

# University Funding in a Globalized World: A Step Back to the Roots?

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*Summary: Universities face a range of globalization challenges that create new environmental conditions. This situation serves as a motivation to take a closer look at their mix between public and private income sources. With a specific focus on the field of teaching we address three main aspects: the ties between the type of good of the university services and the corresponding funding structures, the developments that push universities towards an increased diversification of income sources (especially in those countries where universities are publicly funded to a very high degree) and - as Austria is an excellent example for such a country - the consequences for the Austrian university system.*

*Keywords: globalization challenges, university funding, income diversification, universities under reform pressures*

## 1 Introduction

In the past decades, public universities have experienced substantial changes in their environments, structures, strategies and processes which have led to considerable modifications of their role and functions as well as of the values of higher education (Parker 2011, p. 440). Their culture has moved towards a market-driven enterprise culture in line with the new managerialism of the New Public Management (NPM) (Lucas 2006; Parker 2011). Public universities are continually transforming towards hybrid organisations, which are competing globally to attract students and researchers.

As a consequence they place an emphasis on efficiency and effectiveness in order to deliver value for money. NPM was accompanied by higher concentration on output and outcome accountability and an increase in the universities' autonomy – often coupled with declining public funding and an increase in student enrolment in many OECD countries (Brügge-

meier 2005, p. 384). The greater emphasis on managerialism has a significant impact on the universities' governance structures. In many countries there is a trend towards a greater centralisation of decision-making power and an increase in the number of professional managers and administrative staff.

The move towards public universities as enterprises is reflected in considerable changes in the funding structures. Common trends are a decline of public money, a growing share of funds allocated through competition and a shift away from input-based funding in favour of an output-based scheme. Lump sum budgets increase funding based on formulas or negotiated contracts and the pressure to attract sponsors and donors grows. A rising need for third party funding coming from industry or foundations also indicates that university funding is getting more diversified (Estermann/Bennetot Pruvot 2011).

This situation serves as a motivation to take a closer look at the mix between public and private income sources at universities. For practical reasons, we put a specific focus on the field of teaching and our paper addresses three main research questions:

- Which ties do we observe between the type of good of university services and the funding structures of universities?
- What pushes universities towards an increased diversification of income sources, especially in countries where universities are publicly funded to a very high degree?
- Which consequences result for universities in Austria, serving as an excellent example for a country whose university system is existentially reliant on public money?

In the following, section II presents universities as service providers in the context of changes in the underlying perceptions of public sector reforms. Section III investigates the respective character of a given university service and outlines its connection with the funding structure. The subsequent section IV takes a short empirical look at the differences in selected countries regarding the reliance on student fees. The students' support systems in European higher education are addressed as well.

Section V outlines the reform pressures on universities which have traditionally relied on a high degree of public funding. Austria, a good example for such a situation, is discussed in section VI showing the current challenges that Austrian universities face with respect to the strategic (political) demand for an increase in the private funding of university education. So far Austria seems – in an increasingly globalised university market – to be much more hesitant than its Anglo-Saxon counterparts in embracing the competition for more and more heterogeneous private funds.

## **2 University in changing role models of the state**

Significant changes in the role models for how the public, private and non-profit sectors work together have become apparent in recent years. They can be described as a shift from a traditional bureaucratic coordination (through very detailed process-oriented legal regulations) to the brave new world of “New” Public Management and the alternative model of public governance. While NPM is in line with the contract state, public governance pursues more closely the idea of a facilitating or enabling state: a polycentric network of different actors works together for providing public services (Löffler 2009, pp. 219; Mastronardi 2007, pp. 148).

One slogan within the NPM model is separating steering from rowing. The state is responsible for public service provision but different options are available to accomplish this task. The state as producer of public services is just one of many. A second possibility is that the tasks are carried out by a (legally semi-) autonomous state agency. A third variant is that state-owned enterprises, private non-profit or private for-profit enterprises are commissioned to perform the services. (Röber 2013, p. 18).

Regarding universities, at least three alternatives can be identified (Andessner 2014, p. 42):

- Universities as semi-autonomous agencies within the public administration: Ministries of Science and Research have extensive oversight rights and monitor the behaviour of the university via a myriad

of legal regulations. In Austria this type was the predominant one for public universities until the implementation of the University law (UG) 2002.

