direct steering mechanisms or set up more regulations, in particular in relation to funding. Governments are being keener to provide funding targeted at the achievement of specific objectives, often in line with national priorities, thus curbing the ability of universities to freely manage their funds.

When governments use targeted investments and funding to promote certain subjects or research, they need to be aware that, with declining general university budgets, this can result in counterproductive effects. Governments have the responsibility to ensure that all areas are sufficiently catered for.

On the other hand, in the light of the crisis, public authorities seem to be growing more aware of the need for higher education to develop a reasonably diversified funding structure, attracting funding from other sources including the private sector. In no case however can such "new" funding be a substitute for public funding. The findings of the EUDIS project will show this very clearly. Public authorities have a responsibility to ensure the financial sustainability of its universities and therefore basic funding should come from the common budget. However, to mitigate risks entailed by excessive dependency, it is important for universities to develop a funding portfolio spreading over different sources. Governments need to support this by providing the right framework conditions and adequate incentive mechanisms.

7 Conclusion

This summarises, in essence, EUA's vision of how to approach the funding challenges that universities are or will be confronted with in Europe. Universities need to be able to keep investing in their future academic and research activities to continue to fulfil their role in society. Financial sustainability is crucial and conditional on reliable, sufficient public funding, and adequate autonomy to be able to explore additional funding options.

The importance of reducing the funding gap and making funds work more effectively for teaching and research, as well as of maintaining the goal of achieving the 2 per cent GDP target of investment in higher education, cannot be reiterated often enough.

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European Universities Diversifying Income Streams: an overview of the study

Thomas Estermann, Enora Bennetot Pruvot,
European University Association

This paper gives an overview of the study “Financially Sustainable Universities II: European Universities Diversifying Income Sources” led by the European University Association between 2008 and 2011. It describes how European universities are currently financed, and looks into the sector’s expectations for future evolutions. It also analyses the many different barriers currently preventing universities from pursuing additional income streams and the possible drivers for stimulating income diversification. To address different funding challenges, including often declining public investment, universities need to proactively design their own strategies. Future financial sustainability depends not only on reliable, sufficient public funding, but also on the autonomy and support necessary to successfully explore complementary funding options.

1 Introduction

Financial sustainability is one of the key challenges for Europe’s universities today. Despite the tremendous diversity that exists in Europe, all higher education systems are increasingly under pressure due to rising student populations and mounting costs of teaching and research activities, and therefore face the same challenge of designing sustainable funding models.

Since 2006 the European University Association (EUA) has been conducting ambitious research on the topic of financial sustainability. The first study on this topic explored the development of full costing in European universities and the ways to improve their capacity to identify better the full costs of all their activities. Maintaining an appropriate degree of diversity in the funding structure is another important step for universities to achieve financial sustainability. This was the focus of the EUDIS project which EUA undertook with its partners HUMANE (the Heads of University Management and Administration Network in Europe), the Bavarian State Institute for Higher Education Research and Planning, and the University of Bologna.

The study builds upon previous work developed by EUA on university financial sustainability and governance, and has involved major data collection over 27 European countries. Quantitative data was collected through several questionnaires to university representatives and public authorities and qualitative data through site visits to universities and in-depth case study contributions at seminars and conferences.

This paper aims to provide the reader with an overview of the study while exploring some of the key findings of this research¹. It provides a concrete definition of income diversification, analyses its drivers and the current state of play in Europe. It further explores the challenges that universities face today in relation to the way they are funded, which framework conditions are needed for a successful diversification of funds, and finally details a “roadmap” for universities to develop such a strategy.

2 Income diversification

What does income diversification mean in the higher education sector?

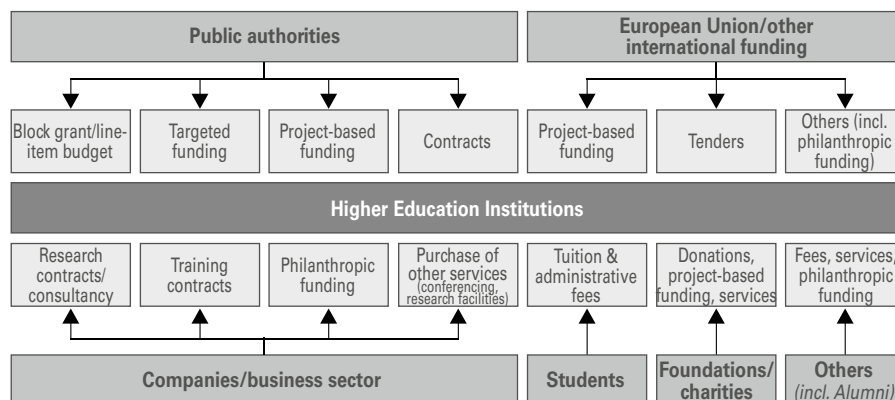
In the framework of this research project, income diversification is understood as the generation of additional income (through new or existing funding sources) that contributes to balancing the income structure of the institution. It is a tool to achieve financial sustainability, if the conditions in which the universities operate allow and require it. In turn, financial sustainability aims to ensure a university’s academic goals are reached by guaranteeing that the institution produces sufficient income to enable it to invest in its future academic activities.

The EUDIS study considers the distribution and diversification of funding sources in general and in particular within the categories of public funding and of additional (other) funding sources. The latter includes income generated from contracts with the private sector (research contracts and education-related activities), philanthropic funding, income generated by the provision of services – rental of facilities, residences, catering, consultancy, libraries, museums... – and income through financial activities.

Figure 1 shows the diversity of entities/institutions from which universities may receive funds and the variety of how these funds may be delivered to the university.

¹ The report “Financially sustainable universities II: European universities diversifying income streams” is available on EUA’s website: www.eua.be/eudis.

Figure 1: Income sources and funding modalities



3 Drivers to income diversification

Why do universities seek to diversify their funds?

Universities face external challenges, such as pressures on public budgets, globalisation and internationalisation of higher education, which increase competition but also provide new opportunities for activity expansion. These evolutions also drive institutions to seek additional funding from other sources. Income diversification may be strategically used to develop activities and respond to new missions, as it may reinforce the position of an institution on the local, national or international stage by supporting its competitiveness.

Risk management constitutes one of the major drivers for income diversification for universities in Europe. The perception that it is necessary to spread financial risks is commonly shared among universities, especially in the light of the consequences of the economic crisis² and on the basis of pessimistic expectations regarding future trends in funding coming from “traditional” sources. Developing additional funding streams becomes necessary to mitigate negative consequences of a sudden drop in income or to fuel further growth of the institution’s activities.

Universities also tend to approach income diversification as a means to gain more flexibility in their internal financial management, as public funding often comes with complex administrative requirements. Different public funders tend to establish various, and at times incompatible, rules and modalities. Income generated through commercial or fundraising activities is perceived as being comparatively easier to manage and has the advantage that it can be allocated internally without restrictions. Although

² See below “the impact of the economic crisis”

some additional income sources do offer this type of flexibility, it is evident that contracts with private partners can be just as demanding as public funding programmes. Often, the private sector works according to funding modalities that limit the company's contribution to partial funding of these activities.

4 State of play

How are universities funded in Europe? Are universities diversifying their funds?

In Europe, direct public funding continues to be the most important income source for universities, representing, on average, close to three quarters of an institution's budget. Direct public funding mostly comes to the university as a block grant, leaving the leadership with the responsibility of internal allocation of resources. Public authorities tend to resort to funding formulae to determine these grants, increasingly taking performance criteria into account. In parallel, public authorities use more and more competitive and targeted funding, a trend which has been exacerbated by reduced investment capacities.

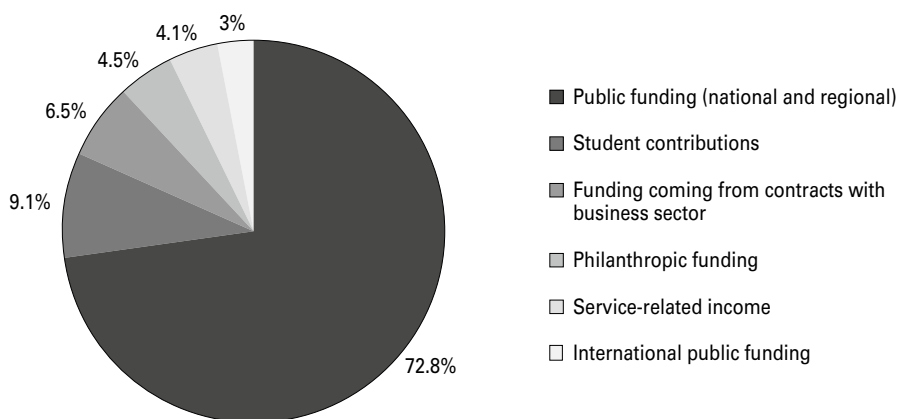
Student financial contributions or fees have the potential to constitute a large income source, considered by those who can charge them as fairly predictable and giving the university the ability to invest over the long term. Their importance varies greatly however depending on the legal framework in which universities operate. In some countries like England (25 per cent on average) or Spain (13 per cent on average), they represent a significant income source. Although in many European countries universities can charge fees for some groups of students, their level is often regulated by the state and in some cases contributes only a small percentage to a university's income. Student populations are often segmented according to academic level or different criteria (national origin, on-campus or distance studies, part-time or full-time, language of classes, etc), painting a complex picture across Europe. Although different perceptions and traditions exist across Europe on the inclusion of fees in the funding model for higher education, the debate is gaining relevance in most countries – especially in view of the economic downturn – and will continue to be at the heart of the discussion around funding models for higher education in the coming years.

Additional sources represent almost 20 per cent of the budget of a majority of universities. In some cases, this type of funds amount to between a fourth and a third of the institution's income structure. Contracts with private partners represent the largest additional source with an average of 6.5 per cent. It varies significantly between institutions though, ranging from 1 per cent to 25 per cent of the income structure. Philanthropic funding amounts on average to 4 per cent of the total income of a university, with some universities generating close to 10 per cent of their income from this source. While universities in the United Kingdom are generally more successful in their

fundraising activities, the study also found successful examples in other countries³. Foundations are the universities' main partner in this context, but companies and alumni are also getting more involved. Income raised from the provision of services averages 4 per cent of a university's income structure, but the ability to generate such funds is highly differentiated across Europe. Some British universities receive between 10 and 25 per cent of their total income from this type of activities. Financial and staffing autonomy experience and expertise to provide consultancy or facility-related services play an important role in the institution's capacity to generate such income. Management of conference facilities, catering and accommodation (including student residences) represent the largest part of this income source, followed by consultancy services, educational services and commercialisation of research results.

International public funding is almost exclusively made up of European funds, such as the Structural funds, the European research framework programme and the Lifelong Learning Programme.

Figure 2: Average income distribution



The EUDIS study also asked university leaders how they expect the institutions income streams to evolve in the near future. A clear majority expects public funding for teaching to decrease over the coming years. They also expect to receive more income from more sources and in particular anticipate that the smallest sources (European and philanthropic funding) will grow.

³ See J. Motion and A. Beney, "Income Diversification through philanthropy in UK Higher Education", p. 58

5 Funding challenges

The study highlights a number of challenges related to public funding that need to be overcome if Europe's universities are to continue to provide high quality teaching and excellent research.

Complex financial management

Developing new funding streams often translates into complex financial management. Some universities have well over one hundred different income sources, which have, in many cases, very diverse accountability regimes. Nor does the higher education community expect this trend to slow down or reverse. A majority of the respondents in the project's survey actually believe that the overall number of sources will increase. Universities therefore need to invest a lot both in time and resources if they want to obtain these funds, which application, contractual, reporting and reimbursement procedures often differ widely. In reality, "small income sources" can often generate a disproportionate amount of paperwork and administration which in turn raise the operational costs for universities.

Increasing co-funding requirements

The increasing trend to resort to co-funding requirements is probably the most underestimated challenge to universities' financial sustainability. Co-funding requires that a university raise a proportional amount of the full cost of the activity or project being funded, from its own budget or from another public or private source. Data from the EUDIS study showed that a majority of universities deal on a daily basis with co-funding requirements, whether for most or part of their public funding. Both European and national public funders increasingly use co-funding requirements by either funding only a certain percentage of the direct costs or just a part of the indirect costs of an activity (especially in competitive funding schemes).

This is a threat to the universities' financial sustainability, especially if it affects a significant part of their public funding. Indeed, co-funding does not necessarily lead to leveraging funds from other sources; in most cases, universities have to resort to using resources from their core budget. The EUDIS survey revealed that 65 per cent of the respondents co-funded these activities from core public funding, while 35 per cent resorted to a mix between public and private funds.

The reason for this is clear – it is very difficult to raise funds from private funders to cover a part of the indirect costs of a project whose core activities are already funded. This, in turn, reduces the university's capacity to invest in its future, diminishing the amount of "unconstrained" funds available to finance facilities, equipment or staff.

This issue is all the more relevant as there is a strong link between the frequency of co-funding and the degree of diversification. Additional income sources rarely fund activities on a full cost basis.

Universities that have been very successful in attracting additional funds through competitive research funding schemes face major problems as a result. Thus, co-funding has become a risk associated with income diversification which needs to be solved through appropriate funding schemes.

European funding schemes

The European Union offers non-negligible income to many universities, who widely expect to receive more income from this source in the future, although substantial increases of the amounts available are unlikely to occur in the coming years. Competition among universities for this funding will therefore become more acute, in a context where traditional income sources are expected to stagnate or decrease.

European funding schemes are important, but also among the most complex funding programmes available to universities. European structural funds and the Framework Programme for Research and Innovation are the two main sources of European funds for higher education institutions and present similar characteristics. The diversity of instruments and associated rules, the heavy administrative processes and accountability requirements, and finally the systematic use of co-funding deter a growing number of universities from participating in these programmes. However, in a context of stagnating national funding, not many universities can afford to disregard such schemes, even under unattractive funding models. This, in turn, will broaden the funding gap of their research activities.

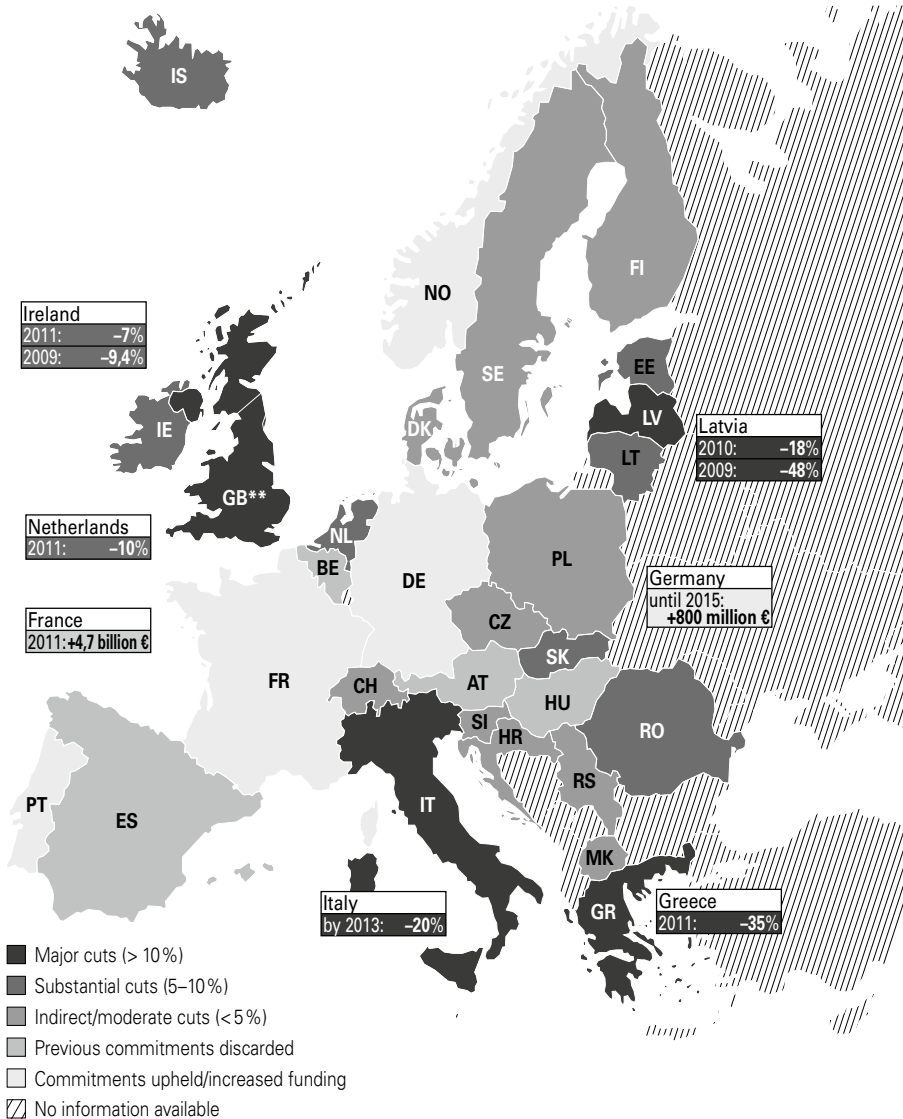
In some countries, public authorities have developed mechanisms to support universities applying to European funding programmes, for instance funding the preparation phase of a project or by providing the missing part of the funding. However, if such schemes are not coordinated among member states, they may contribute to creating an unlevel playing field for universities across Europe, with some countries providing more comprehensive support than others. Simplification of rules and procedures and moving towards funding on a full cost basis of these schemes appears as the only sustainable solution in the long run.

