



Does Performance-Based Funding Work? A European Perspective

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Abstract

Ever more systems globally are tying the distribution of core public funds to performance indicators and objectives. This article describes the landscape of performance-based funding in Europe and offers some insights into its positive impacts and unintended consequences. Using the experiences of European systems, it also provides some recommendations for systems considering implementing or expanding performance-based funding.

Performance-based funding (PBF), i.e., the distribution of funding to higher education institutions based on their outcomes and outputs, has gained momentum globally as a mechanism to distribute public core funds. But does paying for results actually work? There is little evidence so far of the impact of PBF, either at the state level, or at the university level. One reason is that performance-based systems differ widely in how they are shaped and implemented by funding authorities. Another reason is the causality question: The performance of a higher education system is impacted by many external factors within and beyond the funding system. Success has many fathers, as they say.

At the request of the European Commission, we analyzed the use and impact of PBF in the European Union's higher education systems and drew up some lessons.

The Rise and Forms of Performance-Based Funding

In 2021, 21 of the 29 European higher education systems that we analyzed (25 national systems, the two regions of Belgium, and two states in Germany) used some type of PBF for the basic, core funds allocated to their institutions. However, the designs of these PBF systems vary considerably. The systems differ in the significance that they give to performance as part of the overall funding system: Some have sharper teeth than others. Less than a third of the systems have a particularly high level of performance orientation, meaning that more than 60 percent of the public core funding is driven by performance criteria. Most other systems have a moderate performance orientation (15 to 60 percent of core funding depends on performance). In the past decade, 17 systems increased their attention to performance in core funds, mirroring a global trend toward more paying-for-results.

European PBF systems also differ in their design: Some use particular performance indicators in their funding formulas, others negotiate funding agreements with individual universities and include performance elements in the contractual agreements. Many European countries actually use a mix of formulas and agreements. In our study, we found that over the past decade, dialogue-based performance agreements were introduced in several countries, showing a shift from uniform and numbers-oriented systems to mixed systems that allow for more institution-specific and mission-oriented flexibility. These mixed systems provide space for qualitative institutional ambitions. Examples are the *Leistungsvereinbarungen* in Germany and Austria and the performance agreements in Scandinavian countries and the Netherlands.

What performance actually means is also very much a country-specific issue that dictates how performance is included in performance-oriented formulas and funding agreements. Obviously, the national (funding) authorities set the objectives and broader performance targets. These differ across countries because each faces its own challenges. However, some commonalities can be observed: In funding formulas, frequently used education-related indicators include the number of degrees awarded by a university or its graduation rates. For research performance, the most frequently used indicators are the volume of competitive research grants earned by a university, or the number of doctorates that it has awarded. In negotiated performance agreements, popular education objectives include the goals of better addressing student demands and attending to labor market needs, increasing internationalization efforts, and encouraging diversity and study success. These agreements also frequently stress the acquisition of competitive research projects and excellence in research. Overall, the common goals of

European PBF systems are to improve study completion, increase external revenues for research, and encourage internationalization.

Performance-Based Funding Impacts

The study found that European PBF systems have worked quite well. Positive impacts of PBF can be found in increased study progress, lower time-to-degree, improved quality of teaching and learning, and more attention for student mentoring and guidance. Some countries experienced improvements in research quality, more PhD degrees, and increased internationalization. This suggests that PBF can help reach the results at which it aims. It incentivizes a more strategic performance orientation in universities. Compared to traditional, less output-oriented funding systems, PBF provides more legitimacy for the public funds invested in the higher education sector. It offers a transparent way of distributing core funds to universities. European countries see performance agreements as particularly useful, because they enhance the dialogue between universities and their funding authorities.

However, there is always another side to a success story. The European experiences also point to some unintended consequences that may result from PBF. At the individual level, researchers might be tempted to change their publication strategy because of the specific quantitative (bibliometric) indicators used for rewarding their institution's research performance, and they may prefer publishing in English rather than publishing in their native language. At the institutional level, increased accountability regulations and the complexity of PBF arrangements sometimes increases the administrative burden. At the system level, the often quite persistent inequities that exist between universities risk producing a Matthew effect: Already well-performing and well-endowed institutions end up becoming richer and less wealthy ones feel left out. Such inequities are often linked to the size of a university, its regional location, or its specific disciplinary profile and mission. Thus, there is a risk that some universities perceive the performance indicators/objectives driving their core funds as conflicting with their institutional mission and autonomy.

Recommendations

Experiences in Europe show that PBF systems can have a positive impact, but that funding authorities need to be aware of potential side effects. Therefore, our study lists the following recommendations for policy makers/funding bodies who consider introducing or expanding PBF for their universities:

- Before implementing or reforming a PBF system, the responsible authorities should set out the performance/broad goals that they aim to achieve with PBF.
- PBF systems need to be based on SMART (specific, measurable, achievable, relevant, and time-bound) performance measurement systems.
- PBF systems need to be designed in collaboration with stakeholders in the higher education sector.
- Funding authorities should carefully consider attributing a relatively high share of core funding to measures of performance.
- Universities should have some degree of choice and flexibility within the PBF system and associated indicators/objectives to express their individual missions and ambitions.
- PBF is best established in the context of increasing (i.e., extra) higher education funding.

The study illustrates that the design of funding systems—in particular PBF—is a delicate balancing act that is best performed jointly with the higher education sector. It will often take a few iterations and revisions to get the system's incentives and indicators right, with careful monitoring of PBF's impacts over time. In that respect, funding experiences from Europe can teach us a few lessons on how PBF can act as positive behavior facilitation. ▲

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