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ATHENA

TOOLKIT

FINANCIAL MANAGEMENT



EUA

European University Association



Tempus

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Introduction

The focus of the [ATHENA project](#), supported by the European Union's TEMPUS programme, is to contribute to the restructuring of university governance by promoting greater university autonomy and financial sustainability in Armenia, Moldova and Ukraine.

Increased autonomy and financial sustainability require robust and modern financial management of university finances that is implemented across the whole institution. The ATHENA project therefore tries to build the capacities of universities in the partner countries to modernise the management of financial and human resources.

This toolkit outlines basic elements of modern financial management in universities, allowing universities to reflect in a structured way on their own financial management and helping them to set up projects to improve their structure, management and services.

The toolkit provides:

- **basic, practical guidance in an easy-to-use format**
- **good practice examples**
- **links to more in-depth materials**

This toolkit is structured in the following chapters:

1. Developing a resource allocation model
2. Budgeting and financial planning
3. Developing a basic costing model
4. Reviewing organisational structures and responsibilities
5. Establishing human resource development
6. Developing an income diversification strategy

Introduction

Trends in financial management

In many higher education systems, financial management has changed in the last decade. Increased autonomy, responsibility and accountability have led to several changes within universities to respond to more demands. Cost pressures and the way research is funded have driven universities to adopt full costing methodologies. External funding models have influenced internal allocation mechanisms and university leadership teams have gained more responsibilities. International competition for the best researchers, academics and students has furthermore brought international development of university management to many countries. Any university leadership team therefore needs to prioritise the development of a financial management function and services that respond to these new needs.

Your financial management needs to move:

- From pure operational execution to more strategic planning
- From bureaucracy to service
- From controlling to enabling
- From civil servant identity towards a corporate approach
- From rigid to flexible processes
- From paper to virtual
- From isolated approaches to the integration of holistic change processes

Introduction

Challenges in financial management in ATHENA partner countries

Universities in ATHENA partner countries face similar challenges in relation to financial management which need to be taken into account when developing and reforming financial management systems. The low levels of funding, limitations in organisational and financial autonomy as well as external bureaucracy, in particular in procurement processes, need to be addressed at system level. EUA has made several recommendations in this respect in the Policy Roadmaps for each country. Universities must also take responsibility by addressing internal bureaucracy, adapting their own structures and processes, developing middle management staff with the appropriate skills and providing adequate investment in financial management.

EXTERNAL	INTERNAL
ORGANISATIONAL FORM	ORGANISATIONAL STRUCTURE
LEGAL FRAMEWORK	RULES
HIERARCHY	PROCESSES
PROCUREMENT REGULATIONS	PROCUREMENT PROCESSES
FUNDING	STAFFING

Introduction

How to start the change process

Although many universities will have the same basic challenges to deal with, they must all look individually at what are the specific areas they need to address. A common starting point is that any change process needs to be supported by the institutional leadership. Ideally, at the most senior level, a vice-rector responsible for finances or administration (or similar position) should act as a **project sponsor**, who defines the goals and supports the financing of the project. The best results will be achieved if the changes envisaged are presented as a project with clear aims, milestones, a timeline, responsibilities and tasks. The first step needs to be to create a task force or steering committee to oversee the project. This ideally should include the relevant decision makers and experts within the institution as well as external experts that can advise on financial management and project implementation. The steering committee needs to select a nominated project manager and project staff to be included on a task force and project management team. External advice should be included.

1. Set up of task force/steering committee
2. Definition of project milestones and timeline
3. Analysis of the status quo
4. Definition of required resources and budget
5. Communication
6. Quality assurance
7. Evaluation

Introduction

Elements to address in financial management

The following elements should be addressed in the project. Each element needs to be included in the project development and addressed as a separate action. The individual elements will require different levels of input, time and resources. It is nevertheless important to ensure that all elements are interlinked; the aim should be to have all of them implemented by a target date.

1. Developing a resource allocation model
2. Budgeting and financial planning
3. Developing a basic costing model
4. Reviewing organisational structures and responsibilities
5. Establishing human resource development
6. Developing an income diversification strategy

1. Developing a resource allocation model

The internal allocation model aims to ensure that all organisational units (faculties, departments, etc.) have sufficient resources to meet the costs of their activities. Above all, this requires that the university has a good understanding of the different costs of activities undertaken. It is therefore strongly linked to the development of an appropriate → **costing model**. An allocation model facilitates long-term planning by giving financial managers a clear idea of how much resources they can expect to receive. It is therefore also linked to the overall → **budgeting process** within an institution. It ideally includes, apart from the general allocation of resources, a steering element to implement strategic decisions and an incentive element to improve performance.