- Universities as state-owned enterprises: With respect to the legal form, universities can choose between public law legal forms (e.g. public law associations, public law foundations) or private law legal forms (charities, public and private limited companies). Compared to the first alternative universities are more autonomous. Currently, Austrian universities are public law associations *sui generis*, meaning they are regulated by a public university-specific law.
- University in the ownership of private non-profit entities or for-profit enterprises: In this case the state is at least involved as a regulator (and resource provider) but does not have ownership rights. The latter rest within the private or third sector.

With respect to the financing of the university sector, these three alternatives correspond with different degrees of reliance on state funding. From the first alternative to the third, the extent of public funding decreases. While in the case of semi-autonomous agencies funding via the state budget is predominant, private universities rely often to a high degree on income from private sources (e.g. student fees, income from foundations and alumni networks, endowment funds). Universities as state-owned enterprises present a mixed or hybrid type. In Central Europe state-funding is still the dominate type but a trend towards a more and more diverse funding structure has emerged (Estermann/Bennetot Pruvot 2011, pp. 8). In Austria as well, public universities' shift from semi-autonomous agencies to state-owned enterprises went along with the expectations that the financially autonomous universities would act in a more business-like fashion.

NPM has resulted in a myriad of (sometimes over-bureaucratic) contracts, formula-based budgeting and (sometimes over-board) performance reporting obligations for universities. The emphasis is on the entrepreneurial mode of universities. Universities are regarded as businesses with a high degree of financial autonomy. Students are regarded as customers. Public, non-profit and private universities are competing on a

global level for students and top researchers. University rankings are important, and accreditations play an important role, signaling to students and resource providers the quality of the products of “research” and “teaching”. This goes along with a certain degree of standardisation, intense competition and a certain degree of uniformity as to what type of research is regarded as marketable or publishable. Universities are complementing their core services with publishing houses, spin-offs, technology transfer services, market-priced student housing services, etc.

While the NPM-role model is in line with the market logic and a neo-liberal attitude towards education and research as a commodity, the public governance model is rather in line with ideas coming from public policies. Like NPM, public governance goes along with a new division of labour between public, non-profit and private actors. While NPM emphasises on competition, vertical segregation and autonomy, public governance stresses the virtues of cooperation. Public governance advocates collaborative actions by multiple stakeholders, working smoothly together in service delivery networks for the greater public benefit (Schuppert 2011, p. 33). Traditional hierarchical top-down command or contracting structures are replaced by participatory democratic decision-making structures involving all crucial stakeholders. This offers the chance of employing the innovative and creative capabilities of all stakeholders for the common good. The idea of public governance is bringing citizen responsibility, democratic participation and political ideas back to the public discourse.

One key assumption of public governance is that societal problems are complex and can only be addressed appropriately by joining together different stakeholder groups. Within public governance the role of the citizen is a much more active one than in NPM. Public governance stresses that complex and difficult public tasks call for collaborative actions by multiple actors (public, non-profit, and commercial) (Greiling 2014). Each actor contributes according to his or her abilities and capabilities.

Looking at the governance structures, principal-agent relationships of NPM are replaced by polycentric network collaborations. Governance is always multi-actor governance. This is in line with a multi-stakeholder

approach which may work if all actors act as stewards for the public benefit.

With respect to the steering of universities in Central Europe, public governance is much less prominent than NPM. Elements of public governance can be found in stressing the contributions of universities as an important player in the societal welfare production, the increasing emphasis of networking and the rising importance of being well connected to crucial stakeholders. (Scientific) advisory boards, collaborative networks between the (local) industries and alumni networks may serve as examples for an institutionalised involvement of relevant stakeholder groups in the university context. Regarding university funding, the idea of public governance stresses the importance of diversified resourcing. Each partner in the stakeholder network should contribute according to his or her (financial) capabilities. The benefits arise from resource-pooling and a diversified resource basis. While NPM stresses the importance of market-generated income, public governance has a much broader understanding of resources. However, both models go along with a shrinking share of state-financing for universities.

### **3 Type of good and funding of university services**

Universities offer a variety of services which can be divided into three main categories: research, teaching and other services.

Scientific research has the character of a public or collective good. Nobody can be excluded from a public good. Collective goods are club goods for a specific group of recipients; they are non-rival.

