



# Evaluation of the governance and funding practices used by the Ministry of Education and Culture for steering Finnish Higher Education Institutions

Publication seminar

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# Introduction

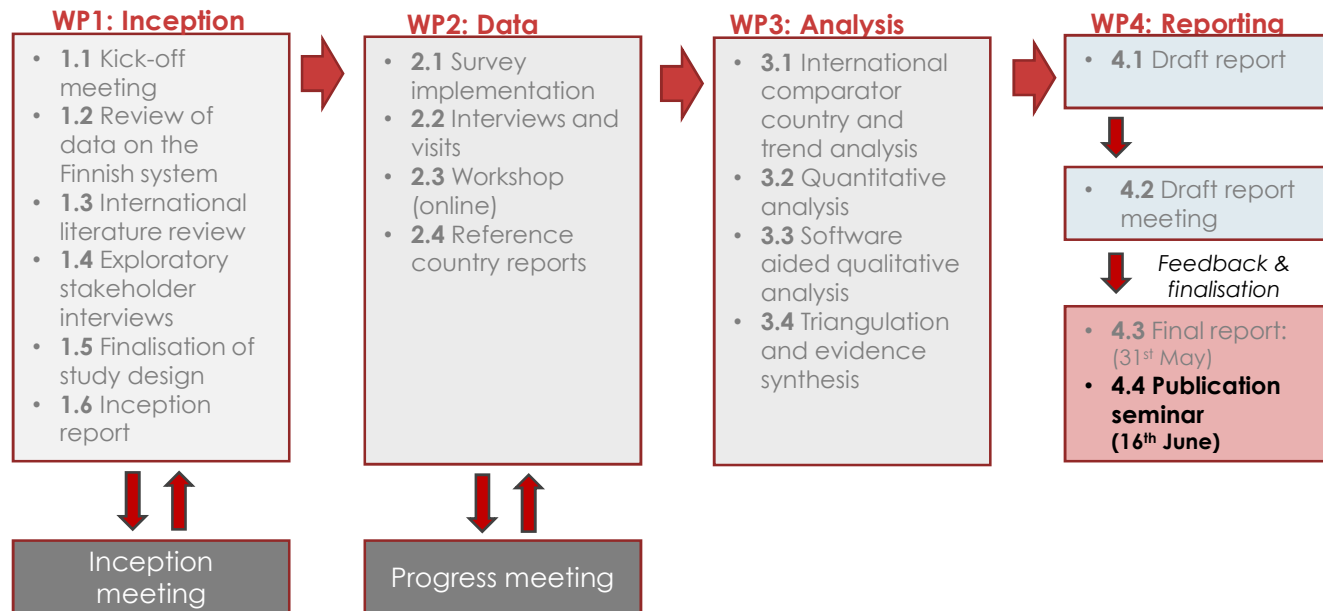




## Purpose of the study

Evaluation questions:

- 1 – Are **funding and governance practices** of the Ministry of Education and Culture best suited to the changing operating environment and support the responsiveness of the higher education system? How do the basic principles of governance and funding practices adopted in Finland **compare with the principles adopted by 4 – 5 reference countries** and planned changes in these principles?
- 2 – To what extent and how do the Ministry's funding and governance practices **influence higher education institutions'** strategies, educational and research priorities, leadership, internal resource allocation, partnerships and cooperation arrangements, or human resources policy?
- 3 – What **trends and needs for change in governance and funding** practices are emerging from the perspective of performance, autonomy, social responsibility, effectiveness, efficiency, societal impacts and quality of higher education institutions based on evaluation? What would be the impact of these changes on the governance and funding mix and safeguarding the long-term operating environment for higher education institutions?



- ↗ Analysis of Finnish and international data
- ↗ Consultation with Finnish higher education institutions, government and other stakeholders
- ↗ Consultation of government and other stakeholders
- ↗ In-depth reference country studies