You need to set up principles for

- direct allocation
- formula allocation
- sums available
- parts for top slicing and specific allocation
- transparency



How far have you progressed in developing a resource allocation model?

Which of the above mentioned areas do you still need to tackle?

2. Budgeting and financial planning

The university should implement an annual financial planning process that is set within a longer term financial forecast process (up to five years). The process for both annual financial planning and long-term forecasting will involve a large number of people from across the university, typically including staff in academic and administrative service departments, governing bodies, relevant managerial committees and the leadership team. The finance department and administrative leadership should play a central role in this process.

The purposes of financial planning are

1. to ensure that the university works towards its financial strategy
2. to highlight what has to happen in financial terms to get the university from where it is now to where it wants to be in the future
3. to understand the impact of internal and external factors that will affect the university's finances
4. to enable the university to forecast how much income it will generate and how much it can spend on different activities
5. to meet external requirements for reporting (towards public funders and other external funders)



How far have you progressed in developing your financial planning?

What needs to be done to make your financial planning fit for the above mentioned purposes?

3. Developing a basic costing model

The costing model should be designed to allocate income and expenditure between teaching, research and other activities. A certain amount of income and expenditure can be directly attributed to particular activities. However, a significant proportion of expenditure cannot easily be attributed to one activity or another (such as salary costs of some academic and administrative staff, cost of infrastructure, electricity etc.). In order to allocate these costs, certain drivers are used, which require reliable data from across the university. Common drivers include time spent on different activities by staff, student numbers and space. The development of a costing model is a complex and resource-intensive task. Therefore, it is recommended to start with a simple model that is clear and comprehensible to the university community, which can be applied across the institution. Further refinements can be implemented at a later stage.

Section 3.1 details the basic steps in developing a model, and several detailed good practice examples are available in 3.2.

Further in-depth information is available in EUA publications on [→ full costing \(see below\)](#).

Further resources:

- EUA reports:

Estermann, T., and Claeys-Kulik, A., 2013,
[Full costing: progress and practice](#), (Brussels, European University Association).

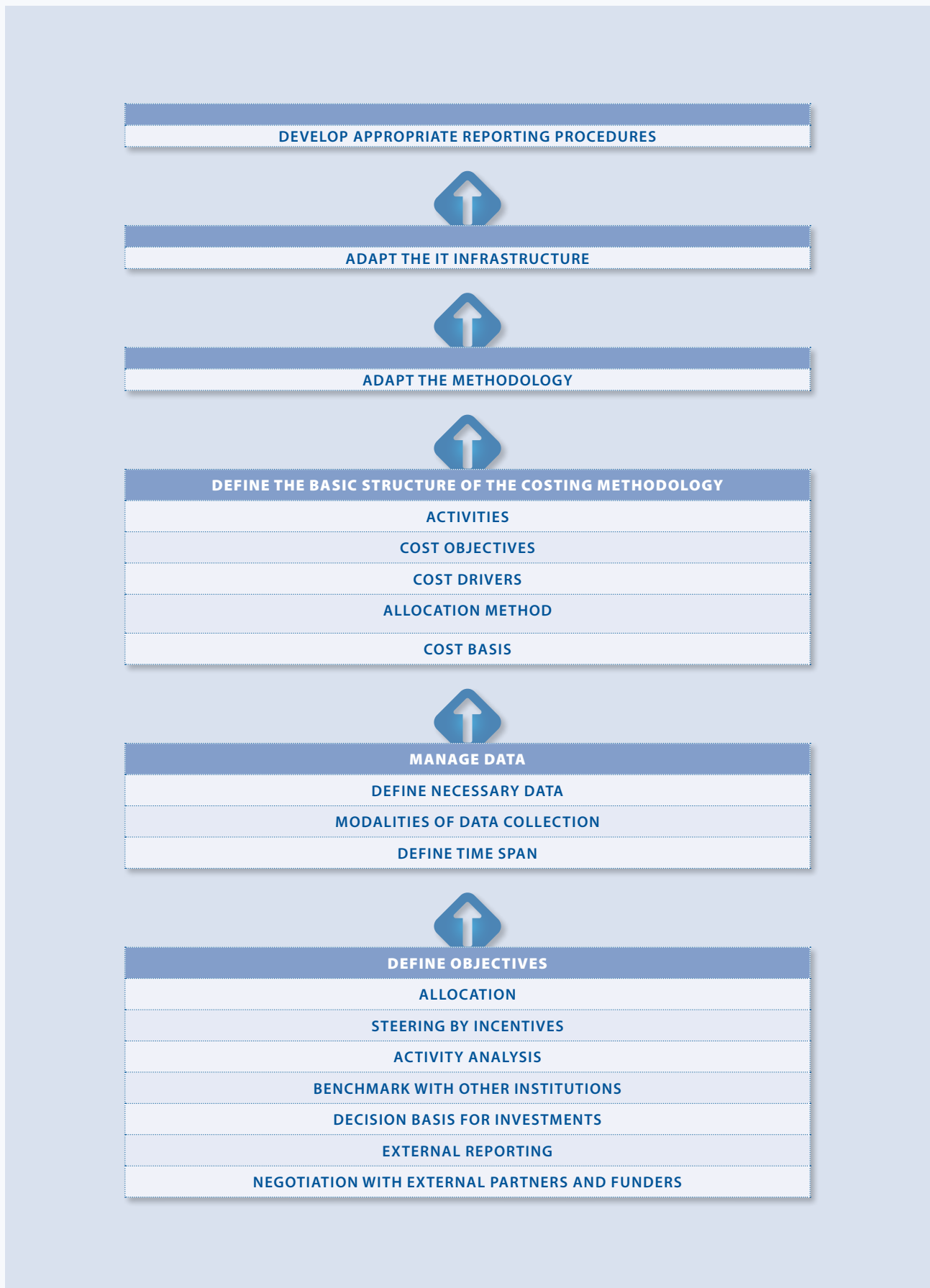
Estermann, T., Kanep, H., and Smith, J.H., 2008,
[Towards full costing in European universities](#), (Brussels, European University Association).

