Strategic Funding
(and the Role of Performance Agreements)

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Agenda

The basics of linking strategy and funding

The choice of funding instruments

The role of performance agreements
Modern steering approaches in the HE sector are based on strategies

National strategy for the HE sector (including strategy process with stakeholders)

- autonomy, lump sums, governance
- transparency through accountability, data
- quality development with external QA
- incentives with resource allocation

Complementary components

Institutional strategy of HEI (including processes to develop vision, mission/profile and strategy)

Strategic funding

Preconditions

Only part of the story, avoid exaggerated expectations

Preconditions
Funding could coordinate state and institutional strategy

Strategic goals of the government/ministry:
- Reduced drop-outs
- Sector consolidation
- Diversity of HEI profiles
- Internationalization
- Resource mobilization
- Industry linkages
- Etc......

Strategic goals of the university, institutional profile:
- Research excellence
- Prioritize STEM
- Digitalization
- Employability
- Internationalization
- Sector consolidation
- Resource mobilization
- Industry linkages
- Etc......

Funding makes university follow state goals

Funding coordinates and aligns state and university goals

Funding promotes realization of university goals

Works especially well with performance agreements
There are three major orientations of public funding models:

- **Strategic Funding**
  - Guarantee basic funding, stability, autonomy, multi-period planning, state planning for specialists
  - But don't forget stability and planning!
  - Induce targeted incentives, focused allocation, promote strategies/profiles, ex ante funding of innovation + excellence
  - Strategic funding

- **Autonomy Funding**
  - Create competition, ex post rewards/sanctions, performance orientation
  - Strategic funding

BALANCE
"3-pillar-model" is gaining in popularity, balancing the three orientations

The structure exists in many countries, but the weighting and specific features of the pillars differ.

- **Basic Funding**
  - 75-90%
  - Stability and planning

- **Performance-Oriented Funding**
  - 5-20%
  - Ex post rewards/sanctions

- **Innovation-/Profile-Oriented Funding**
  - 1-10%
  - Pre-funding, programmes
In many countries there is a shift from input to output orientation

This transition leads to a shift between the pillars, it’s not either-or (state planning still possible)

Participation is important (organize what is decided top down and where bottom up input is needed)

Stepwise implementation (planned increase of impact on funding), pilots and announced evaluation help to ensure trust – but transparent schedule

Additional funding helps, but also zero-sum games could work (cutting of losses as a rule, invest „demographic dividend“ in performance-orientation)

Transparency of rationale, features and financial effects of new funding is important already in transition period

Important aspects of transition from input to more output/ performance orientation
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The choice of funding instruments

The role of performance agreements
The choice of funding instruments depends on the pillar

- **Basic funding**
  - historical funding
  - input-oriented formula (e.g. study places)
  - performance agreements
  - vouchers

- **Performance-oriented funding**
  - output-, performance-oriented formula

- **Innovation-/Profile-oriented funding**
  - performance agreements
  - competitive funds
  - excellence schemes

Two options to link performance agreements to funding, clear concept needed, different design (e.g. mandatory or voluntary)
Formula and agreements are complementary, not alternative.

Virtues of the instruments create a balance.

**formula**
- Infinite incentive
- No dialogue, other goals neglected
- Automatic
- Innovation not pre-funded

**PA**
- "Soft" goals
- Negotiation
- Costly, time-consuming
- Ex-ante
A certain objective could be promoted with different pillars

Example: Government wants to promote internationalization

- **basic funding**
  - if student numbers count: higher weight for international students to compensate for higher cost

- **performance-oriented funding**
  - formula with incoming and outgoing students if there is a very clear national preference for student mobility

- **innovation-/profile-oriented funding**
  - performance agreements on internationalization to support specific promising initiatives within the full range of activities and diverse HEI profiles

Model design: which objective should go where?
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Examples how performance agreements could be used in the 3-pillar-model

**basic funding**
- Agreement on study places (but no real performance)
- Funding of centers of excellence (identify by peer review, set targets)
- Promote institutional strategy with agreements (e.g. focus on cross-cutting research topics)

**performance-oriented funding**
- Agreement on internal performance-based funding of universities

**innovation-/profile-oriented funding**
- General innovation fund
- Targeted innovation fund
- Fund for profiling
- Teaching quality fund (balance quantitative components)
There are clear cases where performance agreements are the 1st choice.

Agreements offer advantages over other instruments if the following situations or intentions prevail:

- Profiles of HEIs and objectives are diverse (agreements allow differentiation of performance measurement)
- Motivation of HEIs to build their profiles, define their targets, enhance institutional strategic steering capacities is needed
- Profiles should be measurable and transparent
- Pre-funding of good ideas for the future is intended
- Performance-enhancing projects with multi-year perspective have to be supported
- Preference for building trust and partnership, intensifying dialogue exists
- „Soft“ financial sanctions are intended
If you enter into a performance agreement process...

...you have to define standards for „good“ FA

...set „rules of the game“

...create guidelines/formats for the documents

...plan and manage the process

...specify the financial mechanisms

...and base it on trust, climate of partnership
Several aspects turned out as success factors for implementation

• Invest in strategic thinking on both sides (output-orientation also means new role of the ministry)

• clear description of negotiation process with distribution of rights to bring inputs into negotiation (e.g. „ministry could never suggest activities“ – top down vs. bottom up)

• enough time for dialogue between partners, not only „paper shooting“, personal relation leads to trust, and symbolic aspects matter (e.g. venue for negotiation)

• clear schedule (limited time, but enough time for internal discussions in university)

Starting point: it could also go wrong!
Several aspects turned out as success factors for implementation

- reliability of process (surprises would reduce trust)
- allow flexibility during agreement period
- reporting duties also in between (but keep it simple and dialogue oriented), and evaluation of system after some time
- Deal with problem of losing acceptance in case of different ambitions
The basics of linking strategy and funding: strategic funding is a component of modern steering, links institutional and national strategy, leads to 3-pillar-model

The choice of funding instruments: Is related to the pillar, should take into account complementarity of performance agreements and formula

The role of performance agreements: There are various applications, certain advantages and success factors