

Towards Financially Sustainable Universities II: Diversifying Income Streams

Conference report

I. Setting the scene

1. Income diversification in European universities is the focus of EUA's project EUDIS, which comes to a close at the beginning of 2011. This two-year research project forms part of [EUA's work on financial sustainability](#) and relies on related studies and work. It addresses university leaders and managers by providing them with best practice and innovative approaches to start or improve their income diversification strategies. It also seeks to inform policy-makers at European and national levels on what they can do to foster income diversification in universities by providing evidence-based recommendations. The project focuses on the generation of income from "alternative" sources and on efficiency measures. Private funding in the form of financial contributions from students is not the primary consideration in this study given the complexity of the different systems existing in Europe today and the nature of this funding source (partly public through student support schemes).
2. The economic context and the European political agenda highlight the relevance of this topic for universities, confronted with decreasing public funding in most European countries. The review of the European Commission's Modernisation Agenda for Higher Education and the debate on simplification of funding programmes provide an opportunity to improve framework conditions for universities.
3. The conference organised at the University of Bologna on 13-14 September 2010 sought to disseminate the findings of the EUDIS study, based on major data collection and site visits, as well as to compile additional input from speakers, panellists and participants.
4. In a keynote speech, Nigel Thrift, Vice-Chancellor of the University of Warwick, stressed that income generation and diversification helps the academic enterprise, rather than hindering it. Knowledge transfer, commercial operations, public-private partnerships and philanthropic giving are four main areas of diversified income for his institution. It also helps the university to reduce dependency towards public authorities in relation to its internal management. He outlined three key success factors to income diversification – a flat management structure, an entrepreneurial attitude and an outward looking mindset.
5. Autonomy is a key prerequisite for income diversification. Public authorities need to engineer comprehensive reforms accordingly, with special attention to governance structures. This was illustrated by Philippe Aghion, Professor of Economics at Harvard University, when discussing the case of the ongoing autonomy reform in France. It is crucial that members of governance structures have the necessary skills to steer the university's strategy, including its financial aspects, in the best way possible.

II. Findings of the EUDIS project

6. Thomas Estermann, EUA Head of Unit for Governance, Autonomy and Funding, presented the [findings of the EUDIS project](#). The starting point of the analysis is that European universities continue to rely heavily on public funding (73% of their income on average). Public authorities mostly resort to block grants when funding universities, often based on funding formulas which increasingly include performance or output criteria. The attraction of external funding may be one such criterion.
7. Public funding also comes as project-based or targeted funding, most often in the form of competitive funding for research activities. The nature of these funds, earmarked to the completion of specific outcomes, may however influence the internal allocation of resources and thus reduce their financial autonomy.
8. Alternative funding streams include all other sources, with the exception of student financial contributions which usually represent a significant funding category when universities are allowed to charge fees. Although tuition fees objectively represent a large potential for income generation, this matter remains largely out of the hands of universities, and raises a number of specific issues concerning access and student support schemes which are not addressed in the EUDIS project.
9. Alternative funding streams already represent more than 10% of the budget of a majority of universities in Europe. They include contracts with the private sector, philanthropic funding, income-generating services, financial activities and international public funding such as European funding programmes.
10. Universities largely expect this type of funds to increase in the future, and generally expect to have to deal with a variety of different funders, thereby making their financial management more complex.
11. In this context, **public authorities** have a role to play in fostering income diversification for universities. A prerequisite is to grant sufficient autonomy to higher education institutions, particularly in terms of financial capacity. The data analysis showed that more autonomous universities are better equipped to attract alternative funds. In turn, a diversified funding base enhances the autonomy of the institution towards its main funder. Autonomy reforms are being undertaken throughout Europe but this in itself is not a driver of diversification; successful reforms need to include support for leadership, skills and structure development.
12. Funding modalities also have a strong impact on the capacity of universities to diversify income. Reducing the administrative burden caused by the multiplicity and complexity of rules across funders (and sometimes even from sources from the same funder) is a crucial point to encourage universities to seek new funding and channel more money into actually funding the activities, rather than administrative processes.

