

CHALLENGING UNIVERSITY GOVERNANCE IN EUROPE: IMPACT OF DIVERSIFICATION OF UNIVERSITY FUNDING

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ABSTRACT

Universities are considered to be at the very heart of knowledge creation and development underpinning economic growth and competitiveness. Technological advancement and labor market changes raise new demands on universities. In a continuously more competitive environment, quality university education and research require significant funding. Under the scarcity of public resources, competition for funding increased among universities in order to enhance efficiency and quality. In the future, shifting priorities for public funding to sectors like social protection, health, environment, climate change, energy is likely to occur because of the demographic trends, aging population and other global challenges. Therefore it is expected that traditional government public funding for universities will not increase or will not increase sufficiently to cover full costs of universities; the economic downturn will also accrue this trend and universities are likely to compete with other priorities for public funding. To this end, universities have two major strategic options either concentrating of research and education activities to build up a strategic profile and to fully benefit thereof and/or diversifying their funding. This paper aims to analyze how the option of EU universities for diversification of funding may challenge the university governance and to identify which are the main areas of university governance to be influenced. New models of good university governance are required for these institutions to remain competitive.

KEYWORDS: *university governance, university funding, EU programs, higher education and research.*

JEL CLASSIFICATION A20, H52, I23.

1. INTRODUCTION

Universities are considered to be at the very heart of knowledge creation and development underpinning European Union economic growth and competitiveness. Technological advancement and labor market changes raise new demands on universities. In a continuously more competitive environment, quality university education and research require significant funding. The global challenges (e.g. global health, energy, ageing of the population energy security etc.) together with the limited financial resources available induced increased difficulties for EU governments to match the rising costs of science and providing quality education. This raises new challenges for EU universities. Under the scarcity of public resources, competition for funding increased among universities in order to enhance efficiency and quality: EU universities (largely depending on public funding) are competing with each other's, as well as with other sector for public funding in particular. As reaction to the scarcity of available public resources and performance based criteria of public funding, the traditional EU "faculty management" model of university governance is challenged. EU universities seem to have two main strategic options to secure/enhance their competitive position and to better cope with challenges of a dynamic and complex economic and

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social environment: (a) concentrating of research and education activities to build up a strategic profile and to fully benefit thereof; (b) diversifying the funding sources. The *diversification of university funding* seems the most common measure adopted by EU universities to ensure financial sustainability to support quality education and research; government policies also encourage this option. EU universities may diversify their funding and reduce dependence of government direct funding by attracting private funding and projects funded under various EU programs. This option may enlarge the range of relevant stakeholders and may provide grounds for increased relative weight of *for profit activities* developed by the EU universities.

The authors presume that the option for *diversification of funding* is challenging the existing European university governance. The aims of this paper are to identify which are the challenges and transformations triggered by diversification of funding that EU university governance are facing and which are the main areas of university governance are the most challenged. The research hypothesis is that model the university needs also to adapt itself to a new governance model, so that to make full benefit of the funding opportunities and to efficiently manage the available resources. The authors are expecting that the diversification of university funding (together with the project based funding promoted by private organizations and most public funding programs in EU) will trigger the transformation of the university organizational culture and governance, in particular referring to priority setting process, efficiency, accountability and university engagement in society; diversification of funding is likely to encourage the EU universities to adopt a more stakeholder or corporate *based approach*. The research method is based on the qualitative analysis of information contained in secondary sources (existing literature on university governance, EU policy papers for education and research, official reports on EU university funding and EU programs). The paper is organized on three sections: (a) the first section contains synthetic presentation of the existing university governance models; (b) the second section contains presentation of main drivers for diversification of funding and main challenges associates to the “diversification of funding” option for EU universities; (c) the third section contains concluding remarks referring to the area of university governance which are the most influenced by the “diversification of funding” option.

2. MODELS OF UNIVERSITY GOVERNANCE IN EUROPE

There is no consensus about what university governance should be best defined. Governance, in general, refers to “*processes of decision-making within an institution. Enabling an institution to set its policies and objectives, to achieve them, and to monitor its progress towards their achievement*” (Trackman, 2008). University governance is also concerned with the *determination of values inside universities, their systems of decision-making and resource allocation, their mission and purposes, the patterns of authority and hierarchy, and the relationship of universities as institutions to the different academic worlds within and the worlds of government, business and community* (Meredith Edwards, 2011). From a different perspective, the university governance represents the “*process of strategic institutional decision-makings, and the authority to determine whom they involve and how and to whom they render account. University governance is related to power*” (Kim Terri, 2008).