# EQ1: Governance and funding practices



Report section 2



## Characteristics of higher education systems

| Headline figures                                  |                              | Finland        | Bavaria, Germany   | Ireland  | The Netherlands                        | Sweden  |
|---|------------------------------|----------------|--------------------|--|--|---|
| Background data (2022)                            | Population                   | 5,548,241      | 13,176,989         | 5,060,004  | 17,590,672                             | 10,452,326  |
|   | Area size (km2)              | 338,411        | 70,550             | 69,947   | 37,378                                 | 447,424   |
|   | Population density (pop/km2) | 16             | 187                | 72   | 471                                    | 23  |
| Students enrolled (2020)                          | ISCED 5                      | n/a            | n/a <sup>(4)</sup> | 23,241   | 30,201 (est.)                          | 34,801  |
|   | ISCED 6                      | 284,676        | 220,838            | 167,763  | 695,419                                | 256,655   |
|   | ISCED 7                      | 72,794         | 167,406            | 36,800   | 195,384                                | 143,164   |
|   | ISCED 8                      | 18,454         | 11,592             | 8,893  | 16,417 (est.)                          | 18,828  |
|   | Other <sup>(5)</sup>         | -              | 4,869              | -  | -                                      | -   |
|   | <b>Total</b>                 | <b>295,924</b> | <b>404,705</b>     | <b>236,697</b>                                     | <b>937,421</b>                         | <b>453,448</b>  |
|   | Male – female ratio of total | 47%-53%        | 50%-50%            | 47%-53%  | 47%-53%                                | 40%-60%   |
| Tertiary educational attainment, age 25-34 (2022) |                              | 40.7%          | 41.3%              | 62.3%  | 56.4%                                  | 52.4%   |
| Graduates (2020)                                  |                              | 63,617         | 72,446             | 90,097   | 163,408                                | 84,511  |
| Number of Universities                            | Public                       | 13             | 10                 | 7 universities<br>5 technological unis             | 13 research unis.<br>1 open university | 16  |
|   | Non-public / private         | 1              | 6                  | 1  | 5 incl. 4 theological universities     | 2   |
| Number of Universities of Applied Sciences        | Public                       | 22             | 17                 | 2 IoTs<br>3 colleges<br>8 third level institutions | 36                                     | 11 university colleges<br>4 art, design and music academies |
|   | Non-public / private         | 2              | 7                  | 8  |  | 17  |






## The steering instruments



### **Regulatory steering**

-  Roles of institutions: research universities vs UASs
-  Autonomy and ownership

### **Funding related steering**

-  Core funding based on the performance-based funding formula (recurring)
-  Capital funding for universities (used intermittently, for specific purposes)
-  Competitively awarded grants (e.g., the PROFI grants awarded by the Academy of Finland)

### **Information-based or 'soft' steering**

-  Performance agreements, monitoring and reporting
-  Dialogue and interaction



## Regulatory steering

- ↗ The roles of Universities and UASs in Finland
  - ↗ universities conduct scientific research, publishing, and tertiary education from Bachelor's to Doctorate levels
  - ↗ regionally embedded institutions focussed on primarily on Bachelor's level education and supporting applied research and outreach
- ↗ A series of reforms (2010->) has changed the landscape
  - ↗ Increased autonomy
  - ↗ Changed ownership structure
- ↗ Recent reforms in reference countries to (re-)define division of labour between the two parts of the sector:
  - ↗ **Bavaria:** Overarching missions for all HEIs (including excellent research, contribution to digital and ecological turn) as well as distinctive roles.
  - ↗ **Ireland:** 2018 Technological Universities Act, introduced Technological universities (first recently created) and define distinct and complementary roles for different parts of the system.

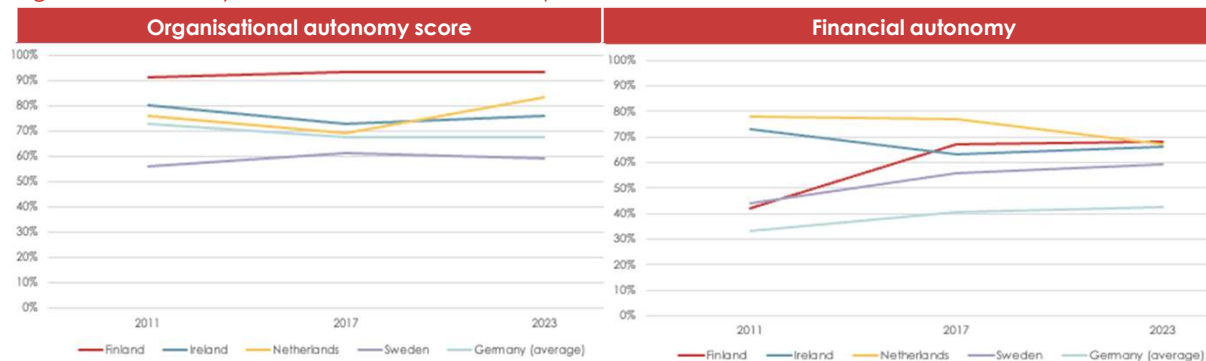




## Regulatory steering (2): Autonomy

- Organisational autonomy of Finnish HEIs exceptionally high compared to reference group
- Financial autonomy increased substantially after 2011 and is now in the high end of the reference group (with the Netherlands and Ireland)

Figure 6 Autonomy scores for Finnish HEIs compared to four international reference countries



Source: Technopolis based on data from EUA, autonomy scorecard, data for Bavaria not available, Germany figures are based on the averages of three other Länder



## Funding

- Core funding model allocating funding for research, education and strategic development

|                                     | Universities |           | Universities of applied sciences |         |
|-------------------------------------|--------------|-----------|----------------------------------|---------|
|                                     | 2017         | 2021      | 2017                             | 2021    |
| Education                           | 39%          | 42%       | 79%                              | 76%     |
| Research and Development            | 33%          | 34%       | 15%                              | 19%     |
| Other (incl. strategic development) | 28% (12%)    | 24% (15%) | 6% (5%)                          | 5% (5%) |