13. Funding on a full cost basis also constitutes a strong incentive to look for additional income. The current trend towards more use of co-funding however endangers the long-term financial sustainability of universities. This constitutes a major problem, as most universities have to deal with co-funding on a regular basis.
14. Matched funding schemes prove to be an efficient tool to encourage universities to seek donations. Where they are put in place, both funders and beneficiaries judge them as a highly successful instrument. These schemes remain an exception in Europe and their emulation is highly recommended. *See point 17*
15. **Universities** seek to diversify their income base to mitigate the risks linked to excessive dependency towards their main funders. They are also driven by the need to obtain flexible, unconstrained money which they may use to fund current core activities, mission expansion and enhance their competitiveness. Internal obstacles to income diversification range from the lack of information and awareness among the academic community to inadequate internal structures and the lack of expertise. Universities have been engaging in a variety of income generating activities, such as cooperation with industry, setting up spin-off companies, and lifelong learning activities. Universities have also been using internal allocation mechanisms to encourage income generating activities inside the institution.
16. Integrating income diversification in the university's strategy requires the following steps:
 - a. Identification of strengths and specificities to develop a branding strategy
 - b. Analysis of perspectives for income generation of the university's activities
 - c. Investment in people, leadership and management
 - d. Communication to the university's community and towards external stakeholders
 - e. Adaptation of structures and organisation
 - f. Provision of internal incentives

III. Frameworks and conditions for income diversification

17. Among the possible incentives set by public authorities to foster income diversification, **matched funding schemes** appear as a very efficient instrument. Their goal is to increase the impact of philanthropic funding to universities and therefore foster the efforts of universities towards this end. The scheme set up by the Higher Education Funding Council of Wales, which its Chief Executive Philipp Gummett presented during the conference, has been developed in a way that preserves the autonomy of the university. Matched funding is not tied to the original donation and the university may decide of its allocation. The two-tier system (based on the UK's three-tier system) allows for differentiation in ceilings of donations being matched, depending on the fundraising experience of the university. Importantly, the scheme includes funding for capacity building and development activities. Training and support programmes are also available from the Council for Advancement and Support of Education (CASE) in the United Kingdom.

18. Less complex **funding modalities** are another necessary measure for universities to embark successfully on income diversification. Reducing the administrative burdens helps to release resources for the primary processes of teaching, research and innovation and gives an incentive for universities to seek new funding streams. Michael Jansen, from the Ministry of Higher Education of The Netherlands, explained how public authorities there have developed a uniform framework for all government funding (including reporting, auditing, financial accounting), motivated by the desire to simplify administrative and financial work for universities. Importantly, accountability requirements have been modelled to be proportionate to the size of grants. Other stakeholders such as foundations also agreed to the commonly designed framework. An additional aim of this initiative is to set a common terminology across funders to simplify further the management of funding for universities.
19. Another prerequisite consists in ensuring that the universities' organisation and processes are fit for purpose to address income diversification. This, first of all, entails that the necessary skills and expertise are present in the institution in the shape of **professional leadership and management**. Income diversification needs skilled management at all levels of the institution and may require new staff profiles, such as professional research administrators and fundraisers. These need to be included in the design of the university's strategy and must operate within adapted structures. Leadership may also need to take on new tasks, especially in relation to fundraising. It is clear that to engage philanthropists with the university, the leadership must be committed to these activities. Therefore it is crucial that training and support programmes are provided for the different levels of leadership in the university.
20. Discussions also highlighted the importance of designing fast and efficient decision-making processes and lean, professional governance bodies. Competences present in the governing bodies should match the tasks and roles of these entities (strategic management / quality of teaching and research).
21. Cultural change should be embedded in the university's **people management** policies: in recruitment and promotion, by making income generation an explicit criterion for appointing or promoting people, and in developing reward systems at unit or staff level. Such mechanisms should be adequately publicised to signal their importance.
22. Efficient **communication** both internally and externally plays a crucial role in a successful implementation of a diversification strategy. Presentations highlighted the importance of better communication with the increasingly multiple stakeholders, partners and interest groups of a university (beyond students, staff and alumni, this also includes the state, future students, partners, industry and society at large). While it was clear that there are multiple ways to organise communication internally and that institutions use a variety of new communication tools, with some of them also using media training for their staff as a way to integrate the whole university community, a lack of the strategic use of communication was identified.