- Link to presentations from the EUIMA full costing project:

<http://www.eua.be/euimafullcosting.aspx>

3. Developing a basic costing model

3.1 Basic steps of the development



3. Developing a basic costing model



*How far have you progressed in developing your costing model?
Which steps do you need to take next?*

3.2 Good practice examples

This section contains examples of universities from across Europe that have already implemented full costing. It describes how these institutions set up their costing methodologies, the challenges they experienced and how they managed to overcome them. These examples provide practical information and illustrate the most important aspects to consider during implementation.

3. Developing a basic costing model

3.2 Good practice examples

University of Amsterdam (NL)

Founded in 1632 · approximately 33 000 students · more than 5 000 staff · comprehensive university

The implementation of a full costing methodology at the University of Amsterdam was driven by the strong desire of the board to rationalise financial decision-making within the university, based on proper information on the real cost of activities. It was also part of a broader range of measures, which aimed to set up new governance and budgeting structures within the university.

In parallel to the implementation of full costing, a comprehensive reorganisation of all support units took place: the majority of support staff members were grouped into a limited number of central shared service units. These units were set up to provide added value for internal use, but also to act as cost drivers. Since 2006 the shared services units have to recover their full costs by charging their services to all internal customers, according to the number of units of service delivered at benchmarked rates. These rates are set annually by the board.

Simultaneously, the internal funding model has been revised. In the new model, more than 90% of the block grant received from the government and the income collected from tuition fees is distributed to the faculties. The distribution is mainly based on output or performance parameters, which are roughly in line with the national funding parameters. Internal policies, goals and targets for research and teaching further help to fine-tune this allocation.

All faculties now see in their financial reports that variations in the use of facilities and services have a direct impact on their costs and hence on the available budget for teaching and research.

The implementation of an appropriate full costing methodology has been a key element in giving the university's different faculties and decentralised units full responsibility for their budget. The table below shows some of the most important elements of the current financial system:

Table 1. Important elements of the financial system at the University of Amsterdam

Cost settling		Budget allocation	
Cost centre	Cost driver	Activity	Budget parameter
Student facilities, admissions, college rooms	# Students	Teaching	# EC by students
Personnel records office	# headcount personnel		# MA degrees
Finance records office	# invoices processed		# freshmen
ICT-department	# work stations	Research	# PhD thesis
University library	# fte academic staff		% on contract income
Real estate, space related facilities	# sqm		# MA degrees

3. Developing a basic costing model

3.2 Good practice examples

University of Amsterdam (NL)

The following principles have been used in the design and further development of the full costing model in the university's financial system:

- a) All costs in the university have to be justified on the basis of whether they provide, directly or indirectly, added value for teaching or research. To implement this principle in its budgeting procedure, the University of Amsterdam uses cost allocation sheets in a strict format, which show how all individual cost elements and cost centres relate to teaching and research.
- b) Budget allocation and contract income are exclusively concentrated within the teaching and research institutes at the faculties: they are the profit centres, all other units and departments are functional cost centres.
- c) Time spent by academic staff is the primary cost driver in cost allocation to teaching and research. The full cost rates are expressed in Euros per hour (€/h) and consist of personnel costs and an indirect cost component. The latter is also expressed in €/h (not in % of direct personnel costs) as this better indicates the relation with these costs than the position or the seniority of the employee.
- d) Differences in full cost rates are justified by significant differences in costs. Therefore the University of Amsterdam applies different rates (rate components) depending on the salary level, the indirect cost structure of the different academic departments, and specific teaching- or research-related indirect costs.
- e) The system aims to inform decision-making on all organisational levels. Therefore all the principles of budget allocation and cost-setting have been integrated in the financial system. Internal financial reports are updated monthly and all deans, directors and managers have access to an electronic management information system and have to account for the figures presented there.

An analysis, six years after the introduction of full costing as part of a modernised governance model, shows that the benefits have helped to overcome the initial concerns of most members of the university community. A new way of thinking and acting has been established.

3. Developing a basic costing model

3.2 Good practice examples

University of Helsinki (FI)

Founded in 1640 in Turku, transferred to Helsinki in 1828 · 37000 students · 8600 staff · comprehensive university

Preconditions

The University of Helsinki has been developing a data warehouse since the late 1990s. Ten years later information from the main central IT systems, such as accounting (SAP), human resources (including salaries) and student information, can now be transferred daily to this data warehouse. In addition to this, a work time allocation system (SoleTM) was introduced, and has been used by most university units since the beginning of 2009. The information from SoleTM is also transferred to the data warehouse. Having access to all vital information in the same system was important for designing a full costing methodology. It is easier to design reports using information from several systems when the data is accessible from a single database.

Activity areas and cost drivers

One of the initial tasks was to define the activity areas and choose the cost drivers for full costing calculations. The Ministry of Education and Culture had defined the core performance areas for the Finnish universities:

- teaching
- research
- societal interaction
- artistic activities (not applicable to the University of Helsinki)

Other activities are administration and support services and the costs of these have to be allocated to the core activities using cost drivers. The chosen cost drivers were:

- effective work time
- person-years
- number of students
- number of research projects

The number of square metres of space was considered as a cost driver for rents and other costs for facilities. However, it was decided to use effective work time, because the result was more or less the same; there was no advantage in making the model more complex by increasing the number of cost drivers.

Salaries and salary add-on costs

The salaries were allocated to activity areas using the information in the work time allocation system. The recorded work time for each person was matched to his/her salary in the data warehouse and the salary costs were allocated to the activity areas using the same proportions as in the time recordings. The recorded work time is the effective work time, and does not include paid absences such as annual leave and sick leave. These additional personnel costs are included in a salary add-on cost rate, which also includes compulsory salary-related costs, such as provisions for social security and pensions in accordance with national legislation and collective agreements. The information about paid absences is available in the human resources system and the information about compulsory provision is recorded in SAP. At the initial stage of allocating unit-specific personnel costs to the core activities, unit-specific salary add-on costs were used. Later, an average salary add-on rate of 53.3% was established, based on unit-specific rates. This average rate is the same throughout the university and is used when applying for and reporting on project funding based on full costing. The rate is recalculated every year once the accounts for the previous year are closed and all other necessary information is available. The changes during 2009 and 2010 were insignificant and the salary add-on rate was adjusted to 55% from 1 January 2012.

3. Developing a basic costing model

3.2 Good practice examples

University of Helsinki (FI)

Central administration costs

The costs of central administration first had to be allocated to the academic units. Some of the costs could be allocated both to an academic unit and a core activity, such as costs for student and research support. The costs of student support were allocated to the academic units with teaching using the number of students as a cost driver. The driver for research support costs was the number of research projects. The rest of the costs of central administration were allocated to the academic units using person-years as cost driver.

Support activities

In addition to the cost of administration, costs of support activities, including the language centre and the libraries, were identified. The costs of the language centre were allocated to the academic units using the number of students as the cost driver. The library costs were allocated using person-years as the cost driver. There are some other service-providing units, such as the laboratory animal centre, but they invoice for their services internally, and were therefore already included in the academic unit costs.