Impact of the economic crisis

EUA has been monitoring the evolution of the economic crisis and its effects on higher education systems in Europe since its onset in 2008. The continuous feedback from various sources provided up-to-date reports of the situation and highlighted the evolving nature of the effects the crisis has had on higher education across Europe.

One should note that the varying availability of data, the different ways in which it is calculated and communicated, and the constantly changing situation are significant challenges to this comparative exercise. However, trends can be identified.

Figure 3: Impact of the economic crisis on public funding for higher education in Europe*



* Aggregated budget decisions since 2008, updated first semester 2011. The map only highlights some specific examples; refer to the text for further information.

** See text

Public funding is not only diminishing in many countries, but also changing in the nature and form in which it is provided to universities. It is increasingly subject to conditions for its allocation or accompanied with growing accountability requirements. This has given public authorities increasing steering power over universities, which can have counterproductive effects as it can significantly contribute to reducing universities' autonomy and their capacity to manage their own funds freely. Such developments are worrisome as they can hinder universities' capacity to successfully overcome the crisis. The universities' ability to respond effectively to the ongoing economic situation has largely depended on the level of their institutional and, more especially, their financial autonomy.

Major cuts to public funding of higher education were first observed in Latvia, where an initial cut of 48 per cent at the beginning of 2009 was followed by a further cut of 18 per cent in 2010 stemming from the recommendations of the International Monetary Fund and the World Bank to reduce public funding of higher education drastically. Although they follow several years of increases in university funding, the cuts have put serious pressure on the Latvian higher education system, demanding major changes and structural reforms to be introduced for the forthcoming years. Academic salaries have been significantly cut (up to 30 per cent).

In Italy, the 2010 financial law, which refers to the years 2011 to 2013, plans for a cumulative decrease of 14 per cent with respect to 2010. However, the cut will also have the effect of automatically diminishing universities' income from tuition fees, which are limited to a maximum of 20 per cent of their total public funding. The situation appears critical as some 25 universities already face a default risk in the near future. At the same time, a wide-ranging reform of the higher education system is being passed, which is to impact the way funding is delivered to universities.

The situation is also critical in Greece, where the student population has been increasing while the government has been cutting higher education funding by up to 35 per cent over 2010 and 2011.

England is also undergoing major changes at system level, following the release of the 2010 Comprehensive Spending Review. The higher education funding system is being changed significantly. While funding for research is settling, teaching funding through the Higher Education Funding Council for England will be reduced as of 2012. This follows previous cuts in 2010 in teaching budgets and in capital funding. But the situation in England is somewhat different from the other countries in this category. The reduction of public funding is meant to be covered by higher contributions from students (up to 9,000 pounds yearly for undergraduate courses), following the recommendations of the Browne Review in October 2010. Under the new system, students

would benefit from loans backed by the public authorities, repayable after graduation on an income-contingent basis. While the public authorities have committed to transfer the funds from calculated tuition fees directly to the universities, there remains much uncertainty as to how this will work and what the consequences for higher education institutions will be over the long term.

Scotland has not remained unaffected, with an 11 per cent cut to the Scottish Funding Council's teaching budget in 2011–2012. The Rectors' Conference Universities Scotland estimates that the size of the teaching funding gap could grow by as much as 202 million pounds annually by 2014–2015.

In Ireland, despite a growing student population, universities have been facing a cut of 9.4 per cent in 2010 followed by a 7 per cent cut in the universities' grant for 2011. In addition, the capital grant has been halved for 2011, reducing drastically the amount of funding available for infrastructure maintenance.

In Iceland, a 6–7 per cent cut in 2011 is expected to follow a 5 per cent cut in 2010. Hungary also cancelled planned investments and announced in February 2011 funding cuts to universities of about 11 per cent against previous expectations of stability.

Cuts between 5 and 10 per cent have been introduced in several countries. Dutch universities are confronted with a cut of up to 10 per cent this year – VSNU, the Dutch Rectors' Conference, estimates that the cuts in the funding delivered by the Ministry of Education between 2012 and 2014 will amount to 420 million Euro.

Romania has cut funding to higher education by 10 per cent and Lithuania by 8 per cent in previous years. State-commissioned higher education institutions in Estonia have seen their public funding decrease by just under 7 per cent between 2008 and 2010. In Spain, the National Rectors' Conference estimates the drop in funding between 5 and 10 per cent over the period 2008–2011, which amounts to approximately 800 million Euro.

Cuts up to 5 per cent have been observed in many countries in Eastern and South Eastern Europe, including the Czech Republic (where the cut is estimated at 2–4 per cent of public funding), Croatia, Serbia and the Former Yugoslav Republic of Macedonia.

So far, *no direct cuts or only minor cuts* have been reported by the Nordic countries, including Sweden and Denmark, or by Poland and Switzerland. Nonetheless, many universities across these countries give accounts of facing indirect impacts on their funding structure. In some cases, financial pressures seem to stem especially from increased student numbers, the cost of which is already having an impact on universi-

ties' financial sustainability. Such increases in student numbers may also affect the universities' different activities, if these increases are not reflected in correspondingly higher budgets.

In many countries, *governments have discarded previous commitments to increase funding*. Both communities in Belgium have also reported that their regional governments have abandoned previous plans to increase funding. In the Flemish community of Belgium, universities are coping with a three-year funding freeze which has replaced a previously promised increase of approximately 10 per cent; while the French speaking community has seen the planned 8 year investment of 30 million Euro now extended over 15 years. Similarly, in Austria, plans by the government to increase higher education expenditure by 2 per cent between 2013 and 2015 have now been scrapped, as negotiations have clearly shown that a budget cut will be inevitable for this same period.

In contrast, some European *governments have upheld their commitments*, or indeed provided new investments to fund higher education, like in Norway.

France's announcement of the "Grand Emprunt" (national loan) has seen a significant increase in overall higher education funding, which comes as part of a large investment in key priority areas, especially teaching and research. In 2010, 11 billion Euro were foreseen for investments to improve the overall quality of higher education and 8 billion Euro invested towards developing research. A further 8 billion Euro had been foreseen to create new university campuses of excellence or go towards restructuring existing ones. The prospect for 2011 remains positive, as a further increase of the budget by about 4,7 billion Euro, mainly to raise the attractiveness of career personnel, to support university reform, student social policy and increased resources for research, has been foreseen. However, since a major part of the investments foreseen by the "Grand Emprunt" consist of capital contributions, this means that the actual amount received by universities ultimately depends on the financial markets and is likely significantly smaller.

Another case where funds for higher education have been raised over recent years is Germany. Though higher education funding in Germany is largely provided by Länder authorities, the federal government has been increasing investments to support the financial security of German higher education and research institutions. The investments will provide an additional 800 million Euro under the renewed Higher Education Pact which will support growing student numbers until 2015. The federal government will also invest a further 2,7 billion Euro from 2012 – 2015 through the German Excellence Initiative, as well as provide additional funding through the 5 per cent per year increase for the Innovation and Research Pact until 2015. Federal authorities with state

support will also guarantee further financial resources over the next ten years as part of a Pact to Increase the Quality of Teaching; which comes in parallel to a 2 per cent increase in current levels of student support via the Federal Student Finance Act. On the other hand, it seems that these developments may also have an impact on the structure of the German higher education funding model in the future. As it becomes apparent that some **Länder plan to cut or have already cut their higher education funding** for 2011, the increases in federal funding will, to some extent, alleviate this loss while also shifting the balance in the provision of funding between the Länder and the Federal authorities.

In the case of Portugal the situation is mixed, as a recent agreement between the government and rectors will provide a greatly needed investment of 100 million Euro for higher education which will alleviate the burden of cuts from previous years. This positive development may be halted by expected salary cuts in public administration that will affect university staff.

6 Creating the adequate conditions for successful diversification

Public authorities have to play a key role in helping universities overcome all of these challenges. Governments need to provide the right framework conditions and remove barriers that prevent universities from unlocking their full potential. Funders and public authorities in particular, should also set appropriate incentives and support mechanisms to build up the capacity of universities to respond to these new opportunities.

6.1 The importance of adequate regulatory frameworks: autonomy

The capacity of universities to generate additional income relates to the degree of autonomy granted by the regulatory framework in which they operate. This relation was tested for the organisational, financial, staffing and academic dimensions of autonomy. The data collected revealed that financial autonomy, which is perceived as the lowest of these four aspects, is the most correlated with the capacity of the universities to attract income from additional funding sources. Autonomy in staffing matters, and in particular freedom in recruiting and setting salary levels of academic and administrative staff, is also positively linked to the degree of income diversification.

However, while policymakers themselves see autonomy reforms as an important driver to foster income diversification, university leaders consider autonomy more as a pre-requisite. Conversely, diversified income structures may also contribute to enhancing the autonomy of an institution, mitigating the risks associated with dependence on a given funder. Additional resources enable universities to invest strategically in

otherwise overlooked areas, helping to unbind institutional priorities from external objectives.

Universities identify a number of hurdles in their regulatory framework that hinder income diversification. Inadequate governance structures and the inability to change them, financial restrictions as to the funding cycle, or inflexible staffing regulations impede universities from exploiting their potential and develop new funding streams.

6.2 Funding modalities

Inadequate funding modalities may have a negative effect and create powerful disincentives for universities to seek additional funding sources. An excessive administrative burden and uncertainty associated with these sources – whether public or private – is one hurdle, which is especially relevant in the context of competitive funding schemes. Simplification of administrative processes and requirements associated with funding programmes are therefore of key importance. Simplification of rules will ensure that both financial and human resources are released for the primary objectives of excellent teaching and research. This should be underpinned by proportionate accountability measures as well as consistent rules and terminology across programmes.

Public authorities also influence income diversification strategies through the modalities under which they deliver funding to the universities. Incentives may include the inclusion of specific criteria in funding formula, encouraging external funding, or the extended use of competitive funding. It is important though that if such criteria are used to include mechanisms to counterbalance the effects of co-funding, for example to set up top-up grants. Funding formula may have a direct, intended effect (through the inclusion of the amount of external funding received by the institution in the funding formula), or a knock-on effect due to the attraction of international staff and students as a result of successes in excellence initiatives.

6.3 Smart incentives and support measures

Matched funding schemes

Matched funding schemes, whereby public authorities reward universities for their success in raising funds from the private sector, are an innovative incentive mechanism to foster income diversification. In such a scheme, public authorities may provide funds either to a full or proportional amount to the funds raised from the private sector by the university itself. These additional public funds may be granted to the general budget of the university, without necessarily being attached to the completion of a designated activity. These schemes are or have been used in countries such as Canada, the USA, New Zealand, but remain the exception in Europe. Only the United

Kingdom, Norway and Finland have used such funding incentives. Modalities may be diverse but these measures have often proved their effectiveness in increasing the participation of the private sector in higher education through philanthropic funding. Key principles for success include simplicity of rules, broad definition of university activities and types of donors eligible for matched funding and a guarantee not to reduce core funding. Accompanying tax incentives and capacity-building funding are desirable for an even higher leverage effect.

Development of Full costing

Appropriate strategic tools play a crucial role in achieving financial sustainability. Universities must be able to identify the full costs of all their activities, to assess the degree to which these costs are covered by the funding source, and whether engaging with a given partner results in a profit or a loss for the institution. This should inform the decision without conditioning it: pursuing an activity may be relevant if other sources can be found or if a return of investment can be foreseen in the long term. The information provided by full costing systems also further allows universities to adopt appropriate efficiency measures.

EUA's work on the topic has shown that universities need support to implement full costing systems. Through the EUIMA project⁴, EUA organises a series of country workshops throughout Europe designed for university management, funders, research councils and governments to foster the development of full costing initiatives within universities and also to support coordinated approaches at the national level. Although this topic is increasingly considered as relevant for higher education in a number of countries, there remains a lack of awareness around the need to support the development of full costing. In this respect, it is crucial that national governments step up their efforts to support the development of full costing in order to improve the sustainability of the system.

Support to leadership development and professionalisation of management

Leadership, management and skill development matter enormously when developing a successful income diversification strategy, in view of the transformations reshaping higher education in the last decade. Facing the challenges of today and tomorrow requires university leaders and managers to acquire new skills to engage in new activities and reach out to new partners. At operational level, this also demands the integration of new staff profiles, in particular in the areas of research management, fundraising, human resources, communication and financial management. Public authorities can support this transition by providing, directly or through intermediaries, management development

⁴ European Universities Implementing the Modernisation Agenda – EUA project co-financed by the European Commission under the 7th Framework Programme for Research and Development (2009-2011).

programmes. However the United Kingdom is the only European country that has invested significantly in the creation of a dedicated structure which promotes a culture of organisational learning and champions examples of excellent governance and management in British universities. National and European funders need to step up efforts to support universities in developing adequate training programmes towards this end.

7 Universities: Roadmap for successful diversification

Universities themselves need to continue to seek to further diversify their income. This requires a proactive approach on several levels. To position themselves in an increasingly competitive environment, universities need to identify their strengths and specificities, allowing them to develop an adequate branding strategy. This should be complemented by an analysis of their activities in relation to the potential for income generation. To turn the strategy into reality, universities will also need to invest in the development and professionalisation of their support staff. None of this is possible, though, without the university leadership's experience and commitment to the process.

7.1 Embedding income diversification in the institutional strategy

Diversification should begin with a strategic analysis of the status quo, the institutional strengths, specificities and opportunities, as well as a scan of the competitive environment. Pre-existing additional income streams should be included in the overall evaluation. Apart from undertaking an appropriate analysis of cost effectiveness and risk of various activities, institutions need to assess the appropriateness of these activities in relation to the universities' mission and culture.

The university leadership's commitment to this process is of crucial importance. The leadership is best placed to project a vision and build the case for diversification activities, as well as engage the broader university community in the process. University leaders also play an important role in shaping the necessary change processes related to diversification, be it a cultural change or an organisational change.

Many activities to increase and generate new income sources need new expertise, which does not necessarily always exist within the institution. Universities may recruit professionals from outside the sector or invest in the development of staff to acquire these skills. When external staff is recruited, it is important that they understand the specificities of the research and education environment or are integrated in an established team. Professionalisation is relevant at all levels, including human resources management, knowledge transfer activities, research administration, financial management, etc. A gradual approach to structured development of staff capacity may be best adapted considering the fact that the potential to invest in human resources is

reduced in times of financial constraints. Given the high relevance of building up these skills for successful income diversification however, targeted support from governments towards this end would have a high leverage effect.

The success of income diversification strategies largely depends on the ability of the institution's leadership to communicate effectively with the university community as well as with external stakeholders. Universities need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options. External communication should also contribute to reinforcing the image and specific profile of an institution. Communication can also usefully be undertaken at sector level, upholding the value of higher education for the wider economy.