- Strategy-based funding programmes, incl. 'Digivisio' and 'Talent Boost'
- Capital funding: Increasing profits generated from investments at universities, somewhat less for UASs.
- External 'PROFI' funding allocated by the Academy of Finland is part of the overall 'package' of measures to provide steering for the sector



## Performance orientation

- Overall, the **Finnish system** has a high degree of performance orientation compared to **reference countries**

|                        |  | Degree of performance orientation |               |   |                |
|------------------------|--|-----------------------------------|---------------|---|----------------|
|                        |  | No PBF (0%)                       | Small (1-14%) | Moderate (15-59%)                                     | High (60-100%) |
| Funding mechanism type | Formula-based  | HU                                | LV            | RO  | SE BE-NI<br>SK |
|                        | Formula + performance agreement and/or other         | BE-Fr                             | IE            | LT<br>CZ<br>PL<br>EE<br>SI<br>NL<br>IT<br>DE-LS<br>AT | BG<br>DK<br>FI |
|                        | Negotiations-based (perform. agreement and/or other) | EL<br>MT PT<br>FR LU<br>CY        |               | HR<br>DE-BE   |                |

Source: ICF/CHEPS: Study on the state and effectiveness of national funding systems of higher education to support the European Universities Initiative, a study for the European Commission



## Conclusions concerning the current governance and funding practices (EQ1)

- ❏ Reforms have been successful in establishing a high degree of autonomy for higher education institutions accompanied by a steering system with a highly performance-based funding approach
- ❏ Attention within the sector appears to be concentrated on the funding formula and performance indicators, which are broadly viewed as predicable and fair.
- ❏ The back-ward-looking nature of performance funding, however, is viewed as a disincentive to invest in new activities
- ❏ The Ministry employs a number of different elements from the 'Steering toolbox', by some viewed complex or 'heavy'
- ❏ Overall, the effect appears to be overly conservative, suggesting changes are needed to make it more future-oriented.