The key principles of university governance refer to institutional autonomy, academic freedom and openness and responsiveness of the governance structures.

In the specific literature there are described several model of university governance that may be observed (Trakman, 2008): (a) faculty governance; (b) corporate governance; (c) trustee governance; (d) stakeholders governance; (e) amalgam governance.

Faculty governance represents the traditional model of university governance. Under this approach it is considered that universities should be mainly governed by academic staff which knows best what university needs (traditionally granting expansive powers to university senates or significant faculty representation in university senates or a combination). Almost all universities rely on academic governance to some degree. However, significant differences arise as to the exclusivity of

this model, if it is limited to academic governance as distinct from other forms of governance notably financial (Keller, 1987). This a model which seems dominant among the EU universities.

Corporate governance: this model is a translation of the private corporation governance's principles at university level. This model stresses the importance of the professional management, as key factor underpinning increased efficiency of university's activities. This model defines the university governance as a business model (money are granted by public authorities to deliver relevant skills – through education - and innovations – through research for the society/market needs; the value for money principle should apply to all university activities); it promotes the principle of separation of powers – clear separation between decision making and management tasks and structures, clear separation between stakeholders and management -. This model is mostly common to Canada, Australia etc. This model, is based on the idea that “*universities are acting as corporations: selling educational services to various and separates buyers, manages complex budgets, have diffuse centers for profits and loss*” (Trakman, 2008). This model of university governance approaches the university as a service producer which is “selling” the outputs of its activities (skills, knowledge and innovation) to various interested “buyers” within a competitive environments; still academic goals are pursued and university is not acting entirely as a profit oriented corporation. Under this model, the market driven priority setting is dominant “funds attracted when acting “corporately” in some sector may fuel the achievement of more academic related goals, financing costly knowledge advancements of the university.

Trustee governance: describes the university governance as being based on a “trust” relationship between a trustee board that acts in trust for, and on behalf of, trust beneficiaries; it is not directly concerned with stakeholder representation in university governance. Trustee governance is not directly concerned with stakeholder representation in governance. Under this model, “*the trustee boards have the fiduciary duty to discharge their trust ‘with the utmost good faith’ towards the beneficiaries of that trust (students, government, public at large)*” (Trakman, 2008). This trustee model is „*articulated structurally through the mechanism of trust duties. In effect, trustee boards have the fiduciary duty to discharge their trust ‘with the utmost good faith’ towards the beneficiaries of that trust*” (Cowley, 2006).

Stakeholders governance: presumes that university governance is vested in a wide array of stakeholders including, among others, students, academic staff, alumni, corporate partners, government and the public at large (Trakman, 2008). In case of the European Union, universities are considered to be at the very heart of knowledge creation and development underpinning economic growth and competitiveness. The university education enables intellectual potential and it is the engine of economic transformation and cohesion. Therefore, university funding it is a matter of societal responsibility for decision makers and governments are asked to invest public funds in university activities and processes. Since the he public funding remains the most important source in European Union for public universities to finance their education and research activities (over 70% of their budgets). (EUA, 2014), it is likely to consider that the STATE as the main SHAREHOLDER/TAKEHOLDER and INVESTOR in universities. Universities are considered to be at the very heart of knowledge creation and development underpinning economic growth and competitiveness. The university education enables intellectual potential and it is the engine of economic transformation and cohesion. Therefore, university funding it is a matter of societal responsibility for decision makers and governments are asked to invest public funds in university activities and processes. Consequently, the STATE BECOME DE MAIN SHAREHOLDER AND INVESTOR. In a different approach, public universities, as well as private universities could be seen as part of a specific industry, since, as it is the case of industries, the universities transform resources into services and products: highly trained human capital (educational activities and processes) and knowledge (research activities and processes). Still, it is broadly accepted that the universities are pursuing broader objectives than profit or cost recovery, since in most EU countries, the tuition fees cover just parts of the costs incurred by the universities (around 9-10% of the universities budgets) (EUA, 2014), we could consider also STUDENTS.