Academic units

The total costs of the academic units were allocated to the core activities either directly or indirectly, using effective work time allocation as the cost driver. Costs of student and research support, costs of the language centre as well as some other costs for teaching and research were allocated directly to the activity areas. The costs for facilities were allocated to the units by charging internal rents. Some of the costs for teaching halls and research laboratories could be allocated directly to the activities. The remaining costs for the facilities and the costs for general administration (central and local as well as other costs that could not be allocated directly) were allocated to the activity areas using effective work time as the cost driver.

Defining general indirect costs rates

When the total costs were allocated to academic units, and within the units to activity areas, the outcome was analysed in order to establish a general indirect cost rate for research, which was to be added to the total salary costs. As described above, the total salary costs consist of the cost for effective work time and the salary add-on rate including paid absences and compulsory provisions. The University of Helsinki covers all fields of study except engineering and business administration. It was obvious that the general indirect cost rates would vary between academic units. Establishing one indirect cost rate for the whole university would have been too simplistic. The university is located on four campuses in Helsinki and academic units with similar cost structures are located on the same campus. Therefore it was possible to establish indirect cost rates for research for each campus except for one: the variation in cost structure between the faculties on the Viikki Campus was such that two rates had to be established.

The indirect cost rates for research at the University of Helsinki were, based on financial data from 2008, between 84% and 112% depending on the campus and the subject area. The calculations based on financial data from 2008 have been updated annually. The variations were minor in 2009 and 2010 and the indirect cost rates remained the same. However, the calculations based on financial data from 2011 showed that the rates had to be adjusted from 1 January 2012. The changes are mostly due to salary increases and higher costs for facilities. The indirect cost rates vary between 93% and 128%. At the same time, indirect cost rates for teaching were calculated and they turned out to be much higher than the rates for research and vary between 114% and 150%. The final analyses of the rates are not completed, but among the reasons for the higher rates are the costs for the lecture halls. The rates include the costs for a whole year but the lecture halls are more or less not used at all for four months of the year.

3. Developing a basic costing model

3.2 Good practice examples

Trinity College Dublin (IE)

Founded in 1592 · 16 747 students in 2010/11 · 2 860 full time staff · comprehensive university

The approach at Trinity College Dublin (TCD)

Trinity College Dublin is part of the group of seven Irish universities that developed a common full economic costing (FEC) methodology. Following the establishment of the national steering group two local groups were also formed within TCD:

- A local steering group, chaired by the project sponsor (a senior academic within the university), and comprised of the FEC project manager, an academic representative from each faculty plus a number of technical representatives (e.g. finance, IT, HR, research).
- A working group established under the leadership of the FEC project manager and comprising the representatives of each area responsible for providing information and data for the FEC project.

On the basis of the conceptual framework and the decisions taken by the national and local groups, a small team within the finance office, supported by the local steering and working groups, then took up responsibility for the operation and delivery of the outcomes of the FEC model.

The Irish Costing Model

The Irish Costing model is consistent across the seven Irish universities, and allocates all costs to the primary activities of the university, i.e. teaching, research and other activities. It can be divided into a six-stage process:

Stage 1: Costs/resources are identified from the financial statements and then two specific agreed cost adjustments are made as well as a number of other adjustments (e.g. pensions) in order to enable the comparability of outcomes. The specific adjustments are:

- I. Financing & investment – to cover the costs of borrowing (interest), the opportunity cost of institutional cash used for financing and a surplus for the rationalisation and development of the institution's business capability and capacity.
- II. Infrastructure – to reflect the full long-term costs of maintaining the infrastructure in a safe, productive state to a norm that is required to be competitive in the sector.

Stage 2: Costs are allocated to the academic units (e.g. faculties, schools and disciplines in the case of TCD) using agreed common cost drivers. For example:

- IT via three pools – (i) costs specific to an academic unit going directly to that unit; (ii) infrastructure costs based on square metres; and (iii) all other costs allocated on the basis of staff and student full time equivalents (FTEs).
- Premises/estates by weighted square metres with the weighting determined by the type of space occupied i.e. highly-serviced laboratory, laboratory, classroom/office space, storage/shed space.

3. Developing a basic costing model

3.2 Good practice examples

Trinity College Dublin (IE)

- Central administration – has been divided in a first step into two cost pools: research and all other costs. Further development brought the division into five central administration cost pools. These are student related costs; staff related costs; international student related costs; research related costs and all other costs with a different cost driver for each pool.