## EQ2: Influence on HEIs

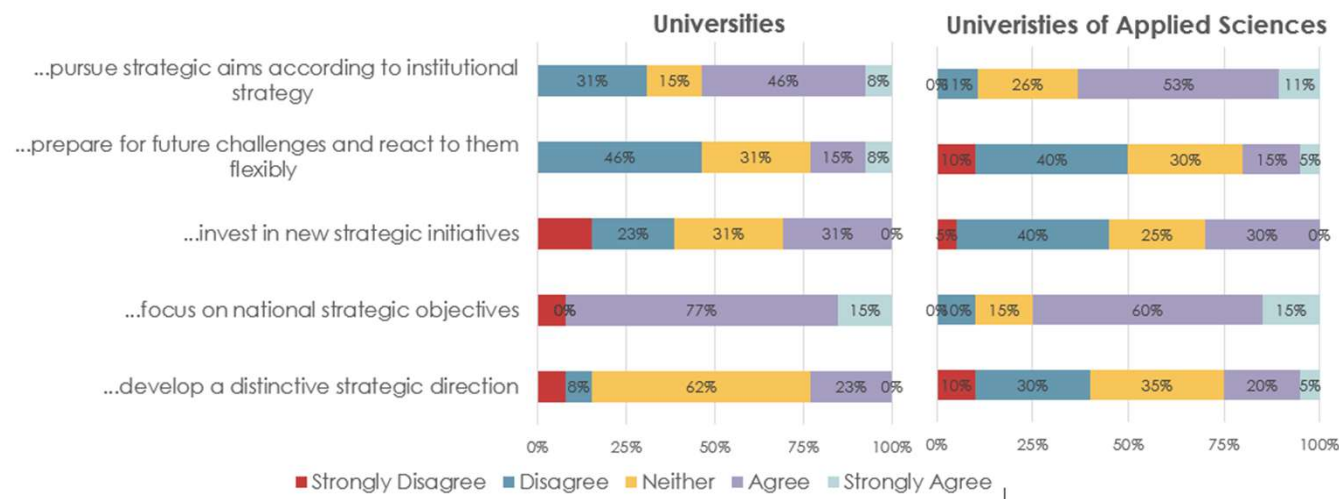


Report section 3.1



## Strategic decision-making

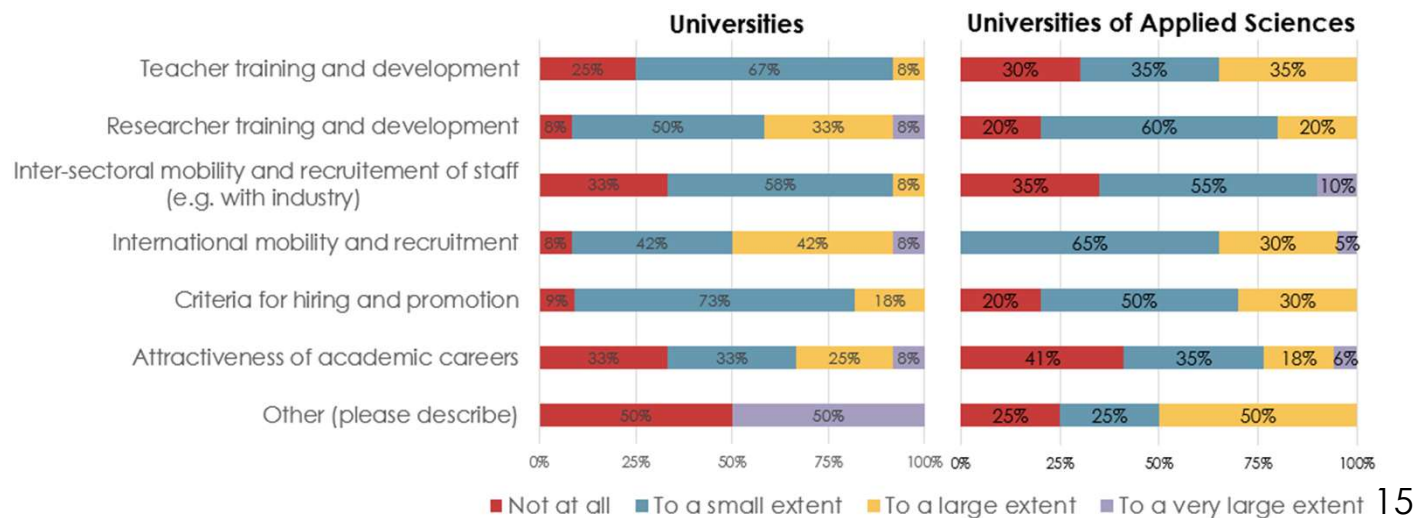
- High formal autonomy, but a perception (not consensus view) of limited “real” autonomy
- Overall, HEIs perceived current practices to be a driver of uniformity in strategic orientation
- Strategic funding programmes sometimes not always implemented so as to allow HEIs to draw full benefit





## HR and personnel policy

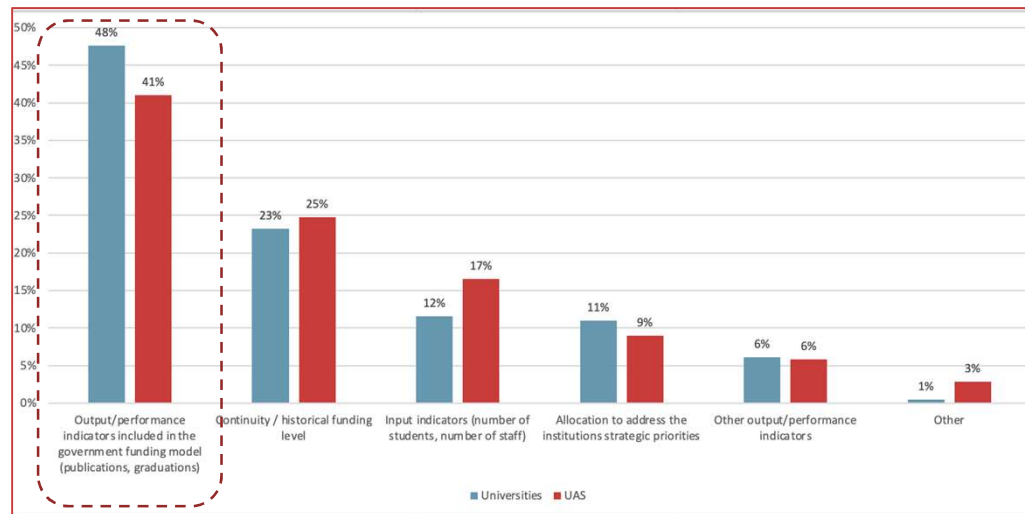
- High 'Staffing autonomy' following reforms, and limited direct influence of MEC on personnel decisions
- Possible effects on staff composition (temporary staff)
- Limitation on UAS's ability to attract desirable candidates





## Internal allocation of funding

- General view that HEIs cannot ignore the funding formula in their internal planning
- External rewards affect priorities and highlights perceived gaps, such as the lack of ongoing support for participation in EUAs
- In this context, predictability of funding seen as essential by institutions