Those universities that have adopted a broader approach to income diversification have usually accompanied this with structural changes in the institution – creation of specific teams or dedicated structures, including sometimes streamlining governance bodies for more efficient decision-making. These processes are informed by adequate tools including accounting and costing data. Finally, the leadership, on the basis of all of the above, may embed appropriate incentive mechanisms in its strategy, focusing on staff or faculty level (consultancy credits, income-sharing terms, modalities of spin-off creation).

7.2 Illustrations from European universities

As demonstrated above, income diversification consists of multiple aspects and calls for universities to design coordinated approaches based on a strategic vision. The examples below are only a few illustrations of the various dimensions of income diversification strategies, developed by universities with different institutional profiles.

7.2.1 Maastricht University

Maastricht University offers a telling example of how to exploit the institution's specificities to develop a strong diversification strategy. As a university founded in the 1970s, Maastricht has been seen as an "outsider" to the established group of Dutch research-intensive universities, and has therefore had to develop a differentiation strategy from the onset. This has resulted in two academic innovations: the adoption of "problem-based learning" approaches (which privileges small study groups over lecturing) and the creation of a series of "niche" interdisciplinary fields. Thus Maastricht has built a specific academic offer which has contributed to increase its visibility amongst a wider student population.

The other specificity of the university is its geographic location, at the periphery of the Dutch decision-making centres, but strategically placed to attract both German and Belgian students, which quickly became key target groups for the university. The increased presence of “regional” international students and staff has also pushed Maastricht to become a fully bilingual university. This early orientation towards internationalisation has helped the university to further build on this to identify “focus” countries outside the EU and create an integrated approach to international student recruitment.

Importantly, the Dutch government stopped subsidising places for non-EU students in 2006, which triggered the implementation of differentiated fees for this part of the student population. This has resulted in significant risk mitigation for the university as a large part of its students (about 40 per cent) does not depend on financial support from the Dutch government.

These developments are therefore underpinned by a consistent strategy to which the university leadership is strongly committed. This in turn is supported by coherent financial planning driven by expectations (such as the reduction of public funding available and the need to enhance additional funding).

7.2.2 Loughborough University

Loughborough University’s income generating activities strongly underpin the institution’s ethos and academic mission.

As a financially sound university, Loughborough University’s financial target is to deliver a 3 per cent surplus on an annual basis. However, on the basis of expectations regarding cuts in public funding, the university’s management is engineering a large operation aiming at reshaping the institution into more cost-effective and academic-focused structures. This includes rationalizing the number of academic structures into larger cost centres (merging departments) and looking for saving and investment opportunities across the university’s services. Expected funding cuts have nevertheless not been driving the agenda for income diversification, as a long-time target has been to increase, in absolute terms, public funding while reducing it as a proportion of LU’s total income.

This is strongly embedded in the institution’s budget process through the direct involvement of the deans in the drafting of the development plans of their faculties. The deans are asked to identify and prioritise saving and investment opportunities. This process is “locked in” by assuming a certain level of enterprise and fundraising growth in all development plans. Transparency is also key to success, while important work has

been conducted on keeping academics informed and making them aware that surpluses are needed to sustain development.

In terms of income potential, the University does not expect a big growth in terms of additional international students, as market opportunities become more limited and dependence towards large student-providing countries is not desirable; similarly, the university does not seek to increase its offer in undergraduate programmes, as the local population does not provide a sufficient pool to tap into. Distance-learning programmes however provide an interesting form of additional revenue generation. Therefore, as teaching activities are expected to remain rather constant in the near future, balance must be achieved by increasing revenue generated by enterprise and commercial activities, as well as by contractual research.

7.2.3 Istanbul Technical University

The leadership of Istanbul Technical University (ITU), faced with declining public funding, increasing student population and a need to upgrade research and teaching infrastructure in the 1980's, saw a need for additional income generation to solve these issues. Part of the strategy designed by the institution consisted in developing a multi-stage fundraising effort. The university chose to focus first on student and academic support facilities as well as the teaching environment in general. In a second phase, fundraising was targeted at improving research infrastructures and supporting research activities. Finally, in the third phase, priority was given to the creation of an endowment that in turn ensured the sustainability of the mechanisms created in the first two phases.

Success factors were identified in a triangle "Strong reasons – Devoted people – Committed stakeholders". On the side of the university, assets included a new administration with a clear vision and mission statement; a capacity for change and reform; a commitment to restructure the system to put external funding to best use and to control external constraints. The institution carefully designed the projects and advertised their benefits for ITU's reforms. It set up efficient and progressive task forces to implement the projects. Finally, and perhaps most importantly, the leadership took care of maintaining transparency in all the processes.

The institution also benefitted from a strong alumni community in the industry and business sectors, who felt strongly committed to ITU's projects. The university further structured this community through setting up integrated alumni networks (foundations, associations). The leadership sought to involve alumni more closely by spreading alumni councils at departmental and faculty levels, to increase interactions and there-

fore extend donations. The media also contributed to publicising the fundraising campaign.

The strategy brought unprecedented funding for investments for R&D and infrastructure obtained from alumni and other resources (industry, additional state funds).

7.2.4 Trinity College Dublin

The College has a fair degree of diversification but is according to the institution's own feeling still too dependent on inflexible state funding, which is allocated on a yearly basis. The abolition of tuition fees for undergraduate students has increased this inflexibility and is seen as a reduction in the College's financial autonomy. The institution has also been affected in multiple ways by the economic crisis. Severe reductions in public funding within the last years are accompanied by a decrease in trust from the funders towards universities. As a consequence, the degree of autonomy has diminished on various aspects and accountability measures have grown disproportionately.

The introduced "Employment control framework" through which universities need to get permission from the state authorities to hire staff particularly hinders the institutions' autonomy. Staffing autonomy is perceived as low because of a lack of options to create incentives to attract high level staff and reallocate people or change their duties. All of this also impacts on the implementation of a diversification strategy.

In the last years, Trinity College has step up its internal mechanisms to diversify income. More financial autonomy for faculties, and a higher percentage of generated income from diversification activities that goes to the faculties, are two measures that have helped in increasing level of diversification activities. The institution also has a sophisticated strategy to generate income through its estates activities. It includes leveraging the value of its facilities and sites through strategic cooperation with developers, combining their know-how with the College's purchasing power and good rating to provide good funding conditions.

The change from financial management being a "compliance function" to an "enabler function" has generally had a high impact on the College's implementation of diversification. In recent years, it took a strong proactive approach in bringing forward new initiatives of diversification. The finance function has played an important role in three activities related to diversification: new income generation, cost management and treasury management by placing cash in strategic investment.

8 Conclusions and recommendations

The study revealed that many universities in Europe have already diversified their income structure to some degree. The collected data showed that additional funding sources such as contracts with the business sector or indeed philanthropic funding represent a higher percentage of a university's income structure than commonly assumed. Although the extent to which the income structure is diversified varies widely across institutions, there is evidence that income diversification is not the prerogative of a few countries. However, the regulatory framework in which universities operate does have an important influence on their ability to diversify income.

Public authorities play a key role in supporting income diversification by providing the right framework conditions, removing barriers and setting incentives. Granting extended autonomy to universities is an essential step forward in this context. The findings show that financial and staffing autonomy especially foster diversification. The ability to generate additional funding streams requires flexibility and autonomy for universities to manage their organisational structure, their finances and staff. However, this only creates the background against which public authorities need to provide additional support.

Universities, in turn, need to integrate income diversification in their institutional strategy. That involves applying a proactive approach in diversification and identifying opportunities; incorporating partnerships with broader implications across the whole institution; and engaging the academic community in the diversification strategy and its actions.

Universities, supported by public authorities, must invest in people to improve further capacities and competences to engage in income diversification. This is conditional on the establishment of strong leadership and management. Universities can also design internal incentives to foster the involvement of faculties and staff in income diversification, in particular via favourable resource allocation models.

Finally, smart interaction with external stakeholders is crucial, through enhancing the awareness that the university is creating value for external stakeholders and identify areas of mutual benefit with local and regional partners.

All actors – whether public authorities, private funders, EU institutions and universities – have to foster a culture of trust, through which it becomes possible to work together towards the improvement of the legal and funding frameworks in which higher education institutions operate, with a view to enhance the sustainability and efficiency of the system in the long term.

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Income diversification at the University of Warwick

Nigel Thrift, Vice-Chancellor of the University of Warwick

This article describes the specific approach of the University of Warwick – one of UK's most dynamic and progressive universities – to generate income. This includes a broad field of knowledge transfer activities and long-term relationships with big companies, commercial operations like Warwick Science Park, retail outlets, conference business and internet job business, as well as public-private-partnerships and philanthropic giving. It concludes that constantly identifying and growing new sources of income seems to be a vital role of the modern university which may also be the only way to keep independence.

1 Introduction

In Europe, as in many countries and regions across the world, higher education systems have expanded extensively over the last decade and continue to undergo wide and deep structural changes. In nearly every country of the European Union something very similar is happening, though in different forms and at different speeds. That is the massification of higher education, combined with a simultaneous attempt to improve the quality of higher education. The results of these tendencies in higher education are manifold: dramatic changes to the student body with many more non-traditional entrants including part-time students; a rapid growth in demand for professional programmes; and a much enhanced level of international student mobility amongst them.

But the chief effect has been to put strain on the public finances as higher education has moved from being understood as a preserve of elites to a vital component of the knowledge economy. That strain has manifested itself in many ways, from a series of academic and organisational reforms, including the emergence of more managerial forms of governance in many institutions in direct response to the new external environment, through more and more action on student fees, to the dramatic growth of private higher education in many countries. Globally, more than one in three students is studying in the private sector and there are already some very well established markets such as the United States.

Across Europe, it is a fact that in many of its countries demand for higher education is in danger of outstripping the capacity of universities to fulfil that need. So, it is no

surprise that alternative forms of higher education provision are emerging apace. In addition, public funding regimes are being used as a policy instrument by governments pressed by the forces of globalisation to either produce or support a group of institutions which can be considered as part of the international elite and, in turn, to ensure that universities play their role in the creation of knowledge-based national economies. The tension between providing a higher education for a burgeoning and increasingly heterogeneous community of learners, in a manner which is coherent but simultaneously flexible enough to respond to the changing needs of society, in institutions which were often set up to do something else, is a challenge indeed. What seems certain is that what has generally been regarded as a publicly funded sector will change radically over the next few years, bringing the whole issue of the mix between public and private on to the agenda.

Universities should be considered as autonomous institutions, each of them with their distinctive strengths which should be both cultivated and celebrated. But as the balance between public and private changes, while simultaneously governments are surrounding universities with too many regulations and are often interfering to a greater extent even where universities have effectively been branches of the civil service (the law of more influence with less funding), diversifying the streams of income on which individual universities rely must therefore be a vital part of maintaining autonomy and the resultant freedom to manoeuvre. Of course, such activities contribute towards the overall financial health of an institution and ensure that there can be continuous investment in the academic front line but they also mean that universities can have choices which otherwise would not be open to them.

2 The example of the University of Warwick

The University of Warwick was established in the first wave of post-war university expansion in Britain and can now be counted as the most successful of the eight universities which emerged in the United Kingdom in the 1960s. Today, the University is consistently placed in the top 10 of UK universities overall in national league tables. In the most recent national Research Assessment Exercise, Warwick was ranked 7th overall. The University has 20,000 undergraduate and postgraduate students and employs 5,000 staff covering academic, administrative, operational and commercially-facing roles. As a campus-based university, Warwick benefits from an extensive estate, spanning 290 hectares, which constitutes a great asset. The institution has a turnover of around 409 million pounds per year (over 430 million Euro), and takes just 23 per cent of its funding from government. This figure is considerably lower than the sector average in the UK and is lower both in percentage and real terms than many other institutions. It is particularly notable against the figures presented by the project "European Universities Diversifying Income Streams", led by the European University Association, which found

that, on average in Europe, public funding accounted for over two thirds of a university's average financial structure and that for 40 per cent of institutions, additional sources of income represented 10 per cent or less of their total income.

The University of Warwick is recognised as one of the UK's most dynamic and progressive universities for four main reasons. First, it has never tried to imitate traditional models like Oxford or Cambridge. Rather, what it has done from its foundation is to be different on the grounds that one cannot be successful in the long run by being a clone of other Universities. Its purpose is to keep innovating.

Second, the University of Warwick has been very selective about what it does academically. For example, the first Vice-Chancellor realised that he could make an immediate impact with mathematics, not least because it had a low cost base, and put investment into it which has paid off. The University still has only thirty departments but it is possible to be excellent in all of these disciplines.

Third, Warwick has always sought to be both academically excellent and relevant. The University believes that the two can mix without detriment to either. The world-renowned Warwick Manufacturing Group for example is unique in the UK higher education sector because of its unparalleled links with industry. It has still proved very difficult for other universities to emulate this because its ethos requires a quite specific kind of environment.

Fourth, Warwick tends to hire academic staff and administrators who want to do the same things as the University because they want to come to Warwick: the university offers a space for a much more entrepreneurial body of people, people who have the initiative without which the university cannot succeed.

3 Institutional approach

But there are other stylistic reasons for Warwick's success in this endeavour. First, and by far the most important, is an absolute unwillingness to be complacent in any way – part of what the community calls the 'Warwick gene'. A crucial part of this 'gene' is the willingness to innovate and to try new things. There is a 'why not?' attitude and, even in straitened times, an absolute commitment to 'structured risk-taking'. The key to much of Warwick's success, then, has been a good understanding and management of risk coupled with very tight financial control but with a bias to having a go.

Second, there is a very flat management structure which gives the space to explore and innovate. Warwick has fewer tiers of management and less bureaucracy generally than many other universities, and decisions can as a result be made relatively

quickly, making Warwick highly responsive to opportunities as and when they arise. That flat structure is characterised by a minimal number of barriers between departments and the centre. In contrast to most British universities which are opting for executive management styles and formal hierarchies, Warwick has avoided concentration of power as a mistake for an organisation which aspires to be fast and flexible.

Third, Warwick's policy is to be outward-looking in all activities. Whether in the attitude to partnerships with business and industry or in international partnerships, cooperation is seen as a means of getting advantage, not as a threat. The recent internationalisation strategy for example has been based on the selection of a very few international partners who share Warwick's values and ambition – Boston University in the United States, Monash University in Australia and Nanyang Technological University in Singapore. These partnerships have been leveraged to add financial and cultural capital to Warwick, through, for example, shared use of equipment and technology platforms with Monash University, and joint research bids to major national funding bodies both in the UK and in the US with Boston University.

Finally, and central to this discussion, Warwick's innovative and entrepreneurial spirit resulted from the driving principle that the University should not become overly reliant on government funding.

4 Income generation activities

Born out of the crucible of the government funding cuts of the 1980s in particular, the University of Warwick has relentlessly pursued a variety of knowledge transfer activities with business and industry; a variety of commercial operations; numerous partnerships with private companies; and has developed a new, socially aware, approach to philanthropic giving without sacrificing academic excellence. Following are a few examples of Warwick's distinctive approach to these activities.

Knowledge transfer activity

The extensive and diverse range of the university's activities in what might be termed the broad area of knowledge transfer can be illustrated by the previously mentioned pioneering work of Warwick Manufacturing Group (WMG). When WMG was set up in 1980 by Lord Bhattacharyya, it was very different from the traditional academic model: a bridge between the UK's manufacturing industry and the application of cutting edge research. The relationships seeded between the Group and industry have led to major collaborative research programmes with companies worldwide, especially with India, with which Warwick has unique links (for example with Tata, Bharat Forge, TVS Motor Company), and the Group runs teaching and research centres in Hong Kong, Singapore, Malaysia and Thailand. In addition, WMG has forged long-term

relationships with organisations in sectors as diverse as aerospace and pharmaceuticals, automotive manufacture to food processing, banking and healthcare. That early pioneering instinct in seeking out industrial-academic links is just as much a key component of Warwick's strategy today, and that root industrial mission has been extended significantly through the establishment of WMG's International Digital Laboratory, a visionary project which has enabled industry to interact with research in new ways through a sophisticated digital environment. This flagship research building on the Warwick campus transfers the process skills of Warwick Manufacturing Group into new domains, in particular, medicine and security.