According to Brunner (2014, p. 18) it is within the nature of scientific or basic research that not only a single person or enterprise profits from it. On the contrary, its results, published in scientific (peer-reviewed) journals, increase the knowledge of all interested persons and not only the knowledge of the group who paid directly for the research activities. As a consequence the problem of free-riding occurs, and without state-financing or state subsidiaries the provision of scientific research is below the welfare optimum.

The more applied research is, the more it conforms to the specific individual interests and the less the free-rider problem occurs. Applied research has many more elements of a private good because those who pay for it normally want exclusive user rights. Often there is a ban against the results being published in publicly accessible journals, and the knowledge created has a lot in common with consulting services. Applied research can be the starting point for addressing more fundamental research issues, which has the consequence that positive external effects might also arise (Brunner 2014, p. 19).

That one has to separate scientific research from applied research by their very nature is also reflected in the ongoing debate about rigor or relevance. Applied research is regarded as the type of research which addresses the current challenges of industries or other societal stakeholders on a much more practical level. Research results which meet the criteria of rigor share much more characteristics of a club or collective good as they are only of interest to an often small number of members within the academic community.

Teaching is also more in line with a private good, as it can be exclusive and is to a large extent marketable. Students gain individual or private benefits through their studies in the form of individual acquisition of knowledge and competences. This should lead to improved opportunities on the labour market and higher earnings (Hölzl 2013, p. 189).

Today, Europe is already facing a shortage of highly skilled labour with an appropriate university education. A huge gap exists between the Lisbon millennium aims for Europe to be the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion (see Lisbon Declaration of the Lisbon European Council of 23 and 24 March 2000) and today's reality of university graduates. In those cases where students' willingness to pay for tertiary education is below the societally appropriate level, governments intervene with incentives or subsidies for tertiary education. Then tertiary education becomes a merit good. The decision for providing a merit good is highly political and also influenced by ideological components (Appelt/Reiterer 2004, p. 18).

The nature of the different goods provided by universities has an immediate influence on the financial structures:

- Scientific research can – as outlined above – only be funded by external subsidies or internal redistribution (cross-financing through surplus income of other departments). In many cases the main resource provider is the state, supplemented by grants of private foundations or other private institutions supporting research.
- Applied research can be offered commercially and with the objective of gaining surpluses. Income generated from applied research may be used for cross-subsidising other areas.
- The funding of teaching often has a mixed structure. Tuition fees (paid by students) are augmented to a varying degree by tax-payers' money and private grants. Basically, every funding mixture is possible, from a non-chargeable offer up to a profit-generating tuition fee.

Depending on a university's strategic orientation and a country's politics towards university funding, three basic models can be differentiated:

- Model 1 – *entrepreneurial university*: The university relies fully or predominately on self-generated funding from sales of their services (in the form of applied research and tuition fees). This income can be supplemented by private donations. Here, the mobilisation of university alumni associations for resourcing plays an important role. In addition, capital incomes which are generated by university endowments or incomes from university foundations are also of some importance. Public money or state subsidies are not of essential importance.
- Model 2 – *diversified university*: The funding of the university is based on all three financial sources. Self-generated, public and private grants contribute all in a more or less balanced way to the financial basis.
- Model 3 – *state-dependent university*: The university is mainly financed by public funds. Self-generated and private grants are of no or only minor importance.



These three models are ideal types. They serve as an illustration that university funding can be positioned in the triangle of self-generated (market) incomes from sales (e.g. in form of tuition fees or income from applied research), public subsidiaries and private funds. Many European universities are state-financed. The average amount of public funding within the EU is about 72.8% (Estermann/Bennetot Pruvot 2011, p. 27).

The ideal-type models do not provide detailed information about the allocation of the self-generated funds or in which form the public or private funders allocate their grants or subsidies. The practice of fund allocation can change essentially, although the amount of coming from one income source remains the same. With respect to taxpayers' money, there are fundamental changes how the money is allocated to universities in Austria. Traditionally, Austrian universities got money for personnel, infrastructure and goods needed. The focus was on input financing. Nowadays, public money is increasingly allocated on the basis of an indicator-based lump sum budget (bmwfw 2014, p. 53). Thus, changes in the allocation mechanism need not necessarily result automatically in a decrease of the relevance of one particular income source.