Amalgam governance usually involves usually involves a readiness to experiment with innovation in university governance, such as by providing for extensive consultation on public interest decisions, varying from equity in admissions to environmental protection (Trakman, 2008). It combines specific features of the previous models. Therefore in amalgam governance, universities: (a) university is having a broad mission and responsibility to build the knowledge base of the economy and society at large; (b) it enjoys the autonomy to develop for profit activities, through interaction and contracts with industry; (c) uses the public funding for clearly defined purposes related to student education and research; (d) enjoys academic freedom to define the content of the education and research so that to comply with academic quality standards and academic freedom of its staff to give advice and opinion; it also enjoys the institutional autonomy to manage its activities; (e) promotes equal learning opportunities for students and access to quality education; (f) addresses the development of the knowledge base for innovation; (g) continuously develop the skills of the academic and research staff, with a particular focus on areas in which the university have unique expertise and competitive advantages.

At present, the governance of the universities in the European Union is significantly challenged. In the traditional modes of governance, such as faculty governance, the state is the main regulator. Currently, in the European Union, in most countries, state diminished its interventionist and top down regulation approach and is acquiring rather supervisory role and a "steering at distance" approach limited to setting up objectives (Kruecken, 2011) and lives more autonomy to the universities to define the appropriate manner to achieve the objective. There is an increased focus on the important role that universities could play for the competitiveness and intelligent and inclusive growth in the EU; this increases the pressures for increased engagement of the universities in society which contributes to an increasing presence and diversification of relevant stakeholders for the university. This trend is also nourished by the specific objectives and project based approach of most of the funding programs, including, at some extent, the direct public funding. Another trend that challenges the university governance is increased competition, in particular increase competition for funding: EU universities (largely depending on public funding) are competing with each other's, as well as with other sector for public funding in particular.

The competition for funding, together with increased autonomy, put the universities in the position to identify solution for ensuring adequate financial resources for their activities. The most common solution identified by most universities for facing competition – *diversification of funding* – is the driver for transforming the university governance which will be analyzed in this paper.

3. IMPACT OF THE DIVERSIFICATION OF FUNDING ON UNIVERSITY GOVERNANCE IN EUROPEAN UNION

University education and research remain in the European Union, significantly dependent on public funding. In a continuously more competitive environment, quality university education and research require significant funding for the university education and research objectives. The global challenges (e.g. global health, energy, ageing of the population energy security etc.) together with the limited financial resources available induced increased difficulties for EU "governments to match the rising costs of science and providing quality education and excellent research" (ESMU, 2010). In the future, shifting priorities for public funding from education to sectors like social protection, health etc. is likely to occur because of the demographic trends, aging population. Thus, at present, universities are competing with health, social protection, energy, security sectors for public funding. Under the scarcity of public resources, *competition for funding increased among universities in order to enhance efficiency and quality*. Even if universities are at the very heart of all EU strategies for development and competitiveness and university education and research remain top priorities for EU governments, **universities are competing with other priorities for public funding.**

Data available indicate that EU universities continue to remain highly dependent on public funding (EUA, 2011 and EUA-Public Funding Observatory, 2013 & 2014). In 2011, direct public funding represented about 72.8% of the European university funding (EUA, 2011). EUA Report (EUA, 2011) indicates that private funds, like students tuition fees, contracts with business and service related contracts accounted for 9.1% and 10.5% of the universities funding represented 9.1% of the European university funding. The EU and international public funding programs account for 3%-4% in the European university budgets.

The direct public funding takes, usually, the form of block financial grant to support education and research activities of the universities; universities are mainly responsible for the internal allocation of funding according to their needs. Also, some targeted funding and project based funding will complete the tools for direct public funding of the European universities. In general terms, governments are providing funds to universities to support achievement of specific objectives related to increased access to quality education and quality research. After 2008, at European level, under the scarcity of public financial resources and budget constraints, governments focused more on efficiency as main criterion for public funding of universities: *“the trend to increase the use of output-based funding formula, is in line with the public authorities’ search for more efficiency in funding allocation.....it seeks to reward excellence which it measures against a series of criteria”* (EUA, 2011). Although, the allocation of block financial grant lies with internal university choice, **the public authorities’ focus on performance and efficient use of public funding** had a **significant influence on universities’ strategic decisions on the appropriate use of public funds**: it is the funding formula used by public authorities which influences the universities strategic choices. To this end, decisions made by university management will focus on university activities and processes which will contribute the most to improve performance criteria contained in funding formula so that to obtain increased public funding. Thus, priority setting is influenced according to the externally defined criteria, respectively contained in the public funding formula. It is the university ability to accommodate the externally induced priorities with internal strategic institutional priorities for education and research.