Knowledge transfer taken in its widest sense, Warwick also provides a variety of professional and workforce development opportunities, from bespoke consultancy to executive education programmes for sectors as diverse as international finance or medicine and manufacturing. Overall, in 2009 alone, departments of the University including WMG, Warwick Business School, the Warwick Medical School, the School of Law and Warwick Institute of Education, have provided such programmes for over 6,000 people.

Commercial operations

Closely linked to the activities of units like the Warwick Business School, are the university's commercial operations. The University is home to seventeen freestanding businesses. They include three thriving post-experience residential training centres for the business community; the University of Warwick Science Park; retail outlets; an award-winning vacation conference business and a internet jobs business. These entities generate income, a proportion of which returns to the university's academic mission. These activities enable the university to continue to relentlessly invest in excellent people, excellent facilities, and an outstanding teaching and learning experience for students. A good example is Warwick's innovative jobs business, jobs.ac.uk, which advertises positions in universities, colleges, research institutions, commercial and public sector, schools and charities through a completely electronic service. The service has been extended to the US market and operations are now being franchised to universities across the United Kingdom.

The "raison d'être" of these activities is not to generate income, but should as far as possible not be run at a loss. For example, there is the Warwick Arts Centre, established in 1974 and now a nationally recognised facility which forms the cultural hub of the campus and attracts over 300,000 external visitors each year.

Public-private partnerships

Warwick has always been open to and has proactively fostered public-private partnerships throughout its history. In recent years, private companies themselves are ac-

tively seeking partnerships which enable them to extend their own research and development capabilities, to gain access to new areas of fundamental research, to promote international cooperation and student mobility and to enhance their own credentials in terms of corporate social responsibility.

An example is Warwick's developing partnership with GE Healthcare, a unit of General Electric Company, and the global provider of medical technologies and services. Building on areas of common interest and existing research collaborations between GE Healthcare and departments such as Warwick Manufacturing Group and Warwick Medical School, as well as Warwick's existing partnership with its local university hospital, Warwick has been able to link into GE's global campaign to use research, product development, IT, education and strategic partnerships to deliver improved healthcare. This institutional-level partnership with the healthcare provider is leading to significant joint research grant applications, funded PhD scholarships (including GE scientists studying at Warwick), the delivery of Continuing Professional Development programmes to GE staff and potential financial support for a variety of first-stage research projects at the University.

Another illustration is Warwick's partnership with Cisco Systems, a well-known IT solutions company. The Warwick-Cisco partnership aims to exploit emerging technologies to build knowledge in and create innovative approaches to human-network interactions. So, for example, Warwick has a particular ambition to tackle the issue of effective and inspirational virtual community engagement, in part to engage with its rapidly growing global alumni base and, in part, to better exploit its worldwide networks more generally. So, the university is working with Cisco experts to develop effective content and delivery channels to connect with Warwick's 165,000 alumni worldwide and also to develop innovative ways to link up members of Warwick's International Gateway for Gifted Youth, a global network of the brightest and most creative young people aged 11-19.

Philanthropic giving

The University of Warwick has pioneered a new approach to philanthropic giving. The importance of philanthropy of all kinds cannot be underestimated and Warwick has set ambitious goals to take the University to the highest global echelons, enabling continuous investment in the very best people and the very best facilities. Without the giving culture of the US it will take a long time for philanthropy to become a major component of income of most European universities' income – probably at least a generation – but it can make an impact in specific cases. In 2009, for example, Warwick launched its 'Case for Support' and a key part of that case is making a global impact through the Warwick in Africa Programme. Through the programme, undergraduate mathematics students are working alongside African teachers in township schools in

South Africa and Tanzania to help improve classroom teaching. Reciprocal visits to the Warwick campus allow African teachers to explore new teaching methods to make a lasting impact on the learning experience of future generations of pupils. The project is completely funded by philanthropic donations from alumni and friends of Warwick, Barclays Capital, the ExPat Foundation, and the Supraja Foundation, as well as a number of individuals. It enables the University to demonstrate its genuine commitment to solving global problems; find a basis for initial philanthropic engagement with individual alumni and other public and private organisations; and provides students with opportunities to build their social and cultural awareness on a global scale.

5 The future

To summarize, constantly identifying and growing new sources of income, sources which seek to underpin and provide investment for the core academic endeavour, seems to be a vital role of the modern university. And there is good reason to see this search as more than simply instrumental.

To begin with, diversifying income streams may be the only way to survive the rigours faced by universities in most of Europe as government asks them to do too much with too little, but still wants to retain its steering capacity over the system.

It may also be the only way to keep independence and with it an allegiance to the core values that universities have held dear for some time now – organised scepticism, creation of new knowledge because of the vitality of the community, free and open communication of ideas, scholarly accomplishment as measured by peer review and other devices, loose governance, intellectual progeny, and an allegiance to understanding universities as public goods which transcend national boundaries.

Finally, it may be the only way to find the extra income with which to pursue institutional difference. As Page (2007) has pointed out in an influential book, diversity creates better economies and societies. If universities are all forced towards a mean by the funding models that drive them, they can never do the different things that are crucial to their vitality. They cannot sample widely and the vitality of the European higher education system as a whole will be threatened.

Diversifying income streams may be hard work but without it universities will not be able to independently pursue their strategies and fulfil their missions in a sustainable way.

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Challenges of university-business cooperation

Mark Lammerts, Director of Marketing & Communications, Delft University of Technology

Delft University of Technology generates between 15 to 20 per cent of the total income from contract work with the private sector which is above average on the European continent. This paper describes the different ways of Delft University to work with the corporate sector such as contractual research and working in consortia. It then pictures how it makes use of its extensive on-campus research facilities for partners from industry, and shows a range of services that are offered to third parties. The article concludes with a glance at success factors and pitfalls in working with the corporate sector.

1 Introduction

When Delft University of Technology was established by King Willem II, it was as a “Royal Academy for the education of civilian engineers, for serving both nation and industry, and of apprentices for trade”. The latter suggest that Delft University has strong ties with corporate world from the early days of its existence, and indeed it has. Traditional links with the corporate sector exist on many levels and over all of its eight different faculties.

Delft University of Technology is the Benelux’ biggest technical university and together with Imperial College, ParisTech, Aachen and ETH Zürich it forms the so-called IDEA league. No less than 5 out of 8 deans of this university have worked in the corporate sector before joining the university, which demonstrates its unique knowledge of the corporate world and the strong ties it has with companies.

Diversifying income is about more than working with the corporate sector. Currently 4.5 per cent of Europe’s university funds come from philanthropy. A good example of this are the Nanoscience activities of Harvard, Delft, Cornell and Caltech, which have been recognized by the Kavli Foundation as being at the frontiers of nanoscience, and grants are received in order to “to seek answers to the most fundamental questions”. The Kavli Institute of Nanoscience at the department of Nanoscience in Delft is the only Kavli Institute for Nanoscience outside of the US.

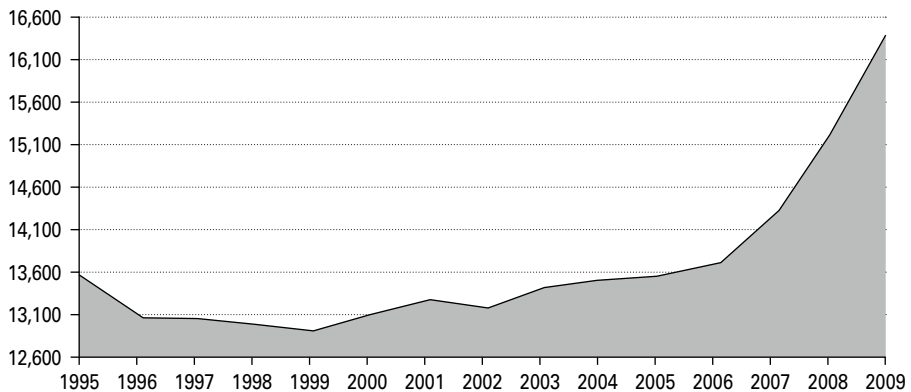
In general terms there are several ways to diversify income streams among which philanthropy (as above), student contributions, international public funding and funding

from working with the corporate sector. All diversification types are explored at Delft University of Technology. This is the focus of the next part of this article.

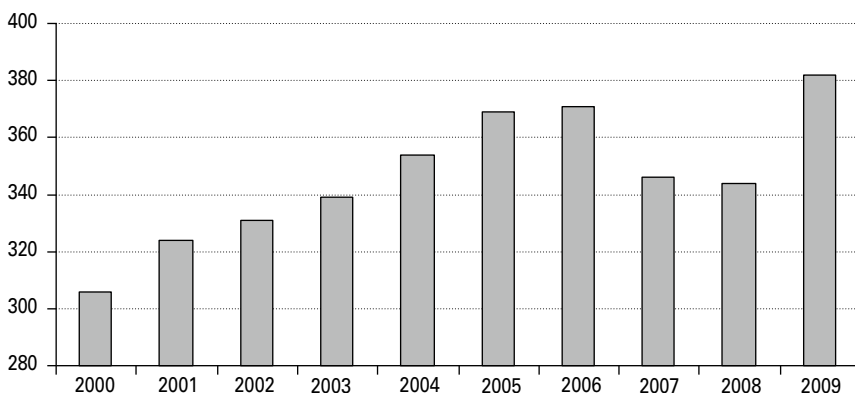
The need for diversification of income streams

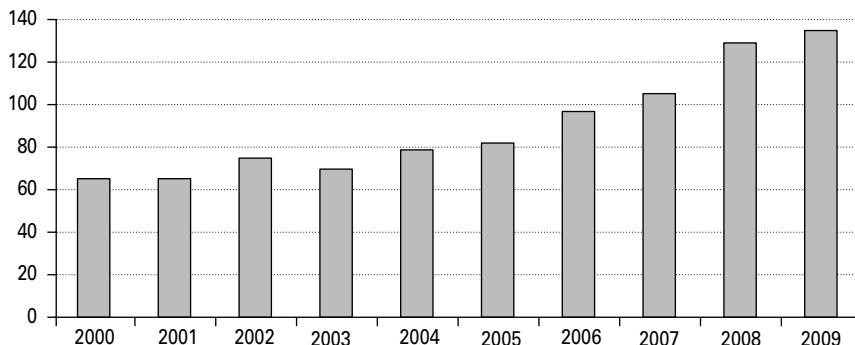
Over the last couple of years student numbers at the University have risen dramatically as can be observed in graph 1. At the same time public funding has stalled (graph 2), a common issue across European universities, but especially eminent in Delft. Clearly this situation requires an active strategy towards diversifying income streams and, although currently around a quarter of the university's income is coming from other streams than from direct public funding, this might need to grow further. Graph 3 demonstrates that the level of income from contract work has already risen strongly in recent years.

Graph 1: Strong increase in student numbers



Graph 2: Public income stream flattens



Graph 3: Increasing income from contracting work

The average income generated from contract work with the private sector for European universities ranges from 5 to 7 per cent of the total income structure. For Delft University of Technology, this figure is between 15 and 20 per cent, which by US or UK standards might seem modest, but is significantly above average on the European continent. There exist different ways to work with the corporate sector, many of which Delft Technical University has experience with. The following chapters focus on possibilities for cooperation.

2 Contractual research with the corporate sector

2.1 Strategic partnerships and contractual research

Strategic partnerships with the university are meant to be intensive partnerships over the long term. They usually spin out of short-term contractual research, after which the university, in these partnerships, combines knowledge from more diverse fields of research and aligns those with specific areas of interest of the partner company. The university then enters into a “master agreement” for several years, clearly setting out the exact areas of cooperation.

Contractual research is a possibility that caters to the need for specific technical research solutions; it is sometimes introduced to help bring a new product idea to life or to mobilise one or more of the university’s 2700 scientists in one of the 160 research groups. A common option is having students available for contract work. Students are deployed via internships and graduations at different stages of their studies for periods from of a couple of weeks up to one year to work on a specific assignment as described by the corporate partner.

A very effective way of working with students is by means of project education. In this manner the university offers businesses the opportunity to participate in specific

education projects on for example product design. As a result of this set-up, businesses get access to ideas and designs of students working on assignments within their curriculum. Shape and substance of contractual research come in all sizes dependent on the complexity of the problem.

Process wise, when embarking on a contractual research project, the university will identify the right person which will be best able to meet the partner's needs. A written agreement is then drafted by the university's contract manager which describes the specific research arrangements. This also contains arrangements on how project results can be put to work after the research is finished. When required, it will also deal with issues of intellectual property, interim reporting methods and evaluation. Costs for contractual research depend strongly on such matters as duration, complexity, required equipment and materials. Doing so, the university is moving more and more towards a full-costing basis.

Below are three examples that demonstrate the versatility of the partnerships that the university has been setting up.

Developing haptic feed back with Nissan

To develop an in-built speed control technology for vehicles, Nissan found a valuable partner in Delft University of Technology. A combination was put to work out of the knowledge of mechanical functioning of the human body, man-machine interaction and real-time simulation.

The university is now building on this project by developing new applications for this technology. Actively sharing ideas with Nissan has given the university lots of scope for follow-up research. Applications for this jointly developed technology are already in use in Japan.

The Axe Bow for Damen Shipyards Group

Another example where contractual research has spun off a variety of interesting results is the so called Axe Bow concept, with which a ship can maintain high speeds in strong winds and heavy seas. This solutions answers to a long standing wish of ship builders of patrol and supply vessels. Damen Shipyards, the biggest shipbuilders in the Netherlands, built several ships based on this concept and now holds an exclusive license to the patent. The clause that makes this agreement especially interesting is that part of the commercial revenue goes into an exclusive R&D fund. In this way the university created the possibility to further continue the push of technology from a more scientific curiosity approach.

Joining forces with Shell

Over the last four years the university has worked with Shell on their Sustainable Mobility Programme. Several scientists of the university and Shell have been collaborating on research projects ranging from fuel production using artificial photosynthesis to sustainable transport of dry bulk cargo.

Last year, Shell and Delft University of Technology entered into a strategic partnership to join forces to develop innovative technologies that could help increase the amount of oil and gas that can be extracted from subsurface reservoirs.

Staff from both Shell and Delft University of Technology, including several PhD students, are involved in a joint research programme, which will initially run for six years. The "Recovery Factory" project combines Shell's expertise with the strength of Delft University of Technology to significantly advance Shell's capability to enhance oil recovery through a combination of tools and techniques, some of which are new to the oil industry. In this project, different areas of science are combined such as mathematics, systems and control theory and geology. A clear example of how working with the corporate sector can build leverage at the forefront of technology.

2.2 Working in consortia

Other than working in strategic partnerships as described above, the university is combining strengths with several partners in different consortia and it is involved at national and European level in numerous consortia together with large corporations and other higher education institutions. Within the Sixth and Seventh Framework Programmes of the EU (FP6 & FP7), the university takes part in more than 200 research projects, partnering all over the EU. These consortia are not necessarily with large partners only, but can very effectively be built with small and medium enterprises (SMEs). Examples of those in which Delft University of Technology is involved are many. Two of these include MicroNed and Greenport Campus.

MicroNed is a national consortium of researchers and entrepreneurs in the field of microsystem technology with about 250 researchers from a broad range of disciplines and active in 9 knowledge institutes and 23 businesses, including 18 SMEs. Greenport Campus, which has been established to stimulate innovation in the Dutch horticultural sector, has been set up for technical suppliers of the horticultural sector and their customers.

On a larger scale, the university is part of Knowledge and Innovation Communities (KICs) related to ICT and climate change. These are initiatives through which the Eu-

European Institute of Innovation and Technology will provide a powerful stimulus to research and innovation throughout Europe.

3 Maximising the use of facilities

Technical universities have a wide range of testing facilities at their disposal, Delft University being no exception. In practice some facilities are generating income more actively than others, but they all have huge potential in common. Arguing the other way around, the university should also look for what partners from industry can offer in terms of equipment and facilities. This can result in rationalizing the use of facilities, freeing up resources and deploying them differently.