Stage 3: Costs per academic unit are allocated across three categories (teaching, research and other), which are further sub-divided into nine academic activity cost pools. This allocation is driven primarily by the Academic Activity Profiles (AAP), which are compiled by academic staff and are one of the key drivers used in the process. Other drivers are AAP staff costs (this driver being based on the staff costs within an academic unit, which are generally based on the AAP-percentage, as mentioned above), student FTEs, head of area estimates, etc.

Stage 4: Administration and management costs are allocated over all other eight academic activity cost pools driven by AAP staff costs.

Stage 5: AAP 5 & 6: research (no external sponsor with output and other research & scholarly activity) costs are allocated to the three teaching academic activity cost pools, driven by student FTEs.

Stage 6: Full economic cost outcomes are produced giving:

- Cost per student FTE as per HEA (Higher Education Authority) subject category (AAP 1, 2 and 3)
- Research indirect cost rate (AAP 4)
- Total university cost of other income generating activities (AAP 7)
- Total university cost of clinical services (AAP 8)

3. Developing a basic costing model

3.2 Good practice examples

TU Dresden (DE)

Founded in 1828 as the Royal Saxon Technical School · before German re-unification in 1990: committed to science and engineering · Today: comprehensive university · 36 000 students · more than 8 500 staff

Driving forces for full costing

As a response to the changing national and international environment marked by increased competition, the university leadership identified the need for reforming institutional management approaches. The university's internal need for information and controlling, new university management approaches in Saxony, the requirements of various funding organisations (such as the EU), the application of EU state aid rules to universities and the German tax law were the forces driving the development and implementation of a full costing methodology.

Development of a costing methodology

At the beginning, TU Dresden (TUD) analysed several existing costing methodologies at universities in Germany and other European countries. This investigation led to the conviction that it would be best to develop a costing model taking into account the specific needs of TUD, rather than simply implementing a model from another institution. TUD's long experience with cost accounting formed a solid starting point, which was further adapted in order to develop a full costing methodology fit for current requirements and conditions.

Between 1996 and 1998 the costing model was developed following five major steps:

1. Allocation of centrally managed operating expenses
2. Allocation of the costs of administration, central and other units of TUD on the basis of the number of employees, major usable floor space and students as cost drivers to research or teaching
3. Allocation of the costs of institutes and deans' offices to research or teaching
4. Allocation of costs of state financed staff using time allocation mechanisms
5. Allocation of teaching costs to different study programmes

Since 2000 TUD works with this model and the software that was developed in parallel. In order to improve the allocation of costs of state-financed staff, the implementation of a new time allocation mechanism is planned for 2013.

4. Reviewing organisational structures and responsibilities

The development of financial management also requires analysis and adaptation of current structures and processes. This should take into account who is currently involved in the different processes and who should ideally be involved. Responsibilities need to be clear and transparent. It should be easy for the university community to know who is responsible for what. Responsibilities and processes should be easily available through guidelines, brochures and on the web (intranet). Structures should be adapted to ensure efficient internal processes. Processes need to balance centralisation and decentralisation. IT-support and electronic workflows can help to simplify the processes. All staff involved in financial transactions, procurement and purchasing procedures in some way should be trained on the new processes and procedures.

- Balance centralisation and decentralisation
- Coherent IT system at central level and for external reporting
- Ensure financial sustainability at central level and increase responsibility at decentralised level
- Develop clear responsibilities at all levels
- Review current practices with the aim of simplification

→ The development of specific processes for the diversification of income is described in chapter 6.



***What do you need to change in your organisational structure?
How should responsibilities be (re-)allocated?***

5. Establishing human resource development

The development of human resources in the financial management is one of the most important factors for the further development of the financial management at universities. Capacity building in financial management has been crucial in the development of western European universities, but it requires a long-term vision. This section looks specifically at HR development within the financial function, which needs to be integrated into the overall HR strategy.

To adapt the finance function to benefit from increased autonomy and to develop a more strategic approach, a mid-management level needs to be integrated and developed. These staff should be able to translate strategic approaches into operational activities. Further steps need to cover the development of an appropriate recruitment process, the development of leadership skills (also at departmental level) and the widening of skill development for current staff. Regular training sessions need to be part of the HR strategy.