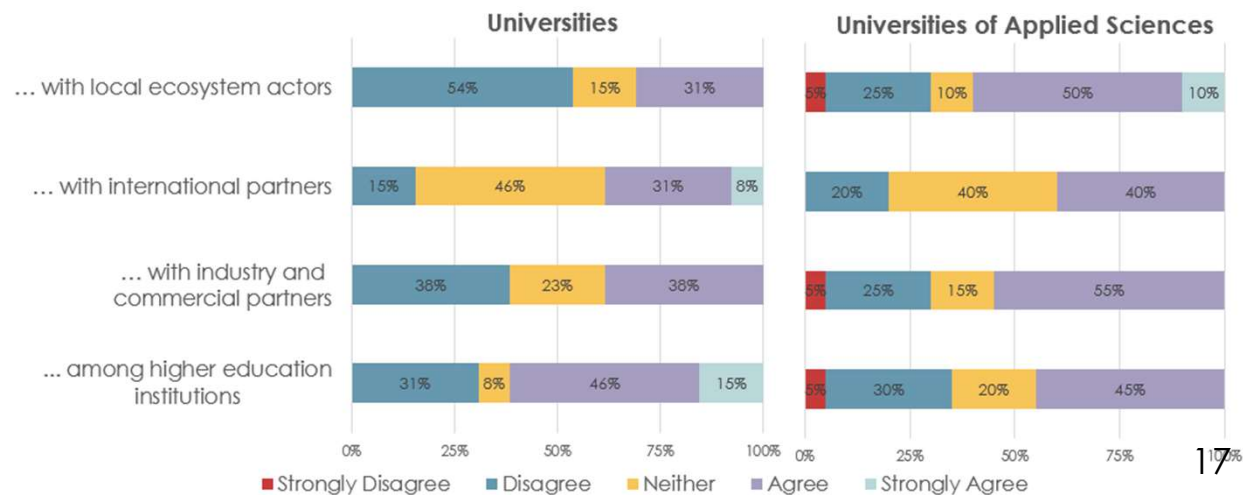






## Partnership and cooperation

- Collaboration between HEIs supported directly through programme funding
- 'Zero-sum' nature of funding formula tends to reduce incentives for collaboration
- Perception of insufficient reward for collaboration with external companies and 'impact'





## Conclusions concerning the steering models influence on institutions (EQ2)

- ↗ The Ministry's steering practices exert a strong influence on institutions, in most of the dimensions considered in the study.
- ↗ The current model has been effective in driving efficiency and financial planning within institutions
- ↗ But it also appears to lead institutions to shared national goals over distinctive institutional ones (uniformity) and competition for funding in a 'zero-sum' game over collaboration.



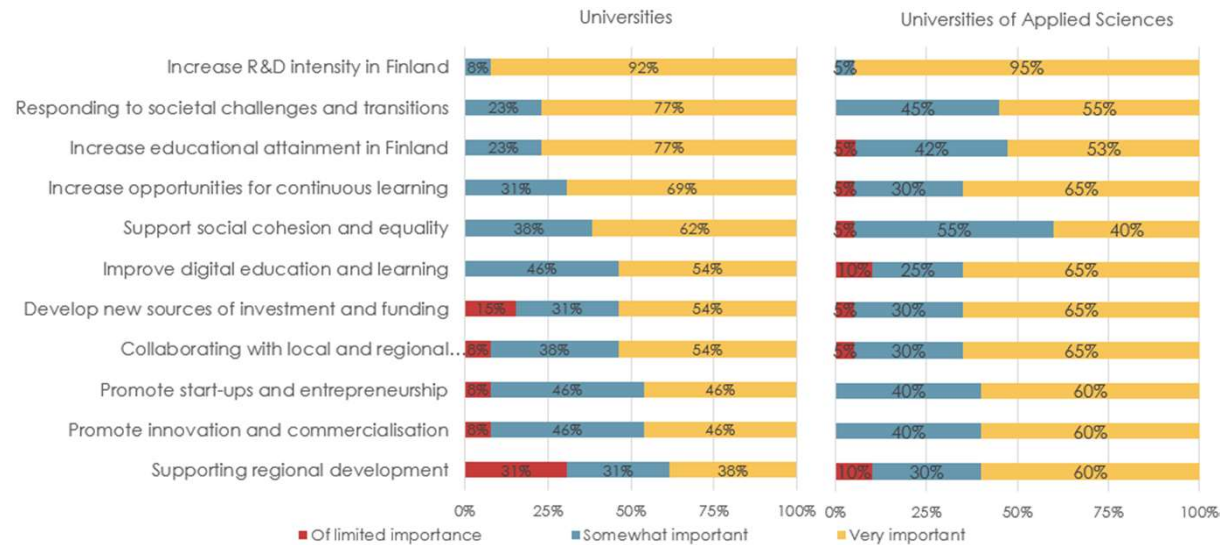
## EQ3: Challenges and trends

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## Key challenges for the higher education sector