Delft University of Technology has extensive on-campus research facilities, ranging from wind tunnels, chip facilities, a flight simulator, a high-voltage lab and a nuclear reactor. On the “softer” side it holds “serious gaming” and product evaluation facilities which are popular with companies. Dozens of instruments for measuring and testing are ‘advertised’ for use. Many of these are unique in the Netherlands and available for corporate research. A couple of examples are listed hereunder.

- *Chip* facility: the facility Dimes is a research school dedicated to promoting research and education in microsystems and nano-electronics. State-of-the art lab facilities, technology development, devices, circuits and systems are open to third parties.
- *Radar* facilities: several radar installations are available among which a transportable radar system for atmospheric measurements and a radar for the measurements of clouds and precipitation in order to better understand climate change.
- *The Reactor Institute* Delft: this institute is a 2 MW research reactor with unique measuring instruments and radiation facilities. It produces radio isotopes for application in many different fields and provides accredited activation analysis for the accurate measurement of element concentrations. A new function is the ability to produce medical isotopes for human treatment in case of shortage from other sources.

4 Delivering services

The University also offers a range of services, in line with its expertise and activities, which are available to third parties as illustrated below.

Brainstorming and team support

A Group Decision Room with electronic meeting support systems is for hire and all sorts of software to support collaborative company processes. These are used for

strategy building, crisis management, project evaluation, risk assessment and planning. So called "serious gaming techniques" have been developed to support this.

In-company training

The university is very active to share its knowledge to society in a broader sense. This is seen as a public task and does not generate income. What does however, is the offering of our School of Executive Education, Delft TopTech. Via this institute, Master education and management training is offered in fields such as reputation, ecology, energy, ICT, space, telecoms, transport, safety and security. Through these courses, company management is brought up to speed on the latest developments in these areas.

Literature surveys and patent research

The university offers literature survey and patent research to help clients with their first steps of research or preparations for a patent application. The university's Library has several information specialists who are carrying out literature surveys tailored to clients needs.

5 Creating future partners

Diversifying income streams in the different ways described above is one aspect, but looking ahead and investing in building a proprietary corporate network is another, longer-term approach to income diversification. By facilitating student start-ups, the university not only invests in the future of its students and society, but also in future partner companies.

Starting up one's own business, for those who want to, is encouraged strongly at Delft University of Technology. Not only do several courses prepare for business, but students who want to start their own business during or after their studies are supported by an incubation centre. Over the last years this centre has guided some 70 start-ups. All of these companies, when fully grown, can become partners of the university in a way or another. To financially support specific initiatives, the university has decided to establish a financial vehicle in the form of a venture capital fund. This is done together with, amongst others, a commercial bank. Currently, this support is available for sustainable developments in food, agriculture and energy.

A few examples of business emerging from the university are detailed below:

- *The Senz umbrella*: born out of pure frustration from a student with traditional umbrellas that easily break broke down, this product won almost all major design awards in the world including the prestigious red dot design award. The business is now active in Western Europe, North America and Asia.
- *Foldable containers*: students at Delft University of Technology have succeeded in developing a simple, sturdy, affordable folding system for shipping containers. Under a pilot scheme (and awarded a number of prizes for innovation) hundred of these containers are to be shipped from Rotterdam to Asia.

6 Success factors and pitfalls in working with the corporate sector

Diversification by working with the corporate sector is beneficial not only from a financial perspective. It increases the embeddedness of the institution in the corporate world and therefore in society at large. It also gives students early exposure to businesses and it increases companies' understanding of curricula and current research.

When developing stronger links with companies however, there are a couple of issues to keep in mind. A clear and transparent relationship management model is required to avoid too many researchers and students run after the same contact in a company. A Client Relationship Management system helps, but will only work when used and updated regularly. Before embarking into university-business relationships it is a must to make an active effort to understand the real current situation and needs of the company, also beyond innovation and research issues.

Potential pitfalls occur when groups in the university seek to seize every opportunity without relating it to their their own strategy and priorities. High level agendas and roadmaps must offer guidance and help determine which opportunities should be explored by the university. If not, the danger exists of the university becoming too much of "just another" research institution, with fundamental and curiosity-driven research too far off the radar. Too much eagerness for external funds may distract from the institution's mission and focus. Another obvious threat is to become too dependent from external budgets, losing control over the university's agenda and creating vulnerability when these income sources dry up. This might sound like a luxury problem, but once the dependence to external and agenda-setting funds has become too big, it might not be all that easy to reverse.

Public Relations may constitute another challenge. Universities need to realise that practical issues may occur in this area, in case the independence of research is questioned. Will the public always understand how scientists may wear different hats?

When talking to media, will it be understood that a researcher can be perfectly objective to a certain case in which his partner is involved from which he also receives funding? These are challenges to look out for. Whatever the institutions does, it should understand its own brand values and always steer to remain close to them.

Working with the corporate sector is a great means to diversify funds, but also helps to make what universities do more relevant and what companies do more competitive. Both will benefit from each other's strengths and brands and therefore become more embedded in society itself.

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Income diversification through philanthropy in UK higher education

Joanna Motion, Vice President for International Operations, Council for Advancement and Support of Education (CASE)

Adrian Beney, Partner, Iain More Associates and former fundraiser at University of Durham

Based on a short review on the importance of philanthropic giving in UK and in the United States, this article highlights the relevance of fundraising to generate additional income. It identifies fundraising as a competitive business, which needs to be an integral part of a university's strategic development, and which demands resources as well as leadership.

1 Why diversify?

Universities are engines at the heart of national and international prosperity. Yet, they are inherently costly to run – let alone to grow. With reducing levels of public funding and increasing competition, universities must work harder than ever to secure sufficient resource to support world-leading research and teaching. In England, universities have recently learnt that 12.6 per cent of public funding for teaching, research and university buildings will be cut in the next academic year – a total of 940 million pounds. With this intense pressure on funding, income diversification is an important strategic driver in helping universities to become more financially sustainable. Diversification can take many forms: exploitation of intellectual property, research and teaching contracts (including student fees), generating revenue from estates and conferencing, or consultancy, but income from philanthropy is an increasingly significant component of this funding mix.

Philanthropic income is particularly appealing to universities as it provides a flexible income stream to support the projects and activities that shrinking core funding cannot finance. It enables universities to build upon their strengths, enhance their student experience, extend their research programmes, and to create the best possible environments within which people can excel. It also builds networks of friends and supporters who contribute to the long-term well-being of the university in many ways in addition to a direct financial benefit, e.g. acting as ambassadors, providing links with industry, and mentoring current students. University of Cambridge Professor Robert G. Edwards, winner of the 2010 Nobel Prize in Medicine, was unable to secure fund-

ing to push forward his pioneering research on in-vitro fertilisation until a private donor stepped forward and offered to help.

2 Lessons from history

Contrary to popular opinion, philanthropy in UK higher education is not a new phenomenon. Looking to the past, we learn how many of the British institutions were founded on philanthropy. Oxford, the oldest university in the English-speaking world, traces its origins to early in the 11th century. It is founded on the generosity of royalty, church leaders and other far-sighted benefactors. In the 19th century, the growing wealth of Britain's industrialists demanded and depended on an educated middle class who could provide expertise in medicine, applied sciences and engineering. This need led to the establishment of colleges and universities throughout the country, some of which have evolved into universities like the University of Manchester. Nearly 150 years ago, a Mr. E. R. Langworthy of Manchester left a 10,000 pound legacy "to encourage discovery in physics" establishing the University of Manchester's Langworthy Chair of Physics. Last year, Professor Andre Geim became the fourth holder of this position to win a Nobel Prize following in the footsteps of Rutherford, Bragg and Blackett – a spectacular example of earlier fundraising efforts reaping long-term returns.

Newer universities, including many of the former polytechnics that became universities in the early 1990s, also have a heritage of philanthropy. The University of Wolverhampton traces its roots to the Wolverhampton Mechanics' Institute, founded in 1835 by public subscription, and De Montfort University still uses a building built in 1897 for the Leicester School of Arts at a cost of 25,000 pounds, again raised by a fundraising appeal. This sum equates to around 14 million pounds today.

Durham University's founding has a contemporary edge – a visionary clergyman persuaded his bishop, who had an embarrassing surplus of riches not dissimilar to that of the bankers of the early 21st century, to found a university. One man's vision and courage to ask, combined with another man's wealth and propensity to give, created something worthwhile and enduring.

Examples like these prove that higher education institutions of all types in the UK can trace a long history of philanthropic support. It is only natural and logical that today's universities should reflect that tradition and diversify their income through fundraising. It is misleading to say that non-US institutions have no modern tradition of giving to higher education. We should all be inspired by the successes of our predecessors and learn from the experiences of those who are leading higher education fundraising today.

3 Looking to America

European universities are often told to look to America for guidance and inspiration when approaching fundraising. Our American colleagues have achieved impressive results. In 2010, Harvard raised 596 million dollar in cash despite the difficult economic times and Yale experienced a 6.4 per cent rise in donations receiving 380.90 million dollar. Figures like these can be daunting for European universities but one should be careful to ensure to compare what is comparable. British universities, such as Oxford and Cambridge, which compete globally with US Ivy League institutions, can fundraise just as effectively, especially when they invest in professional development staff to help deliver this. Oxford announced in October last year that they had a just passed the one billion pound milestone in a fundraising campaign that began in 2004 and Cambridge's record of achievement is similar.

However, not every UK university ranks in the international top twenty and it is probably a truer comparison to look at the UK's research-focused universities alongside the public research universities in the US and Canada. For teaching-focused universities, especially those with a high proportion of local and part-time students, there is much to be learned from the US community colleges. It is important not to be seduced into seeing all US university fundraising as a single entity but to differentiate, selecting as comparators the universities and fundraising programmes that are most pertinent to one's university's own profile and activities.

It is commonly said that the US benefits from an innate culture of giving, but in reality, until recently, this was largely limited to the private universities and colleges. In a speech in October 2010, Professor Louise Richardson, principal of the University of St Andrews, noted that in 1975, the total fundraising income at five leading public universities in the US was just ten million dollar. In 2005, the same five universities raised 256 million dollar. Achieving significant growth in giving in the US has taken just one generation and, as in the UK, this has been against the background of significant, continuing cuts in government support. European universities should be encouraged by this cultural shift.

4 Making a convincing Case

Fundraising is a competitive business and each university must make a strong case for support in order to stand out from other deserving causes. The 2010 Coutts Million Pound Donor Report found that higher education and the arts were the preferred recipients of million pound gifts; in the same year 163,000 people donated to UK universities, the vast majority of whom were giving at relatively modest levels. Whatever the value of their gift, they all had to be motivated to give by a convincing 'ask'.

The Council for Advancement and Support of Education (CASE) collates statistics on giving to higher education and regularly looks at donor motivations. Speaking on the subject of regular giving at a CASE event, Rich Mintz of Blue State Digital, one of the architects of Obama's online fundraising campaign, dismissed the notion that communicating a sense of obligation motivated alumni to give more. On the contrary, he argued, it makes graduates instinctively more resistant to the case being made. Donor motivation is more concerned with the impact of a gift – the difference it will make and why this is important to the beneficiary. Joanne Finnie-Jones, Senior Development Manager at the University of Edinburgh, confirms this observation, *"We have to get away from the begging-bowl language of 'seducing' alumni into giving and 'getting alumni to cough up', and move instead to the much more wholesome and convincing language of persuading people to give to important causes."*

In 2010, King's College London launched its 500 million pound fundraising campaign with the strapline *World questions|King's answers*. The Campaign focuses on how King's is responding to world challenges in three key areas: cancer, leadership and society, and neuroscience. Prospective donors are invited to join King's in finding solutions for the complex issues that characterise these challenging areas. The clear message to donors is that their gifts will have substantial and significant social impact – they will make a difference not only to the university but also to the world. Chairing the campaign is former UK Prime Minister Sir John Major, who in his campaign introduction puts forward a compelling case: *"Our modern world throws up problems of great complexity, and questions that seem sometimes impossible to answer. The easy option is to leave the most challenging issues for others to address, easy but wrong. In their own areas of expertise, King's is determined to remain at the forefront of research that will not only benefit and enrich our own lives, but those of our children and our children's children. So I hope that you'll be as inspired as I am by the work of King's, and join with me in supporting our World questions|King's answers campaign."*

King's College London is a good example of where committed leadership and steady, sensible, systematic investment in fundraising has reaped rewards. The development office opened in 1991 with a target of raising 124,000 pounds in its first year. Twenty years on it is confidently setting a target of 500 million pounds, half of which is from purely philanthropic funding.

5 Creating the right environment

Income diversification through fundraising needs to be an integral part of a university's overall strategic development. To be successful, it demands resources, leadership and above all patience. It can be at least two to three years before a fundraising unit is fully operational and achieving results.

There are several fundamental characteristics of successful university fundraising. Vice-Chancellors/Rectors and senior staff across academic and non-academic functions must take ownership and responsibility for philanthropy. A fundraising office facing internal resistance and a lack of endorsement or leadership from senior managers will fail to flourish. Engaged donors want to be reassured that their money will be safe and well used and may have questions about the governance and effectiveness of the senior management, which can only really be answered convincingly by involved senior managers. The University of Bath's Director of Development and Alumni Relations, Siôn Lutley, agrees with this assertion: *"If fundraising activity is directed properly with long-term investment and support from across the institution it can really work. At Bath we've seen 100 per cent growth in donations raised each year for the past three years."*

Real partnerships are needed between the development staff orchestrating fundraising, institutional leaders who hold the vision, and academics who embody the university's impact. No single group can succeed in isolation. They must all commit to a clearly articulated, compelling vision of what the university wants to achieve through fundraising. Without defined fundraising goals, a compelling explanation as to why these goals are important and an understanding of the difference they will make, both to the university and beyond the campus boundaries, it will be impossible to convince donors to give their support. This carefully devised, shared vision is the backbone of the university's case for support and the springboard that will inspire support from donors and enthusiastic cooperation from staff.

There is much talk about creating a "giving culture" but of equal importance is fostering an "asking culture". There is an old saying "if you don't ask you don't get" and this is certainly true in fundraising. A skilled development professional will have no apprehensiveness about asking a prospective donor for a gift. If they have done their job properly, the "ask" is unlikely to come as a surprise and the answer is more likely to be yes. For Vice-Chancellors/Rectors, academics and senior staff, asking for gifts or donations may be a more daunting proposition. By working closely with the development office team, university leaders and other staff can be supported in their asking as they grow in confidence and experience. If a Vice-Chancellor leads by example, senior academic staff are more likely to embrace a culture of philanthropy and engage with fundraising. Developing a culture of philanthropy has an important third element that extends beyond asking and giving and one in which Vice-Chancellors and senior academic staff are essential – saying thank you. Thanking, acknowledging and providing recognition for donors and communicating the difference their gift has made is an enjoyable experience for all parties and one which increases the donors' tendency to give again and to give in increasingly higher amounts.

On a practical level, a development office that is not fully integrated into the wider university or properly resourced can find its capacity to fundraise significantly reduced by operational burdens such as gift processing and database management. Fundraisers need freedom to fundraise, backed up by an efficient operational framework that should not be underestimated when allocating resources. It is particularly important that the development office and the university's finance function have strong lines of communication. Donors need to know that their gifts are "in safe hands", being appropriately recorded and managed. The university needs to be able to differentiate philanthropic income in order to monitor the effectiveness of the development office and inform future strategy.