Unlike other sectors, university public funding *“is not a simple mechanism to allocate financial resources, but it is rather a set of tools and other governance instruments that enforce common goals set for higher education (e.g. access, efficiency), set incentives for certain behavior (e.g. competitive research grants), and attempt to maximize the desired output with limited resources”* (ESMU, 2010) without affecting academic and institutional autonomy. Thus, the efficiency requirements under public funding, induced an increased emphasis on the **accountability** in the university governance. Because of new emerging priorities and scarcity of public budgets, in some European countries (ESMU 2010), *“it may observed the trend to treat the public services, including universities, as corporate actors with the goal to increase efficiency and effectiveness by giving them more autonomy and asking for more accountability, in the same time”*; thus, governments are expecting *value for money* invested in university activities and organizational performance is to be linked to the budgets granted. Thus, the government – university relation is rather having a contractual basis, since the public financing being provided to the university for delivering quality services to the society and economy, in particular quality education (high qualifications) and quality research (capacity to produce and to deliver relevant knowledge for the society and economy. As reaction to the scarcity of available public resources and efficiency criteria of public funding, universities adopted a **more corporate based approach** and tried to secure/enhance their competitive position to better cope with challenges of a dynamic and complex economic and social environment by: (a) concentrating of research and education activities to build up a strategic profile and to fully benefit thereof; (b) diversifying the funding sources. The **diversification of university funding** is the most common measure adopted by EU universities to ensure financial sustainability to support quality education and research. Thus, under the **diversification of funding target**, new challenges for university organizational culture and governance may be observed: the European universities *“started to behave as corporate actors in the sense of seeking niches, distinctive*

profiles and engaging in dialogue with their external environment and stakeholders" (ESMU, 2010), as part of the strategy for remaining competitive and attracting diversified financial resources.

Taking into account the structure of the funding of the European universities, the authors consider that the diversification strategies could focus on two main areas: (a) private funding form contracts with business sector and service related contracts and (b) EU programs for research, education and cohesion policy.

The objective of attracting **more private funding** will contribute, at first place, to the increased importance of **market driven mechanisms for priority setting and strategy development**. In most cases, in Europe, still the **business needs is the driver underpinning the innovation activities** in research organizations, including universities. Also, the changing demands, under technological development, led to the new skills requirements and put more emphasis on learning outcomes and students learning experience, in particular on and work based learning approaches (European Commission 2014). For effectively addressing these challenges, universities need to increase **responsiveness to business and society needs** and to develop new modes and processes to *efficiently address the society and business community needs*. To this end, the increased **engagement of the university in society**, through **effective university – business cooperation**, is the core element of all strategies which provides the universities with adequate tools to better address the new skills requirements of the labor market needs. Effective university – business interaction contributes to increased employability of the graduates with positive effects on employment and competitiveness goals of the regions and governments. This collaboration is also benefiting to the universities: the higher the employment rate of its graduates, the higher the demand for its education, the higher the quality of the students recruited and the higher the funding (public or private) attracted to be used for further quality education and research; this may be considered a "plus" under the present scarcity and competition for financial resources. Similarly to the educational activities and goals, in case of R&D, the business needs and societal challenges have increasing influence on boosting the EU **universities engagement, as research institutions, in regions and society at large**. The complexity of the business needs and the societal challenges, at large, calls for *partnerships between research institutions and relevant local, regional or EU stakeholders*. To this end, the choice of universities to properly address the business needs and societal challenges has effect on university organizational culture and governance affecting, in particular, the **priority setting and decision making process** in universities. The main transformations are needed so that to mainstream the market driven objectives and the added value of the partnership in strategy development and they refer to: (a) the expansion of the market driven priorities influencing both education and research activities and goals; (b) increased participation of relevant (regional/national/sectorial/EU) stakeholders in the decision making process in universities, including priority definition. The extent to which these transformations of the university governance are dependent on how much **institutional autonomy** the university enjoys.