#### **4 Student fees and support system in higher education: an international comparison**

This section concentrates on the funding options for university teaching. With the exception of fully commercially oriented universities, teaching in general is perceived as a merit good. However, the degree of meritisation can differ greatly. In some countries (public) universities are only entitled to collect or negligibly low tuition fees or none at all due to respective state regulations. In other countries, students contribute substantially (and over time at an increasing percentage) to the funding of their studies. The pressures on students for financing their tertiary education by paying tuition fees is sometimes absorbed by non-refundable scholarships or student loans, tax reliefs and family allowances for the students' parents.

Comparing countries, there is a great variation in the financing structures for teaching. This suggests that the extent to which teaching is considered a merit good differs. This is caused by countries' traditions, eco-

conomic conditions (e.g. the financial situation of a government) and ruling political ideologies corresponding to political majorities.

Table 1 presents results for some selected European states which participated in the project “National Student Fee and Support Systems in European Higher Education” of Eurydice (European Commission 2015). For the purpose of an extended international comparison the EU data are complemented with information about the USA and the 2014 tax and contribution ratio of the respective country (the corresponding sources are indicated subsequent to the table).

Although the findings demonstrate only country-specific trends and tendencies, the table shows quite clearly that differences exist between the countries under review. To be sure, for a closer look one would need much less aggregated data which take country-specific regulations for university funding more into account.

The results demonstrate that countries with no or low tuition fees and a considerable support system have the highest tax and contribution levels. These countries have implemented a solidarity model which is based on the following idea:

Higher education leads to higher incomes. A system with a progressive tax rate causes higher tax payments for academics and higher tax earnings for the state. In conclusion, the invested money is returned to the state with a time delay via higher taxes for people with a university degree. This system only works if students stay in the countries where they have studied and have a job. If these conditions are met academics support students of the next generation with their tax payments (Hölzl 2013, p. 191).

		USA <sup>(2)</sup>	England	Netherlands	France	Denmark	Germany	Austria
Fees First Cycle	Max. common	6,369	11,377 10,742	1,906	189	no fees	no fees	no fees
	Min.							
Fees Second Cycle	Max. common	7,105	5,051	1,906	261	no fees	no fees	no fees
	Min.							
Need-based Grants	Max. common		4,281	6,472	5,500	9,413	8,040 5,352	8,952
	Min.			1,203			120	60
Merit-based Grants	Max.		no	6,472	no	no	9,000	8,952
	Min.			1,203			1,800	60
Tax-benefits for parents			no	no	yes	no	yes	yes
Family allowances			no	no	yes	no	yes	yes
Tax and contribution ratio 2014 in % of GDP <sup>(1)</sup>		27.5	34.9	38.4	47.6	51.5	39.7	43.8

Table 1: National Student Fee and Support Systems in European Higher Education.

Main source of the table: European Commission 2015

(1) Source: <http://wko.at/statistik/eu/europa-abgabenquoten.pdf>(2) Source USA: <https://secure-media.collegeboard.org/digitalServices/misc/trends/2014-trends-college-pricing-report-final.pdf>  
Fees First Cycle USA: \$ 7,142 (1 EUR = 1,12 USD), Fees Second Cycle USA: \$ 7,968 (1 EUR = 1,12 USD)

## 5 Publicly funded universities under reform pressures

The university sectors of countries operating according to the solidarity model are currently confronted with extensive calls for reforms. There are several reasons for this, including the following:

- Globalisation also takes place in the university sector and leads to global competition for universities (Pérez-Esparrelles/Torre 2012, p. 55). Increasing international mobility, intensifying competition between universities of different nations, and also a growing internationality among the graduates has been undermining the solidarity model. In the future, students will presumably often not pay taxes in the countries where they studied cost-free or by paying only very moderate tuition fees.
- The (increasing) indebtedness of public households and the resulting interest burden increasingly restrict the capacity of education policy to take an active role. If private sources of financing are not explored as an opportunity to compensate for the increased expenses the system is in danger of being underfunded. This leads to unacceptable teacher-student ratios and an insufficient quality of supervision, potentially combined with high drop-out-rates and increasing average study times.
- NPM and the connected economisation of the state, as well as the trend towards autonomous agencies and state-owned enterprises affect universities. Elements such as performance orientation, decentralisation, contract management, competitive structure and benchmarking are advocated to an increasing extent for the university sector. (Lanzendorf/Pasternack 2009). The traditionally self-governed world of academia is being replaced more and more extensively by the model of universities as a business. High tuition fees serve as a quality signal that the chosen university offers excellent study programs.
- The university sector is also confronted with competing ideologies. In principle, the model of the enabling state is open to various ideological interpretations. Ruling politicians might come to quite different interpretations as to what this means for funding university

teaching. Conservatives will most likely rely to a greater extent on student tuition fees. Social-democratic governments might put a higher emphasis on the free access to university education and therefore focus on the merit good side of university education.