IV. Different avenues for income diversification

23. Findings of the EUDIS project suggest that universities expect **philanthropic funding** to become increasingly important in the future; the EUDIS survey suggests that today it represents on average 4% of a university's budget . Miles Stevenson and Joanna Motion, representing CASE, argued that, for many universities, this recent focus on philanthropic funding requires them to reconnect with their earlier traditions, as many were originally founded through donations.
24. However there are still “psychological” obstacles in Europe towards fundraising, as, even though there may be a culture of giving, there is no culture of asking, especially in relation to universities.
25. Universities need to tackle this challenge proactively by addressing the issue of internal structures (many universities have no structured fundraising departments) and by making fundraising a responsibility of the leadership. The commitment of the executive head of the university was also underlined by Mathias Terheggen, Head of Philanthropy Services at UBS banks, who emphasised the need for universities to understand the needs and strategic thinking of philanthropists, moving away from “donations” to long-term “investments”.
26. The conference also devoted a session to **partnerships with business**, which clearly showed that there is no one-size-fits-all approach when collaborating with the industry. Moving from a project-based cooperation to long-term, structured strategic partnerships remains a challenge for most universities. Several models may (co) exist. The “major investment” model relies on the university's capacity to attract a large funder to commit to a medium- to long-term project of common interest. Success is partly conditional on the setting the university can offer (local research infrastructure, cross-border areas, etc) and on the university's own strengths. Clustering among complementary universities may also facilitate strategic interaction with partners from industry. This enables universities to provide business with a wider range of skills, making them a more suitable partner for an industry more and more interested in investing in training highly specialised future staff.
27. Collaboration with industry offers significant advantages to universities. Clear and transparent relationship management models are certainly a positive element; private funders facilitating interactions with further industries and decision-makers also benefit the university (“*funder snowball effect*”). Finally, the university has to understand the corporate needs, benefitting *in fine* its management of its own brand and network through a more customer-oriented approach (“*management spill-over*”). The challenge for universities is to move away from “isolated islands of activity” to a university-wide, inclusive activity with its partners.

28. Pitfalls in collaborating with industry include the lack of consistency between the university's core missions and the external funds it seeks, raising the issue of the independence and objectivity of the research carried out by the university (implicit agenda risk). This may, for instance, also put in jeopardy the focus on basic, curiosity-driven research. In long-term, structured partnerships, challenges may arise from legal matters (ownership of intellectual property rights) or in terms of governance (representation of funders in the governing bodies). Collaborations with large companies may mean that the university needs to comply with corporate policies regarding communication and recruitment.
29. The conference addressed other types of income-generating activities that correspond to the universities' core missions. One such example in the area of teaching is the use of lifelong learning. It was clear that it will be very difficult to turn lifelong learning activities from self-supporting activities (at best) into income generating activities. The approach of the University of Helsinki with its specific centre for lifelong learning, which also attracts research funding on the topic, is something that cannot be emulated everywhere. One of the key success factors was to have expert staff who can concentrate on lifelong learning activities. The case for work-based learning showed the necessary steps to success, followed by external expansion to obtain competitive money as seed funding in order to turn it into a profit-making activity in the long run.
30. The case of the University of Leuven showed the strong drive of competitive funding schemes to increase income from research in cooperation with business. To be successful such schemes need to aim to fund on a full cost basis and have favourable intellectual property regulations. The cooperation with the local and regional government is another key success factor. Finally, cooperation with industry is not easy to set up and can only work if initiatives from academics are supported by the leadership and provided with incentives.

V. International perspectives

31. International perspectives from Canada, USA and New Zealand confirmed that income diversification was a relevant issue for universities beyond Europe, although the debate may involve different conditions. In the USA, the decision was clearly made that universities should be partly funded through the students' financial contributions, and out-of-state students are usually charged higher fees, as international students are. The higher education sector in America has also been affected more suddenly and perhaps deeply than its European counterpart by the financial and economic crisis. Higher tuition fees are accepted as there is broad acceptance of the private returns to higher education. Generation of income from a variety of sources is equally faced with less resistance, as it is considered a way to support the main missions of the institutions.
32. Canadian examples of diversified income for universities included partnerships in commercial real estate or student residences, commercialisation of intellectual property, engaging students in innovation activities and fostering increased international enrolment and fees. The biggest challenge to income diversification was seen in the necessary cultural change. The use of tuition fees has become crucial in New Zealand and Australia, which are located close to rapidly growing pools of students that can afford to study abroad. The introduction of fees in New Zealand has not triggered a decrease in student participation. Panellists and participants agreed on the important role of the leadership to manage the necessary change for income diversification.