- Develop an appropriate structure and staff profiles to match necessary activities
- Develop a long-term recruitment strategy
- Develop training for all staff in the following areas:
 - Leadership
 - Diverse financial expertise
 - Project management
 - ICT
 - Communication
 - Team building
 - Change management
 - Modern languages
- Develop more attractive working conditions
- Design career progression pathways for administrative staff
- Integrate appropriate succession planning
- Motivation
- Appropriate salary scales
- Communication and feedback

For more general advice on HR management, see the [→ Toolkit on Human Resource Management](#).

5. Establishing human resource development



What staff profiles would you need to improve your financial management?

How could you develop HR capacities in financial management?

6. Developing an income diversification strategy

The development of an income diversification strategy is essential to implement a more balanced financial model for the university. Depending on only one major source of funding is risky and so additional sources of income should be sought. This is a long-term process and so it requires a strategic approach. The best results will be achieved through a systematic approach. The following steps represent the basic principles of a successful income diversification plan:

- Integrate income diversification into the overall strategy
- Assess field of possibilities for income generation through university activities
- Set targets and evaluate success
- Develop expertise and allocate responsibilities
- Invest in people, leadership and management
- Communicate (internally and externally)
- Provide internal incentives

6.1 Strategic approach and analysis of perspectives

One of the key institutional success factors for the diversification strategy is that it needs to be rooted and embedded in the overall academic strategy and mission of the institution. This requires that the broader university community is involved in its development and that there is thus a high-level consensus on activities for and commitment to income diversification. An important part of securing this commitment is underlining the message that income diversification and generation should never be seen as a goal in itself. The underlying aim is always to support the main mission and strategic objectives of an institution and to contribute to its financial sustainability. Ultimately income generating activities should lead to benefits either in the long- or short-term including, of course, non-financial returns.

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. Most European universities have already developed additional income streams, but it is important to include these in the overall evaluation. Apart from undertaking an appropriate analysis of the cost effectiveness and risk of various activities, institutions need to assess the suitability of these activities in relation to their mission and culture; not all activities will fit all institutions. The diversity of profiles, missions and cultures will have a high impact on the choice of activities.

The analysis should furthermore include an evaluation of the expertise necessary to implement these activities successfully and, if this expertise is unavailable, set up a plan for developing or recruiting staff with the appropriate skills. This strategic analysis should answer the following questions:

6. Developing an income diversification strategy

6.1 Strategic approach and analysis of perspectives



1) What is the status quo?

Fill in the table showing the institution's income structure differentiated according to:

Public sources	Tuition fees	Business & industry	Private sponsors	Other sources



2) How stable are the different sources and what potential is there to increase the amount of funding coming from them?

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6. Developing an income diversification strategy

6.1 Strategic approach and analysis of perspectives



3) What is needed to increase the different sources or to develop new sources (external needs and internal needs, and who needs to be involved)?



4) What are the strengths and specificities of the institution that may make it attractive to external actors as an investment opportunity? Consider this through the lens of various external communities.

6. Developing an income diversification strategy

6.2 Action and resource plan

Once an analysis is completed, an action and resource plan should be developed:

1. Set up a detailed action plan with a specific timeline and specific targets on which resources you aim to increase and newly explore.
2. Analyse the necessary resources you need for this (→ internal and external human resources, time, IT capacity, etc.).
3. Set up an evaluation plan to analyse whether the targets have been met and, if not, explore the reasons why.

6.3 Human resource development

Human resource development and sound managerial skills and practices are essential for successful income diversification. Many activities to increase and generate new income sources require new expertise that often do not yet exist within the institution.

When it comes to the implementation of diversification strategies, expert and skilled staff often makes a significant difference. There are a variety of strategies to gain the necessary capacity. Universities may recruit professionals with the relevant skills from outside the sector or experienced staff from other more developed institutions; they may also invest in staff development to acquire these skills. When external staff are recruited, it is important that they understand the specificities of the research and education environment and that thought is put into how they are integrated into an established team. Some activities may be outsourced to external consultants who can offer expertise and help in getting the activity started. The successful implementation of income diversification activities similarly requires investment and development at all levels and staff categories, including management, support staff as well as academic staff in management or governance functions. It is clear that financial resources play a role in what is achievable. It is therefore essential to set out a long-term plan of what can be implemented. The following areas require professional staff and development:

6. Developing an income diversification strategy

6.3 Human resource development

1. Development of human resource managers:

They play a key role by developing profiles for new staff categories, by recruiting and retaining new staff, and by developing staff to fulfil new and extended roles. They are also crucial in providing information on appropriate external development programmes.