In most European countries the state still plays a fundamental role in financing universities but as a consequence of the aforementioned aspects there is a tendency for the extent of student-financed tuition fees to increase. This trend is well-documented in the report "Financially Sustainable Universities II" which was commissioned by the European University Association (Estermann/Bennetot Pruvot 2011, especially pp. 27).

## **6 Finance structure and reform trends in Austrian universities**

The situation described above applies to Austria. This country's university sector consists of 22 public universities, which have legal independence. They were founded by the federal government. Private universities are approved, but they often have a public or semi-public founder due to their legal structure: examples include a federal state, a diocese or the chamber of commerce. Private universities (in the proper sense) exist, but are so far fairly insignificant considering the number of their student members.

### **6.1 Initial situation**

The basic financing structure of the Austrian university sector is illustrated by the following figure:

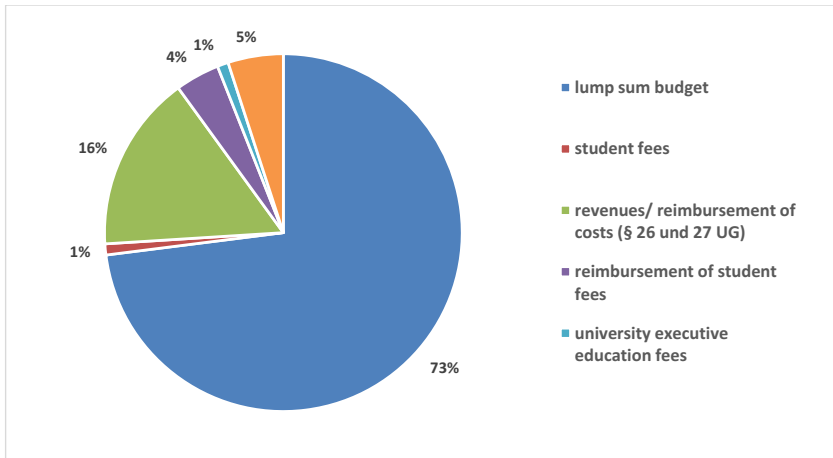


Figure 1: Structure of revenues in the performance agreement period 2010 - 2012, shown as a percentage of total revenues

Source: bmfwf 2014, p. 66.

73% of the financial resources are assigned to the Austrian universities as a lump sum budget, based on a triennial service level agreement. Four fifths are given as a lump sum grants, and one fifth is formula-based. At this point the indicators "active studies" and "acquired external funding" are of central significance. 16% of the universities' income is acquired as third-party funds, basically for income from research and development activities. 73% of these funds (11.7% of the total revenues) originate from publicly funded research programs. Only around 27% (4.3% of the total revenues) are mobilized from private companies, associations and foundations.

4% of the revenue is distributed to the universities as a substitute for the abolished student fees. Austrian universities charged tuition fees between 2002 and 2008 in the amount of € 728 per year. A very large portion of these annual fees were suspended by law in 2008, just a few days before a general election. As a consequence, nowadays only 1% of the universities' income is generated by tuition fees. These are paid by students from non-EU-countries or students who exceed the standard duration of study by more than two semesters.

A further 1% of the income is collected by specific teaching programs in continuing education that are subject to a fee.

The other income (5% of the total revenue) includes donations and sponsored contributions. In 2013, all Austrian universities mobilized a cumulative sum of € 13.8 Mio. So far the activities represent nothing more than "the first sprouts" in this field, even if the activities can be very successful in some specific cases.

All in all public funding makes up a total of approximately 88-90%, and the private part (commissioned research, tuition fees, donations and commercial activities combined) contributes approximately 10-12% to the universities' funding. Austrian universities therefore still depend on the state for their very existence and are extremely reliant upon its governmental support. Their financial perspectives are consequently bound to a great extent to the financial situation of the state.