In this turbulent economic climate, one of the key challenges is finding the justification and resources to invest in development programmes. Data from UK universities seem to show clear correlations between sustained investment in development programmes and returns. 27 higher education institutions, which received investment from two successive government-led capacity building schemes, are now all raising around one million pounds a year. Fundraising staff are an important component of any university's external-facing activity. As representatives of the institution, they need to reflect the institution's positive values to potential donors enhancing the university's reputation and building long-term relationships with supporters. Not everyone has this ability and investing in the recruitment and retention of the right people is key to success. Investment in sufficient skilled staff, and embracing the highest professional standards will enhance the standing of the university and increase the return on investment. In the UK, some universities have failed to make a sustained investment in their development offices and have fallen into a stop-start pattern, which has proven counterproductive in the longer term. While it is tempting to make cuts across the board, senior managers should see the income-generating development offices as a separate case and take a long-term view. Siôn Lutley from the University of Bath observes, *"Universities need to realise that fundraising, from alumni in particular, isn't something that can be turned on and off like a tap. It requires at least a medium-term, if not long-term, strategy if it is to deliver an alternative, sustainable source of income."*

Creating the right environment is not just about the internal culture of the university. Universities need to work together to create the best possible external environment for fruitful fundraising. This involves the political, economic, social and legal context of fundraising. Lobbying policy makers to develop a tax system that is favourable to donors, especially those capable of making substantial gifts, creates additional incentives for giving. Simplifying the legal framework around issues like data protection and sponsorship makes fundraising easier. Raising professional standards by investing in training, career development for young fundraisers and knowledge dissemination is a worthwhile investment in the future. Philanthropy must also be perceived as a desir-

able thing to do – we need to celebrate the heroes of philanthropy – J. K. Rowling's gift of ten million pounds to the University of Edinburgh to battle multiple sclerosis, James Dyson's five million pound gift to the Royal College of Art for new facilities, including business incubator units – these are admirable applications of wealth, deserving of recognition and celebration and which will inspire others to give.

A great example of where the external environment has transformed the landscape of university fundraising in the UK is the government-led funded Matched Funding Scheme for universities in England and Wales. The scheme has been running for nearly three years, concluding in July 2011. It has increased voluntary giving to the higher education sector by match funding eligible gifts from a total fund of 200 million pounds in England (and ten million pounds in Wales). The scheme has already contributed to a 25 per cent increase in donors, which now number over 185,000. In the first two years of the scheme, over 300 million pounds in match-eligible philanthropic income was raised. By enhancing a donor's incentive to give, the scheme has helped to strengthen a culture of giving towards universities. The level of matched funding for each institution is capped in accordance with a tier system based on the differing degrees of fundraising experience of each participating institution. Institutions with less fundraising experience have been able to access a higher level of matched funding and have been offered extra support to help them to build their fundraising capacity.

6 Across Europe

While the influence of US fundraising on UK universities has been substantial and positive, it has not diminished the UK's sense of individuality. UK universities have become skilled at identifying best practice from the US and adapting what will work for their own institutions. As more European universities embark on fundraising, it is interesting to share experiences to see what structures and activities work best in each country. It is important to remember that the legal and economic context of each country can vary considerably and affect the fundraising efforts of universities accordingly. When benchmarking fundraising performance with US universities, it is important to compare like with like. Fundraising activity in Europe is only likely to continue to grow in the coming years. The EUDIS project revealed that 71.7 per cent of participating institutions had identified upgrading fundraising capacity as a priority in their income diversification strategies.

Europe has a tradition of public spending for education and research but there is a growing propensity to diversify income to increase autonomy and develop the flexibility and resources to respond quickly to change and remain internationally competitive. The French Ministry of Defence has funded École Polytechnique since 1794. In recent years, with pressure to compete on a global level, École Polytechnique has success-

fully turned to philanthropic support to extend its activities beyond the traditional funding reach of the Ministry. Already, the campaign has enjoyed considerable success. Having begun in 2008, École Polytechnique is on target to raise 35 million Euro by 2012. In 2003, École Polytechnique only had one sponsored chair – today there are twenty. Campaign Director Marie-Stéphane Maradeix attributes this success to strong leadership, a clearly understood methodology (this is her third campaign) that has been adapted not only to the French context, but also the specific profile of the institution and the outstanding response from alumni and donors which exceeded all expectations. Marie-Stéphane's story is inspiring and increasingly repeated across Europe.

7 What does the future hold for UK higher education philanthropy?

It seems that, in respect of philanthropic income, this is a time of threats and opportunities. There is, rightly, considerable scepticism and concern about the extent to which the ongoing changes to the public funding of universities will create a private market for the university sector in England. Paradoxically, this may prove to be a further leverage opportunity to university development as some donors may be attracted to universities that have more control over their own destiny.

It is also unclear whether charging higher university fees will encourage or discourage donations by alumni. Most charities find that it is easier to get older people to give than younger ones, usually attributing this trend to greater maturity and more disposable income. University alumni are a little different. There is evidence that alumni who paid fees are more likely to give than those older graduates whose education was free. This supports the premise that you value what you pay for. The other divergence from normal charity behaviour is in the 45–55 age group, where a generally expected rise in giving with age is diminished. This has been attributed to the growing cost of their own children's university education reducing their propensity and capacity to give. Only time will tell whether the students of today who are once again paying substantially for their education will be willing to give back later in life and whether their giving will increase as they age.

In the immediate future, planning fundraising activities is an exercise that needs to factor in the slow climb out of recession. It should not be forgotten that universities play a crucial role in stimulating economic revival and perhaps this should be emphasised in campaign messages. Similarly, it will be interesting to see whether the accelerating affect of the government-led Matched Funding Scheme can be sustained after the scheme ends this summer. It has been hugely beneficial to the sector.

Philanthropy has been a good friend to higher education for centuries and if nurtured, it is a friendship that will endure. The great philanthropist Andrew Carnegie put universities at the very top of his list of deserving causes saying, "*If any millionaire is at*

a loss to know how to accomplish great and indisputable good with his surplus, here is a field which can never be fully occupied, for the wants of our universities increase with the development of the country."

Addendum

UK

Philanthropic cash income raised by UK universities has exceeded 0.5 billion pounds for the two consecutive years (2008-09 and 2009-10), according to data from the Ross-CASE survey.

This, combined with 25 per cent growth in donors in the same period (now over 185,000) has been accelerated by the government-led Matching Funding Scheme for England and Wales that matched donations to higher education institutions.

UK universities also receive more million-pound gifts than any other fundraising sector. Figures from the 2010 Coutts Million Pound Donor Report show that universities received 37 per cent of the total value of all gifts of at least 1 million pounds made in 2008-09, and more than half (58 per cent) of all "spent" donations, i.e., those given directly to a cause rather than placed in a foundation or trust for later distribution.

US

Gifts made to US colleges and universities dropped by nearly 12 per cent during 2009, to 27.9 billion dollar (18.8 billion Euro) – the biggest decline on record. This was attributed to the global downturn. After this dramatic decline, fundraisers were heartened by a 0.5 per cent increase in private giving to higher education during 2010. This modest increase suggests that it may take two or three years, or longer depending upon the pace of the economic recovery, to reach or exceed the high point of 31.6 billion dollar in philanthropic support in 2007-08.

In the previous decade, contributions to higher education institutions increased by an average 4.1 per cent a year.

The 20 US universities that raised the most in 2009 picked up 7.28 billion dollar between them – 1.13 billion less than the previous year – while the overall number of contributing alumni declined by almost 6 per cent. In 2010, the top 20 raised 7.15 billion dollar and alumni giving declined slightly by another 0.4 per cent.

Australasia

89 per cent of higher education institutions in Australia, New Zealand and South East Asia have alumni programmes, although most were established after 2003, according to the 2008 Association of Development and Alumni Professionals in Education (Adape) report.

The average Australasian university sought to raise 22 million Australian dollar (16.2 million Euro) in 2008, up from 13 million Australian dollar in 2005. Over the past two years, 48 per cent said they raised in the range of 1 million to 5 million Australian dollar.

Europe

Income from private sources is very low in most Europe countries compared with the United States with the exception of Germany and the United Kingdom who attract 15 per cent of private financing.

Of the approximately 71 billion Euro spent on research and development in Germany each year, only 0.5 per cent or 350 million Euro actually comes from philanthropy. In 1999, The Technical University of Munich was the first in Germany to embark on a professional fundraising campaign. To date they have raised in excess of 188 million Euro and they are in touch with a growing network of over 27,000 alumni.

While traditionally State or Church funded, Italian universities have been steadily increasing their fundraising activities. Early successes by a number of universities are stimulating further investment in fundraising. The University of Bologna has attracted a multi-million Euro legacy from Federico Zeri and Milan based Università Bocconi's ten year 100 million Euro Campaign launched in 2006 has already raised in excess of 31 million Euro.

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Joanna Motion was appointed the inaugural vice president of CASE international operations in 2003 after serving as executive director of CASE Europe since 2000. CASE is the global professional association for educational philanthropy and professionals who work in fundraising/development, alumni relations, communications and marketing. CASE's membership includes more than 3,400 educational institutions in 69 countries. It provides training and advocacy, produces handbooks, benchmarking tools and online resources, organises study tours, and administers awards for outstanding practice.

Adrian Beney is a Partner at Iain More Associates. He was a fundraiser at the University of Durham for more than 20 years, establishing the Development office, and programmes in Major Gifts, Regular Giving, Prospect Research and more. With Iain More Associates, he has been involved with strategy development, campaign feasibility studies, management and volunteer training, audits, donor development work, process automation and interim management.

Professionalisation of management and leadership

Sheila Gupta, Director of Human Resources, Edinburgh University

This article shows the importance of appropriate governance and management structures that support income diversification, and reflects the role of university leaders in fostering cultural change in their institutions as well as for engaging and motivating staff.

1 Context and key challenges

The context within which European Universities are working presents several key challenges that institutions must address. At a global level, the depth of the economic downturn is having a significant impact on higher education, most notably through diminishing budgets and uncertain funding frameworks. This trend is all the more worrying for universities as the international higher education landscape becomes more and more competitive with the increasing prominence of thriving economies, such as China and India, who are investing heavily in their higher education sectors with impressive results. Finally, the literature has highlighted the gap that exists between North-American and European universities insofar as their capacity to move towards the exploitation of additional income streams is constrained by the governmental and legal frameworks within which they operate.

Challenges are also associated with the characteristics of the European higher education sector, and in particular its breadth, complexity and diversity. This inhibits change from happening swiftly, especially where institutional autonomy is limited by external constraints. More autonomy would enable institutions far greater opportunities to broaden their funding base, but achieving such autonomy will clearly be harder in some countries than others.

Finally, universities must meet the more sophisticated demands of their student populations. Students have higher expectations and these, in turn, become more diverse as universities become more global with significant implications for investment in campuses and infrastructure, for which universities cannot rely on annual fluctuations of government funding. Universities must therefore develop new models for income generation over which they have much greater control.

2 The EUDIS project (European Universities Diversifying Income Streams)

Building capacity for income diversification in higher education therefore requires action at multiple levels. The outcomes of the study “Financially sustainable universities II: European universities diversifying income streams”, led by the European University Association, confirm this by formulating recommendations addressing the different key stakeholders in the matter.

Universities must take on a proactive approach by redesigning governance and management structures, as well as ensuring exemplary leadership and management capability and capacity. Cultural change must be embedded through modern and flexible people management policies; finally, universities must have clear strategies to enhance staff development at all levels and across all staff groups.

These efforts shall be in turn supported by action at regional, national and European levels, where governments and funders need to commit to creating the conditions for greater institutional autonomy, while designing appropriate incentives that enable institutional governance scope for reforms fostering an improved environment for income diversification.

However, this last point is very much about the leadership teams in universities being able to influence government and funders to institute such changes. Therefore, institutional leaders will need to be accomplished at conducting negotiations successfully at these highest levels both nationally and internationally.

Having recognised the challenges, which are not insignificant, universities are well placed to deal with them, because as knowledge-based businesses, they deliver success through their people. What is crucial is for universities to have the vision to know what is needed and deliver that change in our institutions rapidly. The difficult external environment makes it all the more important to act swiftly and decisively and to act now.

3 Governance and management structures supporting income diversification

The following section suggests a number of key aspects to take into consideration by institutional leaders to foster the effective implementation of the university’s income diversification strategy.

Aligning structures and goals

Having defined the strategic goals of their institution in terms of income diversification, university leaders must consider the appropriateness of the governance and manage-

ment structures. Good governance is often the stage that is left out when thinking about leadership issues. Is cultural change supported by adequate decision-making processes in the university? Clear lines of delegated authority are vital to support the need for rapid and responsive decision-making. The sheer number of “layers of management” may constitute an obstacle to being able to be opportunistic and achieve competitive advantage. Committee cycles have to be carefully examined to ensure that lines of responsibility and accountability are respected without creating needlessly heavy procedures.

Adapting governing bodies

Institutional governance is the place to start if the university is to set the right conditions to foster cultural change towards income diversification. This also requires the right skills and representation on governing bodies. If the governing body is to ensure that the institution is able to meet the challenges ahead, then the competencies of its members are crucial. As a general rule, the governing body needs to lead by example.

The recruitment of governors has been changing in many institutions in the United Kingdom. Governors are being interviewed and selected for their specific expertise. Institutions increasingly recruit highly regarded experts who are active within the economy. At the University of Edinburgh, experts from the financial sector were recruited to serve on the Investment Committee. All “lay Governors” are now interviewed and assessed against competencies and are appointed based on their professional experience and Board room expertise.

The need to transform the whole approach to governance is crucial to universities. Although different constraints may apply in different countries, there is scope within each university to adapt the ways and processes by which the institution attracts, recruits, selects, appraises and develops the members of its governing bodies.

Strategic planning and assessment

By embedding income diversification into the university’s strategic goals, it will mean that it is integrated within the main business planning processes and will benefit from clear planning, resourcing, managing and monitoring of performance against targets.

Establishing indicators of measurement is therefore necessary to assess the success of the strategy. Measures should be defined and set to determine that there indeed is a culture that genuinely fosters income diversification, creativity and innovation across all areas of the university. Institutional leaders will need to give clear thought to individual and business performance indicators that need to be monitored through governance and management structures.

4 Exemplary leadership and management to foster and sustain culture change

How can university leaders create cultures that encourage greater diversification of income? Two preconditions are necessary. Firstly, institutional leaders must make an explicit decision that income diversification is a major corporate priority; and secondly, obstacles to income diversification, innovation and creativity must be removed, for instance by reducing the number of "layers of approval" or any process that hinders the responsiveness in translating ideas into action.

Winning hearts and minds: the importance of communication

Leaders should act as role models for income generation and ensure public acknowledgement for the work of others. Universities are "people businesses". Ideas come from people and people make those ideas happen. Communicating the right messages and rewarding the right behaviours help to effect cultural change.

Senior leaders therefore need to consistently communicate the income diversification agenda. That includes engaging the Professor of Mathematics as well as the post-doctoral researcher in Classics. Engaging staff early in their career with the institution is rewarding, as it will encourage them to play an active role and have impact if they understand that this is relevant to their career advancement. The idea to convey is that the activity of each employee is bringing added value to the university.

Fostering workplace creativity and innovation should not be a one-off event. It should represent the way in which universities work. It is about having a creative working environment. Thus, leaders need to ensure channels and fora exist to communicate ideas upwards and across the organisation to engage staff and pass ideas on to leaders or champions. For this, leaders must make time, space and resources available to support the effectiveness of such fora.

This will help to foster a culture of collaboration and mutual support which is key in allowing ideas to flourish and opportunities for income diversification to be identified and exploited, including new ways of working. For example, universities may make greater use of multidisciplinary and cross functional teams. This can work in both academic and professional services areas. Indeed, universities should make sure they focus on all staff groups, and not exclusively on academic staff. It is vital to embed cultural change across institutions at all levels to ensure their future financial viability.

Effective external communications are equally valuable, for example, building closer links with your local community can lead to fruitful alliances that benefit the local region as well as the University. Are there opportunities and collaborations to be explored in your city or region? This can have enormous benefit for your local profile, because

institutions are often criticised for not engaging with the local community. Universities have responded in a variety of ways and many are now playing an increasingly active part in, for example, the creative industries, through their support for book, music, theatre and film festivals. For example, the University of Edinburgh has a close relationship with the Edinburgh Festival, hosting many of its events in the heart of the city centre. This brings the local community into the University and means that the University is making a very visible contribution to the local economy.

Finally, in the current economic climate, there is scope to send out a very powerful message to all staff. Gaining employee engagement in an economic downturn will be much easier if leaders are giving confidence-building messages about the future and linking this to how best to enhance the institution's financial health.

Management Capability and skills

The success of universities derives from having a motivated, energised and committed workforce. It is good to remember some basic principles:

- Employees' most important relationship at work is with their direct manager.
- The role of the manager is seen as having the greatest impact on discretionary effort.
- Employees need managers who are themselves engaged and committed to the organisation, its values and its objectives.