2. Knowledge transfer activities:

To engage in knowledge transfer activities, universities need the expertise of staff that are skilled in negotiating with external partners, have knowledge of legal contractual aspects as well as intellectual property rights.

3. External competitive funding:

Expertise is needed if the university is to find its way through the vast range of opportunities available to increase competitive funding, in particular from research funding. Project managers must possess the right skills to write successful proposals and develop complex work programmes with diverse international consortia throughout the project cycle (including reporting and post-audit phases). Expert staff can also help academic staff to develop successful proposal writing skills.

4. Fundraising from private funders and alumni:

Professional staff are needed to successfully develop and increase philanthropic funding through fundraising activities.

5. Increasing financial management:

To generate income through financial operations and investment, university finance departments may need to recruit additional staff that have developed specialist skills outside the university sector. Many activities are also related to new ways of financing expansion or development of facilities or technical tools. This requires staff experienced in debt financing and various legal possibilities such as leasing arrangements etc.

6. Income from services:

Activities to generate income from services such as conferences, catering, and franchising activities also require staff with appropriate experience.

7. Coordinating function:

All income generation activities should be viewed holistically and thus require a high level of coordination in their implementation and management. This can either happen at the senior management team level, or through a team of mid-level managers specifically brought together for that purpose. In some cases, the coordinating function may be taken up by a single senior staff member, such as a vice-rector with special responsibility, the Head of Administration or the Finance Director. The size of the institution and the extant management culture have an impact on the choice of approach.

6. Developing an income diversification strategy

6.3 Human resource development



In which of the previously mentioned areas do you see the need for staff development?

What would be the priority areas?

6. Developing an income diversification strategy

6.4 Communication

Income diversification is not a process that can be carried out in isolation or by means of a top-down approach. To be successful, the whole institution needs to be involved and aware of the purposes, aims and actions pursued. Many activities for diversification also need to be undertaken in cooperation with leadership, management, administration and academic staff. Internal communication plays a crucial role in achieving this and in implementing efficiency measures successfully.

External communication is essential to make the needed link between all universities internal activities and the outside world. Potential funders (private donors, investors or the business community) need to be aware of the range of activities undertaken by universities to evaluate potential funding options. It is therefore essential to ensure that the external environment knows about the activities of the institution. Communication activities also need to convey the institution's profile and demonstrate what sets it apart from other universities. They ideally build on the identified strengths and, on that basis, develop the brand and reputation, which is a precondition for attracting additional income sources.

6.5 Internal incentives

Successful income diversification requires the commitment of all university staff. It is therefore necessary to design a set of incentive mechanisms in order to increase the commitment of the academic community to the diversification project. Incentive mechanisms may be implemented on two levels, either by rewarding staff individually or by providing incentives at group level (e.g. faculty or department). For example, academic staff may be allowed to undertake research and consultancy activities and retain some of the generated income. In many cases, the assumption is that academic staff would already be engaged in these activities in some way. Institutions that officially encourage their staff to take these activities forward benefit in several ways; income generation can be seen as a success-related component of an academic salary, which in turn allows the institution to keep the overall salary levels in control. The incentive mechanisms also channel some of the activity undertaken by the academic/researcher back into the university. Sharing the income generated is achieved by setting a distribution factor between the academic and the university or by charging a specific cost rate for using facilities and equipment. Other modalities include sharing revenue not on an individual basis, but on faculty basis. The shared income can then be managed autonomously by the faculty. Universities may also encourage the creation of spin-off companies by diminishing the share of profit going to the university or by providing free professional support to these entities in their set-up stage. Many universities integrate successful income generation activities into the institution's → [Resource Allocation Model](#).

6. Developing an income diversification strategy

6.5 Internal incentives



*Which internal incentive mechanisms do you have in place/
could you develop at your institution?*

What would be needed for developing them further?

Further resources:

■ **EUA reports:**

Estermann, T., and Bennetot Pruvot, E., 2011, [European universities diversifying income streams](#), (Brussels, European University Association).

■ **Other resources:**

Koryakina, T., Teixeira, P., and Sarrico, C., 2012, [Income diversification in Portuguese universities: Successes and challenges for institutional governance and management](#), (Brussels, EUA University Funding Articles Series).

Iniguez, S., 2012, [Sources of income and internationalisation of business schools](#), (Brussels, EUA University Funding Articles Series)

European Commission, 2011, [Giving in evidence: Fundraising from philanthropy in European universities](#), Brussels.

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