The state, in turn, is currently under massive pressure to consolidate its budget and obviously does not plan to expand its financial engagement in the university area. This is apparent with one glance at the national finance framework for 2016-2019, the financial forecast of the Republic of Austria for the next four years (see especially § 2 BFRG 2016-2019). Here, a total of € 4.3 Billion is set aside for the area of science and research, the annual rate of increase is about 0.7%, and the total nominal increase over four years is approximately 3%. In comparison, the projected increase in the allowance for the general pension system is 17% for the same time period – a clear reflection of an overly aging population. "Aging populations are pushing up health bills, so education – another huge chunk of government spending – loses out; and since the social benefits of primary and secondary education are clearer than those of tertiary education, universities tend to suffer the most." (The Economist 2015, p. 12).

Even though the crucial significance of science and research is emphasized repeatedly in the political discourse on innovation, the Austrian universities cannot hope for more funds from the state. It is therefore increasingly important for them to mobilize more private capital, in line with the international trend.

## 6.2 Reform approaches

A first option to increase the share of private financing would be *the re-introduction* of student tuition fees. Back in 2012, the Austrian Ministry of Science, Research and Economy had prepared a detailed scheme of financing teaching on the basis of average costs per (limited) place to study in order to react to the internationally unacceptable high teacher-student ratios and the quality-endangering underfinancing of some study programs (Mayer 2014, pp. 129). This situation arises, for example, in business administration programs. Due to the fact that study program-oriented public payments would lead to considerable additional costs, the plans of the Ministry were not implemented. It was argued that those additional funds could not be mobilized on such a short notice (bmfwf 2014, p. 63).

Taking this into account, tuition fees, with which students contribute substantially to the cost of the study programs, are a feasible alternative. According to the human capital theory, private gains arise due to the fact that university graduates are better paid than those without a university education (Hummelsheim/Timmermann 2010). The society at large gains via positive external effects (which are very challenging to measure) due to the fact that the percentage of knowledge workers rise who pay higher taxes than most without a university degree.

However, the Austrian discussion about the reintroduction of student tuition fees is still not very intensive. Some stakeholders in the debate discuss the subject emotionally (Hölzl 2013, p. 187) and in an antagonistic way. In general, there is still a broad consensus that the access to universities should be cost free but it is waning.

Another option to mobilise additional funds is the area of *executive education*. Taking into account the European commitment to life-long learning, there is room for universities to establish themselves in a greater extent as centres for life-long learning. If one compares university fees to those of for-profit providers, it becomes obvious that the fee levels of universities are quite moderate. Currently, income from executive education is not an important income source for universities. This can partly be explained by the fact that universities of applied sciences (frequently in cooperation with private providers) are often more prominent in this



market while universities put a much stronger emphasis on research. Most Austrian universities have some short-comings with respect to professional infrastructure for executive education. An expansion of these activities could have the positive effect that this would also be a way to create regular offers for alumni, who are coincidentally a very important target group when it comes to the expansion of fundraising.

This brings us to a third option the *increase of donations and sponsoring income*. Donations are of particular importance for research funding. Donors also support the modernisation of teaching theatres or other kinds of infrastructure as wells as the purchase of teaching material.

In general, fundraising offers some interesting options. However, the current level of fundraising is very moderate in Austria:

- As already mentioned the general public regards the funding of universities as a public task which should be tax-financed by the Federal government. Austrian citizens are used to the solidarity model. As a consequence, there is no general willingness to pay more for science and research. Hence the willingness to donate to universities is also very low. The tradition of tax-financed funding leads to a crowding out of income from fundraising. Due to the nature of donations, the donor does not receive the financial services equivalent to the donated amount, and it is even more difficult to communicate the corresponding benefit than in the case of tuition fees, which have at least a private good component.
- Like other European countries (Pérez-Esparrelles/Torre 2012, p. 57) Austria lacks a culture of private philanthropy and is an under-performer when it comes to foundations (Meyer et al. 2010, p. 41). This reflects the fact that the current tax laws and other legal regulations are still not favourable.
- In most cases Austrian universities do not have (sufficient) staff units specialised in fundraising. Therefore universities lack experts in that field. Without fundraising professionals, it is difficult to carry out fundraising activities (e.g. capital campaigns) in a structured way. The tight university budgets make it difficult to establish fund-

raising units, which could also be important drivers for networking with alumni.

- University endowments are normally irrelevant as an income source in Austria due to the long tradition of state-financing. There are only very few initiatives on a decentralized level. They are an exception and not a growing trend.