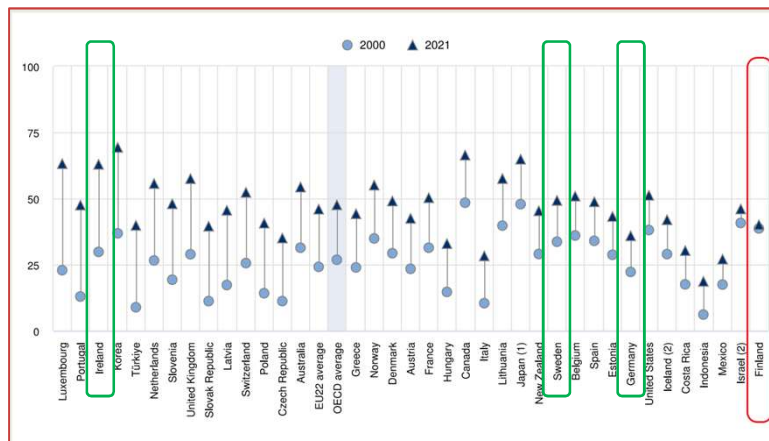
- Overall, broad consensus on what the key challenges are and commitment to addressing them
- These challenges to be understood in the context of the increasing need for a highly educated workforce, demographic changes, and increasing urbanisation.





## Tertiary educational attainment

- ↗ Aim of expanding higher education to 50% of each cohort. Finland had higher rates of attainment than reference countries in 2000, but has now been overtaken (excl. Germany)
- ↗ Contributing factors may include the highly selective admission to Finnish universities, relative lack of students entering from VET secondary institutions, and relative few students entering later in life.
- ↗ Delivery of degrees have become much more efficient, but limit is being reached on efficiency savings
- ↗ Need for qualitative as well as quantitative change, accommodating new student profiles and study pathways
- ↗ Need to consider the role of degree education in wider skills provision

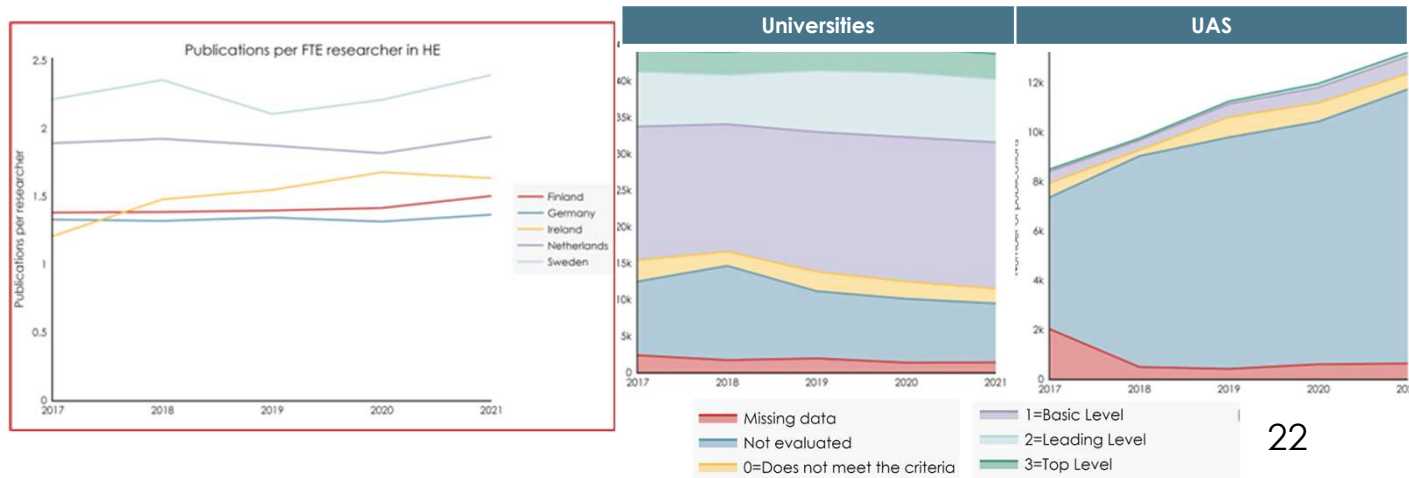


|               |                 | Finland      |
|---------------|-----------------|--------------|
| Data for 2012 | <b>Total</b>    | <b>40.2%</b> |
|               | Cities          | 47.7%        |
|               | Towns, sub-urbs | 35.8%        |
|               | Rural areas     | 29%          |
| Data for 2022 | <b>Total</b>    | <b>40.7%</b> |
|               | Cities          | 48.5%        |
|               | Towns, sub-urbs | 34.6%        |
|               | Rural areas     | 26.9%        |