The objective of attracting **more funding** under EU funded programs could also influence the university governance and management, in particular in relation with: (a) the definition of new roles and missions for the universities and (b) adaptation of universities governance to the specific "project based funding" underlying EU programs and policies.

Most of the EU programs are addressing the specific objectives of various EU policies and the funding schemes available are project based. The core of the EU policies to competitiveness refers to innovation in research and in taking ideas to markets. Universities are positioned at very heart of knowledge creation and transfer and are expected to substantially contribute, through project funded under various EU programs, to the achievement of the EU goals" *Europe must strengthen the three poles of its knowledge triangle: education, research and innovation. Universities are essential in all three*" (European Commission, 2005). Universities are becoming key players in the "Europe of Knowledge" and it is *their new role and responsibility to deliver the economic, social and cultural services expected from them* (ESMU, 2010). To this end, most of the EU programs, the **value of the**

ventures and networks between business and university is highlighted: university education is seen as critical to supporting and maintaining economic growth, while university research and development activities are considered essential to ensuring that Europe remains at the forefront of technological innovation. Such goals however must be met in the context of increasing global competition for scarce academic talent and financial resources. The societal global challenges "have become a popular feature of science policy In the European Union, particularly at the level of the European Commission; this can be seen as priority setting, leading to mission-oriented research programs, but the actual challenges for research policy that are posed by grand challenges should not be underestimated" (Kuhlmann S, Rip A, 2014). Consequently, the EU education and research policies approach to address societal challenges influenced the **priority setting mechanisms in universities**, with effects on institutional strategy definition and decision making processes. To effectively tackle the societal challenges, transformations in the research system are required (Kuhlmann S, Rip A, 2014). The global challenges and societal transformations are often seen as **priorities for research and development** and for stimulating innovations; also they are influencing the R&D priorities, in particular through public funding priorities, and are inducing, at some extent, transformation of the research system (Kuhlmann S, Rip A, 2014). Also, during the last decades we could observe, in particular under the cohesion policy programming documents, increased pressures for universities, to get more engaged in the community life, in particular in supporting the competitiveness of the regions; in broader sense, we are witnessing to pressures to increase the **engagement of the universities in the society at large** so that to make full benefit of unlocking the universities potential and contribution to the EU competitiveness and regional development. Governments are "encouraging universities to increase their capacity and willingness to become engaged in the production of useful knowledge and relevant teaching" (ESMU, 2010). These policy approaches generate transformation of the university organizational culture and governance, by setting up **new missions and priorities for universities** to better address societal challenges and EU policies in support for development and competitiveness. The mainstreaming of the new missions and priorities in the university organizational culture requires the setting up of **specific organizational structures** to manage the university engagement in the regions and society, in particular the university-business cooperation. In European Union, the implementation of university education and research activities, as part of the competitiveness supporting policies, became a matter of creating **financial and other incentives for universities** contributing to increased **responsiveness to society needs; the objectives of the EU and national policies together with the market driven mechanisms** are influencing the **universities priority setting and strategy development processes**. To this end, the main tools used by EU member states governments and EU institutions are the fiscal incentives and **public (national and EU) funded programs** (Kuhlmann S, Rip A 2014). To this end, *the competition*, in particular through **project based funding programs**, and **greater institutional autonomy** are the main tools used by governments so that to spur universities to become more "sensitive to their varied consumers' demands for relevance" (ESMU, 2010).

EU programs for research put **excellence** as primary objective. Scientific excellence, innovation and knowledge intensive services, products and processes are the pillars to support EU knowledge based society and competitiveness. EU programs (e.g. Horizon 2020) are supporting, on competitive basis, through **project based funding mechanisms, excellence and frontier research, as well as innovation EU-wide**. The excellence oriented and high competitive grounds of the EU programs for research tend to "benefit to the largest and strongest research facilities foremost, leaving the weaker research facilities (labs and companies) to lag behind" (European Commission, 2008b) This approach of the EU research and development policy leaves both structural and cyclical imbalances, which do not get sufficient attention from other policy domains, for the EU cohesion policy to be resolved (European Commission, 2008b). Consequently, the cohesion policy will significantly contribute, in particular in cohesion member states to the **funding of the research infrastructures, including university research infrastructure to reduce the existing gaps**. The

