

**Abstract**

The article provides an overview of the implementation of performance-based funding (PBF) across the European continent. The cross-country comparison includes both endorsement and proposed rethinking of PBF practices by early adopters (e.g., United Kingdom, Finland, Denmark, and the Netherlands) and latecomers (e.g., Latvia, Ukraine). The authors argue for diversified approaches to PBF depending on system maturity, and for voluntary peer-learning across systems.

## Performance-Based Funding of Universities: Past and Present European Developments

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Over the years, performance-based funding (PBF) has become a common method of distributing public funds all over the world, including in higher education, first starting from the developed economies and then gradually being introduced in many of the emerging economies. PBF incentives are expected to trigger productive behaviors within universities and therefore lead to better performance. PBF is also assumed to promote transparency (allocation criteria are unambiguous), accountability (it measures what universities produce), and legitimacy (allocation criteria are same for all). The introduction of PBF has often been accompanied by governance reforms widening the institutional autonomy of public universities. Institutional autonomy is seen as valuable within the context of PBF because it allows universities to adopt new managerial tools to respond to PBF incentives and to use them more freely.

The most common and widespread approach to implementing PBF is to use performance indicators as part of the funding formula. In the context of research funding, PBF is often based on assessment of the volume and quality of scientific research output, although the manner in which this output is assessed varies, with some funding bodies being guided primarily by bibliometric indicators, and others relying upon peer review. Other typical indicators relate to external research funds generated by staff and the number of doctorates awarded. On the teaching side, the most frequently applied performance indicators are the number of degrees provided, study credits accumulated, graduation rates and graduate employment. PBF formulas often mix input and output indicators, and give very different weights to particular indicators based on their relation to policy priorities (i.e., the higher the weight, the more policy importance attached).

### Early Adopters and Latecomers

In Europe, PBF is currently in use in the vast majority of higher education systems. This has been the case for more than several decades already. However, a [recent study](#) commissioned by the European Commission found that PBF systems in Europe are very diverse. This diversity is related to the composition of funding formulas, share of public funds driven by PBF criteria, and the role negotiations/agreements play in allocations. Currently, the share of core funds driven by PBF-related criteria in most systems range

from 15 percent to 59 percent. Only in a few countries, like Denmark (80 percent) and Finland (76 percent), does the share of PBF exceed 70 percent of core funding.

Across Europe, there is also great variation in the level of maturity of PBF systems. In addition to the United States, early adopters of PBF include Western European countries like Finland, Denmark, and the Netherlands, where PBF has been in extensive use since the 1990s. The first PBF system at the national level was introduced in the United Kingdom in 1986 under the label of the “Research Assessment Exercise” (RAE), later renamed “Research Assessment Framework” (REF). Some of these mature PBF systems are now moving away from PBF. For example, the Dutch and Norwegian governments recently decided to discontinue using publications as a criterion for allocating research funding to universities. Strong voices in Finland are also demanding a reduction of the PBF share in universities’ core funding, and the British REF will be adjusted in 2028 in order to be more inclusive (by recognizing and rewarding a broader range of research outputs than before).

At the same time, a number of European countries—particularly in Eastern Europe—are taking their first steps toward implementing PBF. Latvia and Ukraine are good examples of this: both countries have introduced PBF in the last 10 years. Latvia introduced PBF in 2015 by incorporating a proportion of core funding to be allocated based on performance indicators. In Ukraine, PBF was implemented in 2020–2021, although the reform was suspended in 2022 as a result of Russian military invasion. During these two years of implementation, PBF in Ukrainian higher education accounted for modest 12–22 percent of the core funds and was distributed based on student number, attracted research funding, position in global rankings, and graduate employment rate. Contrary to the good practices in other countries, Ukrainian universities were not granted higher financial autonomy after the PBF launch. Still, PBF has greatly promoted transparency of public funding allocation in Ukrainian higher education. In mid-2023, Ukrainian government reopened discussions about reinstating PBF and revising its design to fit the disrupted war-affected sector. If accomplished, this will be the first case of PBF implementation in a system in an ongoing crisis.

### Diversity is a Key for the Future

This short retrospective exercise offers several takeaways for how PBF can be conceived, both now and in the near future. As a starting point, it needs to be acknowledged that countries are moving in different directions, based on their level of PBF maturity. Putting systems under the same roof with diverging PBF footprints brings little value, so PBF impact assessments should more explicitly discuss and reflect upon these factors. Indeed, there are good reasons for countries to move first toward and then away from PBF funding. PBF is often viewed as a periodic boost to efficiency, rather than a permanent solution. As a result, in contexts with longstanding PBF practices, taking time off can be a useful way for systems to recuperate and identify imbalances or gaps to be tackled further. Consistency in PBF implementation is more important for newcomers, as they aim to reach envisioned goals and stay on track with what is often an unpopular reform.

A second takeaway is that it is important for “latecomers” to have a chance to learn from the experiences of early adopters. Several decades of PBF implementation enables a supportive global policy borrowing and transfer environment. Certainly, context plays a crucial role in implementation, but wheel does not have to be reinvented.

Finally, it is helpful to remember that convergence of PBF models should not be the goal, given that systems differ too in many respects. It is easy to fall into the trap of advancing a golden PBF standard to which all adopters must adhere. Robust policy research into the benefits of PBF has highlighted several similarities which might broadly be considered good practices (such as goal clarity, stakeholder engagement, balanced indicators, and addressing institutional diversity). However, although useful when treated with discretion, suggested good practices should never override national differences, but rather bolster them. ▲

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