## Research and development

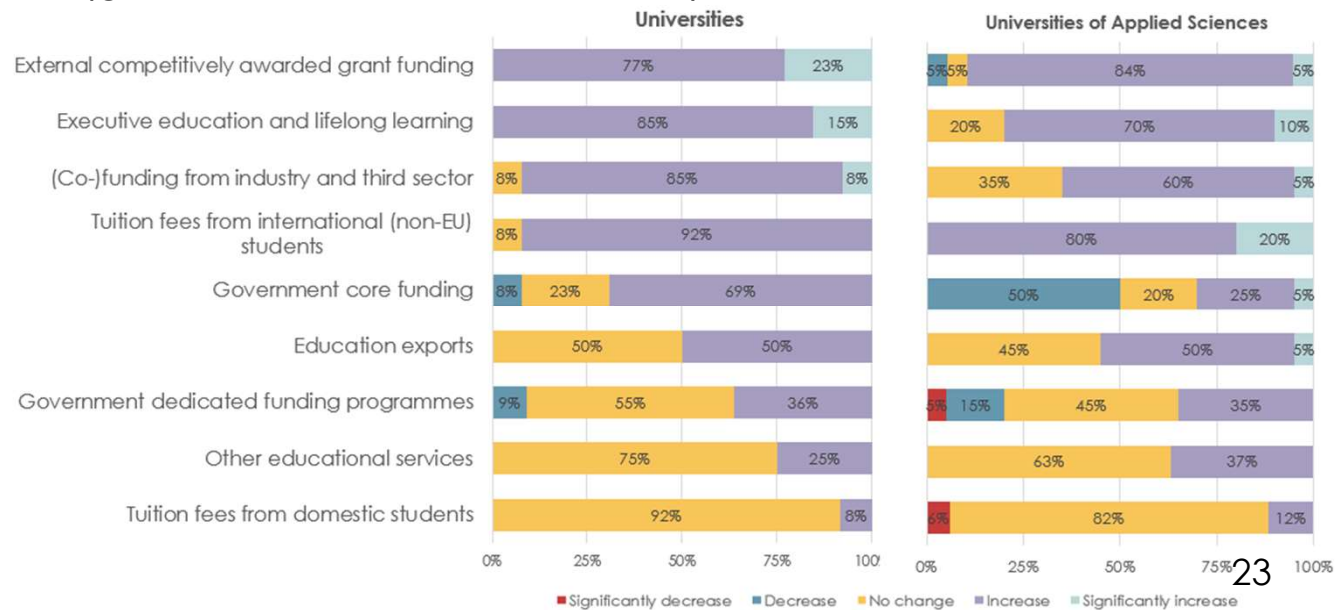
- Modest increase in research productivity and output. Sharp increase in publications from the UAS sector, albeit primarily in a category where quality has not been evaluated.
- R&D financing act provides momentum but requires focus on the HEIs role in enabling capacity-building and investment in the private sector, which is currently not a focus of the steering model
- Many UASs express a desire to expand R&D activities, currently limited by governance and funding framework.





## Funding higher education

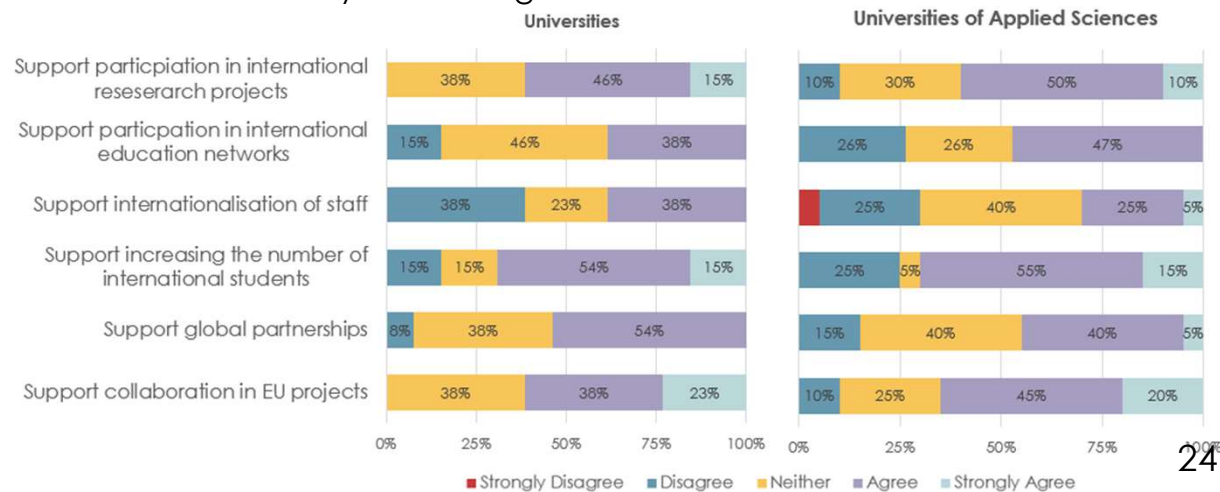
- Need for further investment to meet the policy goals and economic and societal needs.
- Finnish higher education rely on public funding to a comparatively large degree
- Additional funding primarily expected from external sources (grants and international students).