cohesion policy is an important area for diversification of funding for many universities, in particular in the cohesion member states, for their both educational activities, research infrastructure development and innovation activities. The "Lisbonisation" of the cohesion policy is a turning point in reforming of this policy "shifting the focus of the cohesion policy from traditional alleviation of regional disparities to enhancing human resources and the knowledge intensive economic activities in prospective competitive parts of the economy" (Kalman J, Tiits M, 2014). Thus, **knowledge creation and transfer** become the very mean to reduce regional development and competitiveness disparities. For the 2014-2020 programming period, the use of European structural and investments funds under the cohesion policy is dependent on the development of smart specialization and regional innovation strategies. Under this new approach of the cohesion policy, universities are major players since they could undertake relevant research, in area defined by smart specialization strategies, and can contribute to regional knowledge based economies. Universities, in particular those located in less developed regions, become "**critical assets**" (European Commission, 2011): usually, in those regions the private sector have limited capabilities for research and development activities and universities have the human capabilities, expertise and infrastructure to produce knowledge and deliver innovations and could increase its capabilities with EU funded programs under cohesion policy. Universities are important assets for any region since they have the capacity to increase (both in terms of quality and in quantitative terms) the stock of the human capital through education activities (both undergraduate and graduate education). Under the *smart specialization strategy*, for both research activities and educational activities, *good partnership of the university with regional stakeholders* is needed so that to ensure proper conditions to address regional needs and to deliver relevant skills and innovation so that to provide a relevant contribution to the regional development. Under the smart specialization strategy, changes in the university governance, in particular in relation to its answers to regional and societal needs should be made; universities need to shift, gradually, their strategy **from the transactional approach (addressing stated needs and demands) to the transformational approach (addressing latent or unstated needs)** (European Commission, 2011), so that to support progress and to boost competitiveness. This transformation could significantly contribute to improving the competitive position of the universities, with consistent significant effects if taking into increased competition for funding across European Union. Consequently, the **universities are among the key players to enhance competitiveness and development potential of the regions**; this makes the programs under cohesion policy more attractive of for university financial diversification and creates more incentives for *new roles and increasing engagement of the EU universities in the regions* and makes. This also calls for **innovation in the university governance** (e.g. missions, strategic approaches, regional stakeholders' involvement in the activities of the university), including the gradual movement towards transformational strategic approach. During the 2007-2013 programming period the funding from structural funds (the financial tools for implementing the cohesion policy) represented in 2011 about 40% of the international and EU public funding programs for universities, while EU programs for research and lifelong learning accounted for 68% of the international and EU public funding programs (EUA, 2011). Observers tend to consider it unlikely that the amount of European funding available did not significantly grow in the financial period 2014-2020 (EUA, 2011); thus, competition for EU funding will increase. To increase the success rate in attracting funding under various EU programs, universities need to develop **specific support structures and adequate skills** to prepare good projects and applications.

The **project based funding approach** is currently a significant element of public funding on higher education, with direct EU, national or regional government acting as the principal source of funding. In all cases related to project-based funding mechanisms, **accountability** for expenditures incurred at project level and activity reports on the outcome of research are required. Where *project-based funding with diverse financing organizations is received*, there is little consistency between various external funders on conditions and requirements; therefore universities in most EU countries are having difficulties to adapt their financial management systems to meet the

requirements of their diverse funding organizations (European Commission, 2008). To this end, universities using external project based funding tools from diverse financing organizations will find themselves confronted with very diverse requirements (e.g. eligibility conditions, binding activities and outputs etc.), financing and reporting conditions. Also, accountability of project level is required by each of the financing organizations. To address this challenge, universities should adapt *their organizational structure so that to ensure the integration of specific requirements under an overarching set of operational tools/procedures for all university reporting and financial management processes and to ensure proper coordination across diverse projects to make them consistent with the institutional culture and governance.*