University leaders should therefore seek to enhance management communication capacities to promote and deliver the institution's income diversification strategies; both internally, to raise awareness about the importance of diversifying income, and externally, to engage stakeholders and partners with the mission and goals of the university.

"Return on Investment" approaches may be helpful to assess whether the investment the institution is making in management development is reaping benefits and achieving the defined goals. Are faculties enjoying more success in securing long term strategic partnerships, where managers have had skills development in brokering such contracts?

Enhanced management capability is necessary to manage rewards and performance much more effectively. In academia, it seems more appropriate to talk about success rather than just performance management, if one wants to win hearts and minds.

5 Modern and flexible people management policies

Recruitment and promotion

Approaches to recruitment matter for successful income diversification. Making income generation an explicit criterion for appointing or promoting people is something to consider, as well as seeking evidence of a candidate's track record and their experience in fostering these skills in others.

Universities need to actively go out to look for technical and professional competence in new areas of expertise. The profile of the institution's workforce must meet the needs of the university and reinforce its ability to reach the defined goals. Effective talent management is a key.

This is a reason for tailoring recruitment strategies to meet the different needs of the university. "One size fits all" approaches cannot suit the proposed purposes. The recruitment of specific staff, such as experts in alumni and philanthropic giving, is a pre-requisite. These experts can, in turn, develop and enhance the skills of other staff across the university.

Making strategic use of the expertise available: when people are selected to lead major task forces to implement change, are they selected on the strength of their success in income generation in the past? If this is considered as a strategic goal, then it should be a criterion for selection. Equally, are people moved around the institution to maximise opportunities for income generation? Bringing people together in units may help to spawn new ideas and make them happen.

Measurement and Rewards

Rewards and metrics provide evidence of how initiatives are contributing to the success of the institution. Therefore, university leaders need to develop an approach to rewards that will appeal to the different needs and motivations of your staff. Staff will not all respond to the same types of incentives and rewards. Institutions must take on sophisticated approaches in designing flexible rewards systems that recognise the variable needs and motivations of staff.

There are various modalities for rewarding successful components of the university. Incentives and rewards may be designed for the individuals, but also for the unit/department. If faculties have been successful in generating income, can they keep some or all of their returns?

It is essential to be clear about what will be rewarded. Areas that may be addressed in the rewards processes include:

- Delivering new successful income streams & entrepreneurial activity;
- Innovation and creativity;
- Excellence: in academic and professional services;
- Output focused activities;
- Establishing strategic alliances, collaborations and partnerships;
- Intelligent effort or informed risk taking that delivers viable income streams.

Rewards need to be aligned to the strategic goals of the university and the relevant faculty, department or school. Individuals and teams must be rewarded for their successes in income diversification if this is a strategic goal of the institution.

Staff need to focus on what is high value, high impact and of high reputational benefit. Leaders have the responsibility to convey this message to the rest of the staff. Embedding this new philosophy is key to professionalising leadership in higher education. This includes rewarding innovative breakthroughs and successes quickly; publicising rewards for income diversification to signal its importance to the culture of the institution; and developing behavioural measures of creativity and income generation.

Professional Development

Exemplary leadership and management skills, supported by tailored development to meet the needs of different staff at different stages of their careers are essential to effect successful cultural change. In practice, this may take the form of coaching for those in management roles to develop their staff effectively, or ensuring that senior colleagues participate or facilitate sessions on income diversification, to reinforce the importance of this to the culture and success of the organisation.

Universities must be prepared to embed skills at all levels that foster income diversification in their development provision. They can offer cross functional development opportunities to facilitate the sharing of ideas and enhance the likelihood of income diversification. They may use competitive benchmarking in their development provision to encourage income generation.

Universities are all recruiting development and alumni professionals, but all staff need to be able to exploit their respective networks to raise income. Traditional staff roles are changing, with academics becoming fundraisers and learning how to operate on a more commercial basis. One interesting example is the 'Commercial Breakthrough Programme', that we ran at the University of Edinburgh for Heads of Section in Veterinary Clinical Sciences. The aim of the programme was to enhance the Vet School's understanding of operating in a customer facing business environment, and consequently to increase clinic income. Some of the competencies that staff had the opportunity to develop were: the commercial mindset; effective deal making (influencing

and negotiating); project managing commercial actions; and opportunity spotting, screening and testing. These skills are new to the higher education context – but have great relevance in our new funding environment.

One cannot emphasise enough the importance of adopting a sophisticated and differentiated approach to institutional leadership, one that is informed by and tailored to national, institutional and individual needs. That is to say, that there is no single solution that can be adopted across the piece. Each institution will need to identify solutions in respect of its own strategic priorities and national governance and funding context. This being said, it is possible to propose some broad recommendations: the professionalisation of management and leadership in European higher education is about creating the right culture, supported by the right structures attuned to institutional strategic priorities, and should focus on:

- Institutional governance;
- Build and enhance leadership capacity at every level to achieve fundamental culture change; and
- Transform policies on people management to support flexible, agile workforces by embedding an ethos of high quality leadership in all that universities do to create the conditions for greater financial sustainability.

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Funding conditions for research and transparency, some experiences in the Netherlands

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External funding is an important topic in the Netherlands. In the financial field, some experience has been gained in the sphere of regulations, accounting and quality control. Measures are inspired by the desire to simplify financial transactions and to reduce red tape. In this paper some insight is given in the prevailing funding techniques in the Netherlands: how government funds are allocated to universities, and what rules govern the funding process. The importance of an efficient control mechanism is also discussed, giving attention to the measures implemented to guarantee the quality of the funded (research) output. The paper concludes with some recommendations, so that the Dutch experience might be used by other countries as an example of good practice.

1 Funding universities in the Netherlands

The higher education system in the Netherlands is based on a three-cycle degree system, consisting of a bachelor, master and doctoral degree. The three-cycle system was officially introduced in the Netherlands in 2002-2003. In addition, the Netherlands have a binary system of higher education, which means that there are two types of providers: universities traditionally deliver research-oriented education, while professional higher education is offered by universities of applied sciences or institutions for higher vocational education.

The Netherlands count 13 research-universities (RU) and forty universities of applied sciences (UAS), which together educate well over 600,000 students, to the ratio of one-third for research universities and two-thirds for universities of applied sciences. Together, they constitute the Higher Education Institutes (HEI). Yearly they deliver some 90,000 diplomas, half of these awarded by UAS (mainly at bachelor level) and the other half awarded by research-universities (Bachelor and Master level). On the research end, they produce 2,8 per cent of publication output in the world (108.000) and 3200 Doctorates. The quality of this output is expressed in a high citation-impact: In the Netherlands the impact is 1,33, which means 33 per cent above world-average.¹

¹ Science and technology indicators 2010, Netherlands observatory of science and technology NOWT.

Funding modalities for universities in the Netherlands are characterised by an increasing diversity of funding sources, which requires more control on the expenses and therefore demands much from the administrative organisation of government and university administration. At the same time, universities and research institutions must be accountable to funders and society at large by demonstrating quality and showing how they have used the funding (both public and private). In this regard, full costing is one of the key pillars of accountability because it is an instrument which also shows funders how their funding has been spent.

The Dutch higher education institutions are largely publicly funded. This can be illustrated by the following public income streams:

- First income stream: substantial (direct) government contribution, which makes up 60 per cent of all HEI money (RU: 3,2 billion Euro and UAS: 2,3 billion Euro).
- Second income stream: government money which is distributed by some (public) science organisations such as the Netherlands Organisation for Scientific Research NWO and Royal Netherlands Academy of Arts and Sciences KNAW for projects on the basis of competition. Only research-universities are eligible for this flow of funds. These funds have stabilised in the last few years (0,37 billion Euro).
- The third income stream, which also increased in the last few years, can be identified as project-money for which universities compete with other types of entities such as companies. This includes project-based funding from the European Union and from the national authorities (0,98 billion Euro);
- The fourth income stream are tuition- and examination-fees (0,4 billion Euro).

One should note that the first income stream is comparable for both types of universities (60 per cent). However, the role of second/third income streams and income by student tuition is different: UAS are dependent on a relatively large part of tuition-money (18 per cent and a relatively small part from the third income stream – they are not eligible for the second income stream made of competitive research funds), while for the research universities the opposite can be stated.

The system of (public) funding of HEI can be summarised as a system of redistributing government money. The amount of the total available public funding is adjusted by the ministry of finance on the basis of reference estimates about the number of expected new students (increase/decrease of future student numbers). These funds are then divided into two fixed budgets for UAS and RU. The RU budget is furthermore divided into an education and research compartment.

The UAS receive the lump sum in one whole. The money is as a matter of principle intended for education. Furthermore, UAS receive funds for applied research activities.

This is in particular used for lecturers or teachers who give professional lessons, in which they link academic theory with business-knowledge they acquire from experiences in the business community. These lecturers have a kind of bridge-function between academia and business.

The research universities receive an amount comparable to the UAS education money, and are also granted funds that are formally labeled for research. However, since the universities are autonomous, it can be used for all activities stipulated in the Higher Education and Research Act: education, research and knowledge dissemination. Some research universities also get specific funds for special academic purposes such as academic hospitals (0,5 billion Euro).

The lump sum money is divided over the institutions on the basis of a number of allocation keys, which include a number of performance figures. The largest of these are based on education figures such as the number of students and degrees. It is completed with a fixed 'education-part', which is distributed to the universities on the basis of fixed percentages.

Like the education part, the research part is also divided between the universities on the basis of indicators: number of awarded first Master diplomas, number of awarded Doctorates, a fixed amount of money for research and also some money for doctoral schools.

2 Autonomous universities and the need for transparency

Universities in the Netherlands have a high degree of autonomy in many areas. The ability to act as independent financial entities is one of the key drivers for universities and research institutions towards achieving their strategic goals. As seen above, universities are free to spend their public money on all tasks related to education, research and knowledge dissemination. Institutional autonomy also enables universities and research institutions to meet the challenges (new roles and tasks) of an increasingly complex global environment. This requires them to increase and diversify funding sources. That includes funding from a variety of public sources.

From the perspective of the different funders, one of the issues is that it is not clear who funds what. This naturally creates tension. On the one hand, lump sums provided to universities mean that they can spend this money according to their own priorities; on the other hand, the different funders need to have a clearer picture of which elements are already funded by this lump sum. To further complicate the picture, it should be taken into account that applied- and fundamental research activities also make use of facilities such as buildings (and therefore trigger indirect costs) so that

project-money (second and third flows of money) need to be complemented by government money (first-stream money) through co-financing mechanisms.

The core of the problem consists in identifying who has the responsibility to pay the indirect costs for facilities for research. In other words, there is a need for financial transparency. What exactly is the total income, and which part of that income will be used for which activity, or is responsible for which outcome?

Currently, higher education institutes provide financial information regarding income (through annual reports) and the overall spending, including staff expense and material costs. However, it remains unclear how the funds are distributed internally to education, research and knowledge transfer activities. Government and institutions might have different aims, which can lead to tensions. On the one hand, the government has a special interest in uniform quality information about output and outcomes, which are related to political goals and public interest. Whereas, on the other hand, HEIs and other autonomous research institutes choose their own strategies, which do not necessarily coincide with government aims.

To improve the relationship between funders and researchers, some adjustments have already been made by the Dutch authorities in the fields of definition, administration and communication. However, although there is overall appreciation for the improvements made, the only way to really cut red tape is to move to a trust-based approach. In addition, continuous attention should be given to the uniform application of rules and to the further improvement of the single registration facility as well as the development of full costing methodologies to ensure a level playing field.

3 Examples from the Netherlands

The following section details some important measures taken by the public authorities in the Netherlands to simplify public funding, which in turn is an important factor to improve diversification of income streams.

3.1 Uniform subsidy framework

Some experience has been gained with common guidelines for regulations, accounting and quality control. The measures are inspired by the desire to simplify financial transactions, to reduce red tape and to increase transparency by applying common definitions for costing. A first step to diminish the administrative burden is the cross-sectoral framework developed in 2010 by the Department of Finance regarding management and control of public grants. All Ministry departments are due to adopt the principles of this framework for all government subsidies, including research by

2012. This notably includes proportional accountability requirements in relation to the size of the government grants with three arrangements. For grants up to 25.000 Euro, the principle is that efforts for both the beneficiary and the funder are kept to a minimum in terms of financial administration; grants between 25.000 and 125.000 Euro do not require an audit; grants exceeding 125.000 Euro do require an auditor's statement but financial modalities have also been simplified with a view to reduce administrative costs.

3.2 Agreement about funding rules

Funding organisations and agencies play an important role not only because they provide external funding, but also due to the funding requirements and conditions that are linked to this funding and which have obvious steering effects on universities. They offer a broad spectrum of funding opportunities at national level, with the various agencies developing their specific profiles, e.g. focusing on basic or applied research, innovation or specific structures of research projects (cooperation with industry, centers of competence, etc.). However, these opportunities are often linked to a substantial diversity in funding models and mechanisms.

Universities are thus confronted with very heterogeneous sets of requirements depending on the different types and roles of national and European funders. Some funders fund only part of the costs whereas some others moved towards funding the full costs of an activity. It is clear that, in these conditions, it is a challenge for universities to develop their own coherent systems, as these heterogeneous requirements often force them to develop and maintain multiple systems based on different approaches and cultures.

To overcome these challenges, and in addition to the uniform subsidy framework, all stakeholders such as universities, the government and intermediary funding bodies are working together to establish a transparent system, which should allow funders and beneficiaries to better identify who is paying which part of an educational or scientific activity. The new agreement was concluded in 2010 and the intention is that it should facilitate the transition towards funding on a full cost basis. This specifies which (direct) costs incurred in the framework of an externally funded research activity are reimbursed. Another important element of this agreement are transparent and clear definitions of funding. The parties involved are: the Netherlands Organization for Scientific Research (NWO); the Association of Universities in the Netherlands (VSNU); the Royal Netherlands Academy of Arts and Sciences (KNAW); the Netherlands Organization for Health Research and Development (ZonMw) and the Dutch association of Charity funds VFI.

3.3 Development of full costing

It is the responsibility of the autonomous universities to develop strategies and spend the funds made available to them in a transparent manner, in a way that contributes to achieving the goals they have set. Full costing is of paramount importance to that end. For the government, on the other hand, it is important to know that government money is efficiently spent for agreed government goals. In the Netherlands, it can be seen that funding for universities is shifting from significant core funding, providing 'internal' resources which universities are able to allocate according to their own strategic goals, to a model dependent on competing for funds and thus increasingly influenced by research priorities set by funders. The government helps to develop this process, but still takes into account that the government goals will be maintained.

Autonomous, accountable universities have to deal with this situation while preserving the sustainable funding of their activities and diversify their funding streams. As a consequence, universities develop an increased awareness of the real costs or full costs of their activities as a basis for informed decision-making with respect to their activities and the funding streams relevant for them. They also develop a more strategic approach to research management and the internal allocation of resources to support their research. Full cost awareness as well as pro-active management are seen as two essential principles on the way to achieve sustainability of university-based research.

This can be illustrated with the example of the University of Amsterdam (Aartsen, 2008), which has developed an elaborate full costing system. However, this situation is not representative, since the administration of research funds is still heterogeneous in the Netherlands. In the case of the University of Amsterdam, (financial) transparency is strongly supported by the board and senior management team. In this environment, an appropriate climate for cost-(recovery) related decisions could be established. A further step was to delegate full financial responsibility to faculty deans, so that synergies between financial and academic policies could be better exploited. Under these conditions, it was possible to rationalise the internal budget allocation by relating (cost-informed) budgets to performances and by automizing preferred behaviour. However the implementation of a time allocation system (hours spent for academic tasks) to take account of time as the primary cost driver is challenging, due to a resistance towards time recording mechanisms.