## Internationalisation

- Internationalisation is seen as an essential component across challenges
- Increasing effort to strengthen, e.g., through offer of degree programmes in English and support through Talent Boost etc.
- Challenges persist, particularly concerning the recruitment and retention of foreign graduates in the Finnish labour market, especially in health and public services
- Internationalisation of staff perceived by HEIs to be least well supported by current MEC funding and governance.
- Ultimately, the overall competitiveness and attractiveness of Finland is seen to be the key to ensuring attraction and retention of talent.







## Policy options





## Policy options: Enhancing institutional strategic development and system level impact

There is a need to create system in Finland that consists of higher education institutions that together represent significant research and educational capacity and excellence with individual strengths and distinct profiles while delivering system-wide impacts. To achieve this the Ministry should consider the following options:

|   |  |
|---|--|
| <p><b>Emphasis on performance agreements in strategy developments</b> incl. Institution-specific indicators</p> | <ul style="list-style-type: none"> <li>• Supports the development of distinct institutional profiles</li> <li>• Adds complexity and requires monitoring by the MEC</li> </ul>                                    |
| <p><b>Reduce the weight of performance indicators in favour of agreement-based funding</b></p>                  | <ul style="list-style-type: none"> <li>• Creates stable core funding, more predictability</li> <li>• Could reverse some of the positive effects and efficiency gains of the performance-based funding</li> </ul> |
| <p><b>Focus on quality and impact</b><br/>e.g. thorough use of formative use of impact case studies</p>         | <ul style="list-style-type: none"> <li>• Promotes sharing of good practice</li> </ul>  |
| <p><b>Supportive framework conditions</b> incl. cross-ministry policy coordination</p>                          | <ul style="list-style-type: none"> <li>• Provides enabling context for attracting talent and addressing challenges cutting across ministerial portfolios (industry, health etc.)</li> </ul>                      |



## Policy options: Effective and equitable support for expanding student intake and educational attainment

The current focus on graduations in the funding model gives institutions incentives that are not always aligned with the policy objectives and create opportunities for a degree of gaming on the part of individual institutions that can be detrimental to the system as a whole.

|  |  |
|--|--|
| <b>Student 'transfer fees'</b>                                     | <ul style="list-style-type: none"> <li>• More equitable, better incentives for institutions to support study progression regards of final destination</li> <li>• Adds complexity</li> </ul>  |
| <b>Supplementary funding for inclusive student intake</b>          | <ul style="list-style-type: none"> <li>• Support for quantitative increase, support for more inclusive student body</li> <li>• Requires additional funding</li> </ul>  |
| <b>Expanding the intake from secondary VET to higher education</b> | <ul style="list-style-type: none"> <li>• Create more diverse routes for students to enter higher education</li> <li>• Increase student intake and attainment</li> <li>• Potential decrease in number of mid-level qualifications</li> </ul>      |
| <b>Limiting free access to multiple degrees</b>                    | <ul style="list-style-type: none"> <li>• Opens space and resources for new students</li> <li>• Potential additional fee income (likely modest)</li> <li>• Challenges norms of free education and access to reskilling (but see below)</li> </ul> |
| <b>Assess needs and value of degree education</b>                  | <ul style="list-style-type: none"> <li>• Improved targeting of resources towards needs</li> <li>• Enable stakeholders to re-evaluate the value and role of different types of higher education qualifications</li> </ul>                         |



## Policy options: Expanding R&D capacity

The planned increase in R&D intensity in Finland to 4% of GDP involves an important role for the higher education sector and requires an expansion of the research capacity both within higher education (Master's and PhD level alike) as well as in the research and business sectors, including the SMEs.

|  |  |
|--|--|
| <p><b>Enhance the overall system capacity while ensuring that international centres of excellence are also supported</b></p> | <ul style="list-style-type: none"> <li>• Improve global competitiveness of Finnish universities</li> </ul>   |
| <p><b>Expanding the role of UASs in research and development</b></p>   | <ul style="list-style-type: none"> <li>• Expanded capacity in best placed part of the sector</li> <li>• Increased emphasis on applied research</li> <li>• Potential leverage of resources for collaboration with industry</li> <li>• Risk of fragmentation of research effort</li> </ul> |
| <p><b>Industrial PhDs</b></p>  | <ul style="list-style-type: none"> <li>• Enhance collaboration between higher education and businesses</li> <li>• Support R&amp;D capacity and innovation among SMEs</li> </ul>  |



## Policy options: **Funding higher education**

Finnish HEIs are highly reliant on public funding and there is scope to expand external sources of income. This includes targeted increase in fees, including for students not studying for their first degree as well as continuous learning

|                                      |  |
|--------------------------------------|--|
| <b>Expanded role of tuition fees</b> | <ul style="list-style-type: none"><li>• Target resources on new students</li><li>• Challenges principles of free access to education</li></ul>         |
| <b>Fees for continuous education</b> | <ul style="list-style-type: none"><li>• Raise additional revenue</li><li>• Improve targeting of the offer to areas of most value to industry</li></ul> |



**Thank you.**

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