Summing up, university fundraising is in its infant years in Austria. It will be a long time till it is able to contribute substantially to the university income, a lesson which can be learned from the frontrunner countries with respect to university fundraising.

### **6.3 Discussion and perspectives for Austrian universities**

Universities face the same globalisation pressures as other areas of society. The current situation at universities is influenced by the growing international mobility of students and researchers and by increasing competition between universities, which is in line with the NPM-model. Additionally, the increasing number of private universities, which are acting more and more globally, still contributes to that process. Furthermore, enormous improvements in information technology, including extensive options of virtual and long-distance teaching, support the globalisation of university education.

These trends create new environmental conditions for universities and increase the pressure for them to act in a more entrepreneurial way. Today's politicians' willingness to regard a university education as a merit good is decreasing. Consequently, universities are confronted with the challenge of generating more income besides public sources. This especially affects those countries – like Austria – with traditionally (nearly) exclusive reliance on state funding. To a certain degree this means – especially in Central Europe – a step "back to the roots". Medieval universities relied to a large extent upon private income paid by students. Depending on the local sovereign, this income may have been supplemented by some subsidies granted by the respective ruler.

Hence, a key question is how Austrian universities can intensify their private funding under the current circumstances and to gain more money from private individuals and institutions.

*Firstly:* To achieve the goal of increasing private funding requires that fundraising is regarded as a priority. To establish it in a professional manner, personnel and an appropriate infrastructure is needed (Haibach 2008, pp. 83)

*Secondly:* While fundraising activities need time, the re-introduction of (moderate) tuition fees for undergraduate, graduate and executive education might be a short-term option. As outlined above, there is still much room for Austrian universities to intensify their activities in the area of executive education. The political debate about tuition fees will be as controversial as in the past. In the Austrian case, mental barriers hamper acceptance of the findings of human capital theory that university education has more in common with a private good than with a public good. The Austrian solidarity model is becoming more and more outdated if one takes into account the trend towards the aforementioned globalization which is facilitated by the possibilities of e-learning and blended learning as well as the international mobility of students. In a transition period, the change to tuition fees may negatively affect middle class parents. Tax progression is a challenge for them. At the same time, they have to find the money to pay for the tuition fees for their sons and daughters. If a new system is going to be established, they could envision themselves as the losers of the reform.

*Thirdly:* Alumni activities have to be improved. Alumni should not only be regarded as former students but also as representatives of the university in society, as a key target group for executive education programs and as potential donors. Their willingness to involve themselves (financially and otherwise) at their former alma mater depends (at least to some degree) on how they remember their undergraduate and graduate years. Former students who suffered under the unacceptable teacher-student ratios might not have the best memories. Nevertheless, Alumni are an important human capital resource of a university that should implicitly be addressed.

In our paper we argued that one has to differentiate between the funding of research and other university services which have more elements of a private good. If the public or collective good component is dominant, as in non-applied research, it should be financed by taxpayers' money. To rely that this part of a university's portfolio could be financed by cross-subsidies is highly unlikely or would limit to a great extent the amount of research which could be carried out.

If one shares the opinion that the private financing of the university sector should be increased (which not all stakeholders of the discussion do), a number of challenges, demonstrated by the Austrian case, arise. Especially in teaching, it will be crucial to fix tuition fees that balance the goals of strengthening the financial basis of the universities on the one hand and assuring equal access to higher education on the other. Otherwise the proposed reforms will not be politically accepted in Austria.

Some reforms will need time and additional investments (for example a fundraising-infrastructure). They only show positive results after a certain period. However, remaining inactive would mean accepting a progressive under-financing of the sector. This is particularly true for a country with an increasing number of enrolled students in which state subsidies do not sufficiently reflect this indicator.

Looking at funding systems applied in other countries should be a main goal for Austria. This is a typical benchmarking approach. "Latecomers" can definitely learn from the "frontrunners", by analysing which reforms – inspired by the thought of NPM – were successful and at the same time being aware of unintended negative consequences. Furthermore, it would be desirable that the Austrian discussion about educational policy be more fact-driven and less driven by emotions and competing ideologies.

Finally we can conclude that the case of the Austrian universities seems to represent an outstanding example for a situation in which specific processes of globalization in both the public sector and the private act as drivers of change and force the institutions as well as the state to leave traditional and familiar procedures and search for new innovative paths to be fit for the future.

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