Institutions are wary of increased administrative burden, which cannot be avoided in the beginning of large accounting/funding changes. In the long run, however, full costing could be identified as a necessary precondition for sustainability. The ability to identify one's full costs comes with a responsibility to manage them strategically,

which can only be achieved if all actors involved, including funders of research (whether for core funding or competitive funding), understand and accept the principles involved and recognize the need for universities to recover the full costs of their activities. Whether or not funders then cover those costs is the second part of the issue. It is important, in this context, to recognize that costing and pricing are two separate but interrelated activities. Full costing also puts the university in a better position to establish collaborations with industry and with other partners and to price its research competitively or at a level which matches the expectations of non-industrial sponsors.

Excellent research needs excellent management: it needs to be recognized that, as well as the ability to identify the full costs of their research, it is important that universities have the management and administrative infrastructure necessary to manage their internal resources so as to support the strategic co-financing of their research in a sustainable way. In other words, the move towards full costing is not an end in itself: it simply provides an essential tool which universities need for identifying and understanding their full costs and through which they can move towards financial sustainability.

3.4 Single Information Single Audit (SISA)

SISA is another illustration of a successful adaptation of the accounting requirements, enabling easier and more efficient auditing. In 2007, the Dutch authorities introduced the so-called "single information single audit" system, SISA, to reduce the multiple audit declarations and other administrative red tape. This system enables universities to account for the use of all kinds of financial instruments (subsidies, commissioned work, etc.) with one financial accounting document, one audit and one audit declaration. The system is based on a single accounting protocol (standard definition of eligible costs and other conditions) and a single authority (desk/mailbox) distributing the information among the other authorities concerned. It aims at reducing the redundancy of the system (avoiding duplication of accounting information and audits) and seeks to enhance the uniformity of applying rules. It also aims at harmonizing Dutch and EU accounting basics as much as possible.

SISA results from an agreement between the government and universities through the National Rectors' Conference VSNU. By concentrating audit and financial accounting requirements in one single document, it has significantly reduced red tape and increased transparency in the system since it came into force in 2009.

4 Quality control as a condition for funding HEI

Universities and external funders have agreed on a uniform protocol for research assessment. The aim is to improve research quality based on external peer review, and accountability to the board of the research organisation and to the funding agencies.

Systems of quality assurance are applied for education and research separately.

- For research activities, universities make use of a Standard Evaluation Protocol (SEP). On the basis of (external) peer-review, connected institutions judge the quality of their output under the supervision of the Royal Academy of Arts and Sciences KNAW. This is done every six years.
- For educational activities, Dutch and Flemish universities share a common accreditation institute, NVAO, which role is to guarantee the quality of the HEI. This accreditation is important, since it is seen as a condition for the right to get (public) funding. This is done every six years.

4.1 Guaranteeing quality of research

The Standard Evaluation Protocol (SEP) was developed to guarantee research quality in the Netherlands. The SEP for 2009-2015 aims at two objectives with regard to the evaluation of research (including doctoral training) and research management:

- Improvement of research quality based on an external peer review, including scientific and societal relevance of research, research policy and research management;
- Accountability to the board of the research organisation, and towards funding agencies, government and society at large.

The rhythm of the SEP consists of a self-evaluation and an external review, including a site visit once every six years, and an internal mid-term review in between two external reviews. In the SEP, guidelines regarding assessment criteria, minimum information requirements and the procedure of the external review are formulated.

After the site visit, the evaluation committee will report its findings to the board of the research organisation. The board will publish the report after internal discussions with the assessed research unit and will make public its position regarding the evaluation outcomes. The evaluation report and the position of the board together constitute the results of the evaluation.

External evaluations are of great value to the institute and its researchers, since international experts in the field formulate recommendations regarding the research includ-

ing the strategy and policies which direct and provide the conditions for the conduct of research.

With the external evaluation, the institute and its research groups account for their research activities to the board of the university, KNAW or NWO. In a broader sense the external evaluations inform funding agencies, government and society at large of the quality and relevance of research activities, thus accounting for the public investments made in scientific research.

4.2 Guaranteeing quality of higher education

A high quality standard of higher education is maintained through a national system of legal regulation and quality assurance. The Ministry of Education, Culture and Science is responsible for legislation in the area of education. As of 2002, responsibility for accreditation lies with the Netherlands-Flemish Accreditation Organization (NVAO). According to the section of the Dutch Higher Education Act dealing with the accreditation of higher education, all degree programmes offered by research universities and universities of applied sciences will be evaluated according to established criteria, and programmes that meet those criteria will be accredited, i.e. recognized for a period of six years. Only accredited programmes will be eligible for government funding, and students will receive financial aid and graduate with a recognized degree only when enrolled in, or after having completed, an accredited degree programme. Accredited programmes will be listed in the Central Register of Higher Education Study Programmes (*CROHO*) and the information will of course be available to the public.

5 Conclusion

The role of the government is to bolster a good tertiary education and research system. Conditions need to be created that serve to maintain, but also to improve a sustainable, well-functioning research system. To meet such conditions the government provides resources through core funding for the performance of three tasks: education, research and knowledge transfer in order to: a) allow young researchers to enter the research system; b) reward excellent research performances; c) allow for long-term risky research.

Additional sources have their own terms and conditions (funding schemes, rules for accountability, etc.). Even within one organization these rules might differ. In addition, funding programmes at European and international levels work according to other specific rules. This situation calls for simplification and coordination at the national, European and international levels.

The Dutch legislation and regulations have been amended and strict frameworks have been enforced in order to reduce the enormous jungle of regulations. Thus, we have managed to cut down the requirements for public research subsidies to a single comprehensive scheme. The Ministry of Finance provided a framework, while the Ministry of Economic Affairs and the Ministry of Education, Research and Science have adapted their regulations accordingly. The goal and the result of the accounting measures are the improvement of financial transparency and the reduction of red tape.

Full costing systems are another important instrument to university management in this context, as a strategic tool and for the conduct of research itself, increasing the financial sustainability of universities. It is important that universities have the management and administrative infrastructure necessary to manage their internal resources, so as to support the strategic co-financing of their research in a sustainable way.

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University autonomy in Europe

Thomas Estermann and Monika Steinel, European University Association

Many governments, the university sector and the European Commission have all recognised that increasing university autonomy represents a crucial step towards modernising higher education in the 21st century. However, the study “University Autonomy in Europe I”, conducted by the European University Association in 2009, highlights that, in practice, public authorities still play too central a role in the regulation of higher education systems. Despite the fact that public authorities in a number of European countries have moved away from direct state control towards more “indirect” steering mechanisms, universities often continue to lack autonomy in many crucial areas, particularly in terms of managing their finances. The paper analyses each dimension of university autonomy and ends with some key recommendations in order to enable institutions to make full use of their potential.

1 Introduction

EUA’s study “University Autonomy in Europe I” compared thirty-four European countries and analysed more than thirty different indicators in four key areas of autonomy. These included organisational autonomy (covering academic and administrative structures, leadership and governance), academic autonomy (including study fields, student numbers, student selection as well as the structure and content of degrees), financial autonomy (covering the ability to raise funds, own buildings and borrow money) and staffing autonomy (including the ability to recruit independently, promote and develop academic and non-academic staff).

EUA’s latest project, the “Autonomy Scorecard”, will provide further up-to-date information by the end of 2011 on the state of university autonomy in Europe. A core set of autonomy indicators will be developed to offer an institutional perspective on institutional freedom and thus enable a more successful benchmarking of national policies with regards to university autonomy.

2 Terminology

Perceptions and terminologies of institutional autonomy vary greatly across Europe, and separating the various components of autonomy to ensure that we are looking at like-for-like is a difficult process. There is a vast amount of literature on the topic, which has led to a wide range of definitions and concepts of university autonomy (see for example Clark (1998), Sporn (2001), Salmi (2007), Huisman (2007)).

As the study points out, the rules and conditions under which Europe's universities operate are characterised by a high degree of diversity. This variety reflects the multiple approaches to the ongoing search for a balance between autonomy and accountability in response to the demands of society and the changing understanding of public responsibility for higher education. Indeed, the relationship between the state and higher education institutions can take a variety of forms, and it should be stressed that an "ideal" or "one-size-fits-all" model does not exist. In this article therefore, "institutional autonomy" refers to the constantly changing relations between the state and universities and the differing degree of control exerted by public authorities, which are dependent on particular national contexts and circumstances.

3 Why do universities need autonomy?

There is broad agreement between stakeholders that institutional autonomy is important for modern universities. While this notion has been empirically substantiated in various studies, it should also be noted that autonomy alone is rarely enough. Though institutional autonomy is a crucial precondition that enables universities to achieve their missions in the best possible way, other elements are equally necessary to ensure real success.

The relationship between university autonomy and performance has been widely discussed. For example, in their contribution "Higher Aspirations: an Agenda for Reforming European Universities", Aghion et al. analyse the correlation between performance in rankings, the status of autonomy and levels of public funding. They found *"that universities in high-performing countries typically enjoy some degree of autonomy, whether in hiring or in wage setting"* and that *"the level of budgetary autonomy and research are positively correlated"* (Aghion et al. 2008: 5).

In addition, autonomy helps to improve quality standards. EUA's Trends IV study found that *"there is clear evidence that success in improving quality within institutions is directly correlated with the degree of institutional autonomy"* (Reichert & Tauch 2005: 7). This correlation was recently confirmed by EUA's Trends 2010 study (Surssock & Smidt 2010).

Third, there is a link between autonomy and universities' capacity to attract additional funding. The recent EUA study "Financially Sustainable Universities II: European universities diversifying income streams" found that a university's ability to generate additional income relates to the degree of institutional autonomy granted by the regulatory framework in which it operates. This link was established for all dimensions of autonomy, including organisational, financial, staffing and academic autonomy. The data revealed that financial autonomy is most closely correlated with universities' capacity to attract income from additional funding sources. Staffing autonomy, and particularly the freedom to recruit and set salary levels for academic and administrative

staff, were also found to be positively linked to the degree of income diversification (Estermann & Bennetot Pruvot 2011). Finally, by mitigating the risks associated with an overdependence on any one particular funder, a diversified income structure may, in turn, contribute to the further enhancement of institutional autonomy.

It should be noted that policy-makers tend to regard autonomy reforms as an important driver of university modernisation. And higher education institutions, too, consider the further improvement of university autonomy as a priority. According to EUA's Trends 2010 report, 43 per cent of university respondents viewed autonomy reform as one of the most important institutional developments in the past decade (Sursock & Smidt 2010: 18).

4 Trends in the different autonomy dimensions

Although stakeholders broadly agree on the importance of university autonomy, success in implementing the necessary reforms has varied considerably across Europe. The following provides a general overview of the main trends in the four areas of university autonomy.

Organisational autonomy

Although higher education institutions in Europe almost invariably operate in the context of an external regulatory framework, the extent and detail of these regulations vary significantly where universities' organisational autonomy is concerned. In the majority of countries, institutions are relatively free to decide on their administrative structures. Their capacity to shape their internal academic structures within this legal framework is already more restricted.

In addition, there is a trend towards the inclusion of external members in the institutional decision-making processes, especially where universities have dual governance structures. While this is seen as an important accountability measure, it also clearly serves other, more strategic, purposes. Indeed, external members in university governing bodies are frequently selected to foster links with industry and other sectors.

As far as leadership is concerned, the shift towards CEO-type rectors in a number of Western European countries goes hand in hand with greater autonomy in management and the capacity to design their organisational structures. On the other hand, a significant number of more traditional models exist, in which the rector is a "primus inter pares" who is selected by and from among the internal academic community.

Finally, dual governance structures – with some type of division of power between bodies, and usually comprising a board or council and a senate – as opposed to unitary structures, are on the rise.

Financial autonomy

In a majority of countries, universities receive their funding in the form of block grants. In some systems, line-item budgets are still used, and institutions are thus unable to shift funds between budget lines. This is mainly the case in certain Eastern European and Eastern Mediterranean countries. In a small number of cases, even self-generated revenue is strictly regulated.

While universities in most systems are allowed to borrow money, laws specify certain restrictions, especially in Northern Europe: they may prescribe the maximum available amount or require the authorisation by an external authority.

Only in half of the surveyed countries are universities able to own their buildings. Even those who do own their facilities are not automatically able to decide on investing their real estate, nor are they necessarily free to sell their assets. Restrictions range from dependence on the approval by an external authority to complete inability to sell.

In many European systems, universities can collect tuition fees or administrative charges from at least a part of the student population. Nevertheless, this does not mean that these fees reflect a significant contribution to the costs of education or an important form of income. In most cases, additional limitations are placed on the ability of universities to set fees as a means of generating income.

When combining all aspects of financial autonomy, Western European countries seem to benefit from greater freedom than their Eastern European counterparts. In general, universities in Western Europe are more autonomous in how they use the public funding they receive, but less so with regards to raising tuition fees. Eastern European countries tend to be less autonomous in the use of their public budgets, but are often able to decide on privately-funded study places and use the fees the latter generate. The most obvious examples are Latvia and Serbia, where universities receive line-item budgets, but may freely set tuition fees.

Staffing autonomy

In some countries, universities are gaining greater flexibility in dealing with staffing issues, as staff is being paid and/or employed directly by the university rather than by the government. However, the decisions on individual salaries are still to a large degree controlled by the government. In almost half of the countries studied, all or a majority of staff has civil servant status, which underlines the sustained need for more flexible forms of employment for university staff.

The analysis also shows that there are significant differences in the recruitment of staff, ranging from a considerable degree of freedom to formalised procedures that

entail an external approval, sometimes by the country's highest authorities. Although this may be a formality in some cases, it nevertheless impacts on the length of the recruitment procedure and therefore on the ability to act quickly in a competitive and increasingly international recruitment environment. Some Mediterranean countries have very little freedom with regards to staffing matters, as they are unable to determine the number of staff they recruit and hence lack control over overall salary costs. Even individual salary levels are determined by national authorities.

Academic autonomy

In a majority of European countries, universities are essentially free to develop their academic profile, although restrictions remain in other areas of academic autonomy. The introduction of new programmes usually requires some form of approval by the relevant ministry or by another public authority and is often tied to budget negotiations, which demonstrates the interdependence of different dimensions of autonomy. Universities are generally free to close programmes independently; only in a small number of systems does this matter have to be negotiated with the pertinent ministry.

In most countries, admission to higher education institutions tends to be free for all students that meet the basic entry level requirements (usually a secondary education qualification and/or a national matriculation exam). Only in a minority of countries are universities free to decide on the overall number of students. In most cases, overall numbers are either determined by the relevant public authorities or decided jointly by the public authority and the university. In a third of the countries analysed, universities can freely decide on the number of study places per discipline. However, the allocation in some fields may be subject to negotiations with an external authority, or set within the accreditation procedure.

5 What else is needed to increase and exploit autonomy?

Although the institutional freedom of European universities has generally increased, a number of countries still grant their higher education institutions too little autonomy and thereby limit their performance.

The impact of the financial crisis has been profound: in some cases, previously granted autonomy has been reduced. In a number of systems, national governments have once again resorted to more direct steering mechanisms, while tighter public budgets have produced heavier reporting procedures. Public authorities need to find ways of steering universities through performance and incentive mechanisms, rather than through excessively burdensome and unsuitable reporting requirements. In some countries, short-term reactions to the crisis have also translated into drastic public funding cuts, putting strong pressure on universities. Although institutional autonomy

is crucial, its full benefits cannot be reaped without a firm commitment to stable and sufficient university funding.

There also remains a frequent gap between formal autonomy – autonomy “on paper” – and a university’s actual ability to act independently. As mentioned before, significant increases in accountability measures have frequently curtailed university autonomy, highlighting the importance of striking a balance between institutional freedom and adequate accountability tools.

It is particularly important to underline the strong interrelations between different autonomy areas: if universities are constrained in their financial freedom of action, other dimensions of autonomy, such as organisational, staffing and academic autonomy, may be severely limited by implication. Autonomy reforms should adopt a holistic approach, taking account of all dimensions of institutional autonomy.

Finally, reforms in the field of governance and autonomy will not be successful unless they are accompanied by measures to develop institutional capacities and human resources. The need for efficient and effective management and leadership and for new technical and specialist expertise in a variety of areas must be addressed if universities are to respond to the new demands placed on them. Crucially, this issue needs to be dealt with jointly, both by universities and the relevant public authorities.

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