

European Universities Diversifying Income Streams: an overview of the study

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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?

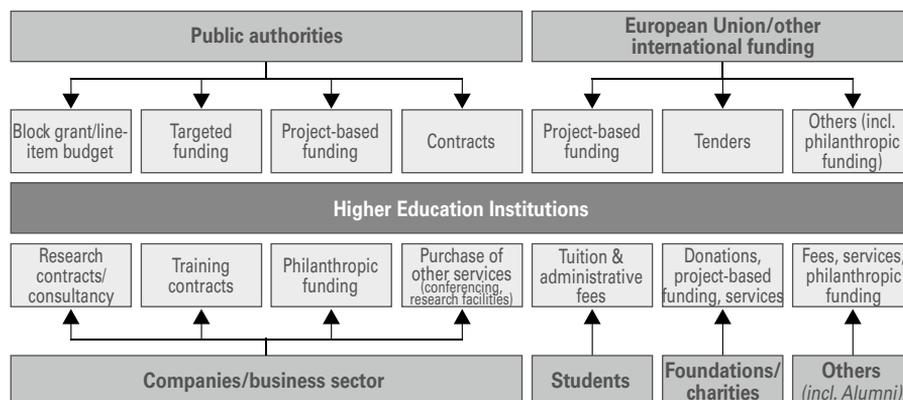
In the framework of this research project, income diversification is understood as the generation of additional income (through new or existing funding sources) that contributes to balancing the income structure of the institution. It is a tool to achieve financial sustainability, if the conditions in 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.

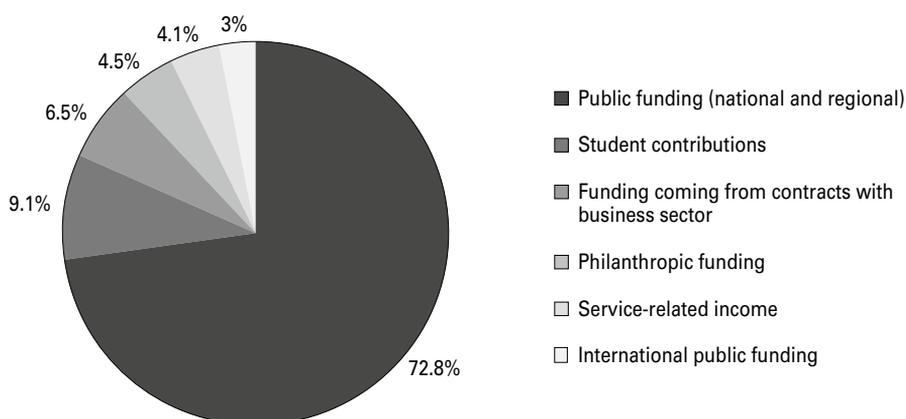
Student financial contributions or fees have the potential to constitute a large income source, considered by those who can charge them as fairly predictable and giving the university the ability to invest over the long term. Their importance varies greatly however depending on the legal framework in 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.

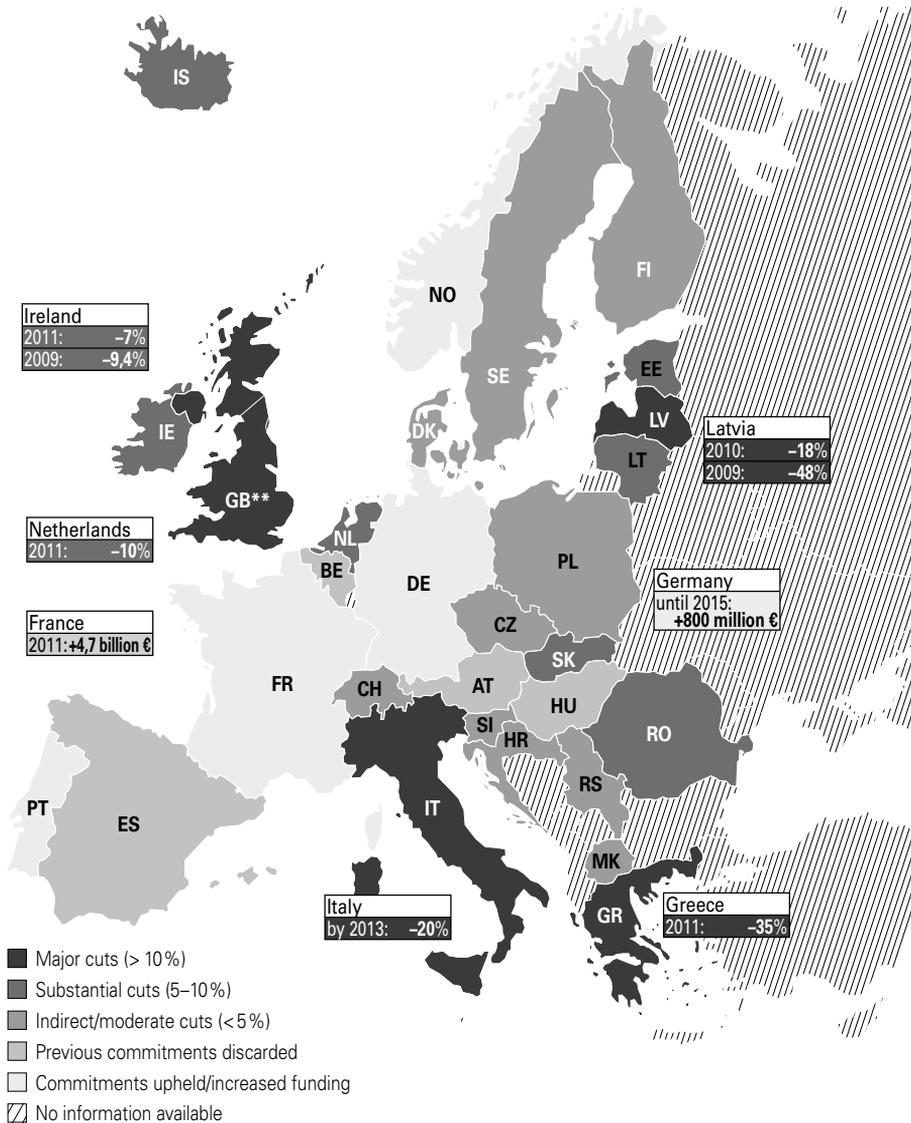
In some countries, public authorities have developed mechanisms to support universities applying to European funding programmes, for instance funding the preparation phase of a project or by providing the missing part of the funding. However, if such schemes are not coordinated among member states, they 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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