The increasing importance of the project based funding for universities activities, as part of the *financial diversification strategy*, in particular in case of research activities, induced to the development of **new models of university management**, respectively "many universities are shifting from a model where they have significant 'internal' resources which they are able to allocate as they see fit and support research in line with their own strategic goals, to a model where they are more dependent on competing for funds and thus increasingly influenced by research priorities" (European Commission, 2008). Most of the project based EU and national programs promote the excellence as primary objective of all education and research activities of the EU universities. It is unlikely to consider that all EU universities (around 4,000 universities) will become world class leaders in their domains of teaching and/or research. Also, it should be noticed that universities have different tasks and positions in the regions where they are located and that regional needs may be require lower standards than world class or EU class excellence. Taking into account the asymmetry in the competitiveness existing across the universities in EU, the *first strategic decision to be made by universities management refers to their positioning/orientation and goals setting: be it world class excellence or focus on regional engagement.* Once the institutional objectives and strategy defined, the university management should define the financial approach to support the achievement of the institutional objectives. Institutional objectives defined should provide the framework for the universities for identifying the appropriate financing tools and programs to fund their goals and activities. Based on its profile, objectives and specific focus areas, the university management could define the appropriate structure of its funding under various relevant EU, national or regional programs and/or private programs. Thus diversification of funding may have the role of a compass with respect to quality assurance of education and research activities, regional engagement, contributing to the definition of new institutional thematic focus area. To this end, it is important for the university management to promote "a balanced approach between fully strategic and opportunistic behavior" (European Commission, 2008) of available funding opportunities.

4. CONCLUSIONS

At present, the increased competition for public funding (universities are competing with other universities as well as with other sectorial priorities), put the EU based universities in the position to find solutions to reduce their dependence on public funding. One of the solutions identified is the *diversification* of university funding. This strategy, aiming mitigating risks and ensuring financial stability, is challenging the existing university governance models. To this end, EU universities should refer to the following areas:

1. **Mission definition** – should university enlarge their role so that to better reflect their engagement in the regional development and in society, in broader sense? Most of identified new or additional sources of funding focus on increased engagement in the society and increased responsiveness to societal and regional needs, as well as to the global challenges. This may generate new areas and subject of teaching and research activities.
2. **Strategic approach** – could a more „transformational” approach provide competitive advantage to universities?

3. **Priority setting** – most of the available funding sources are project based funding and specific objectives of each of the financing organizations have to be addressed by the university as condition for the funding provided. This may lead to an increased importance of the market driven mechanisms for priority setting and the university governance still needs to maintain some balance between its academic and institutional development priorities and the market driven priorities; also the university governance needs to find the right solution for accommodating the transactional strategic approach (increases sensitivity to business need and market driven priorities) and the transformational strategic approach. market driven priorities.

4. **Accountability** – if financial diversification is associated with project based funding mechanisms, each funding institution will ask for accountability at project level; thus university management, and consequently the university management is challenged so that to properly manage different administrative and reporting requirements of various funders within an overarching framework of university accountability.

5. **Efficiency** – financial diversification generates contractual relations between university and diverse financing organizations, each of them expecting efficient use of the resources provided and increased *value for the money* invested in the university. Also, direct public funding of EU universities became more dependent on performance indicators that the public direct funding tends to become efficiency-based funding, government requiring to the universities for efficient and effective use of the money provided. This focus on efficiency is also challenging for university governance: what **objectives and orientation** to define – should be the university more profit oriented or should rather focus on cost recovery objective or should it focus on academic objectives and its traditional roles in the society (educating people and creating knowledge) and care less about efficiency issues?

6. **Diversification of relevant stakeholders** - Financial diversification, together with the increased engagement in the society it induces, contributes to the introduction and diversification of the stakeholders active in the university life (e.g. financing institutions, local authorities, regional industry etc.)

7. **Governance approach** – the financial diversification, the focus on efficiency for most of the financing organizations may generate pressures for university governance to move gradually towards a *corporate approach* in the university governance. From this perspective, universities are acting as corporations (they are using resources – funds, personnel, expertise, and equipment – to deliver educational services and knowledge on particular market).

The *diversification of university funding together with the project based funding promoted by private organizations and most public funding programs in EU trigger the transformation of the university organizational culture and governance*, in particular referring to priority setting process, efficiency, accountability and university engagement in society. University governance and its capacity to make effective use of the granted autonomy to address the present challenges will also make a difference for financial sustainability. The university needs also to adapt itself to a new governance model, so that to make full benefit of the funding opportunities and to efficiently manage the available resources.

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