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The Changing Relationship Between Government and Higher Education – The Curtailment and Instrumentalization of Institutional Autonomy in Higher Education

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(Received 5 November 2025; accepted 4 April 2026)

Abstract

Since the late twentieth century, institutional autonomy has become a major issue in the relationship between the government and higher education institutions, with autonomy being presented as a virtuous option that satisfied both government's regulatory aims and institutional capacities to develop in an increasingly dynamic and complex sector. Due to concerns about the effectiveness of higher education, the development of autonomy was increasingly linked to a market-like logic, with a growing emphasis on competition and efficiency. Thus, what was initially regarded as a path to emancipation of institutions from government's influence became a mode of relationship that could curtail previous dimensions of autonomy. One of the major regulatory dimensions that helps understand the reversals and nuances of institutional autonomy is funding. Like other regulatory dimensions, recent decades have seen the emergence of new forms of funding that have influenced institutional governance and management. In this text, we analyse these trends in European higher education by mapping changes in governments' approaches to the sector, specifically the evolution of funding mechanisms and how these highlight a shift in the pendulum between degrees of autonomy and modes of government's influence in institutions.

Keywords: autonomy; funding; higher education; Europe; competition

Introduction

Since the late twentieth century, institutional autonomy has become a significant issue in the relationship between governments and higher education institutions (Neave 2012; Huisman 2009). With the crisis of postwar modes of state planning and control and the expansion and diversification of higher-education systems, institutional autonomy was presented as a virtuous solution that could both satisfy the government's regulatory aims and institutional capacities to develop in an increasingly dynamic and complex higher-education landscape. Moreover, institutional autonomy was regarded as an effective tool to steer relevant changes in higher education, namely by making institutions more responsive to socio-economic needs (Aghion *et al.* 2010).

Due to these concerns about the effectiveness of higher education, the development of institutional autonomy was increasingly linked to a strengthening of a market-like logic that framed much of public policy from the 1990s onwards, with a growing emphasis on

institutional competition, management efficiency and effectiveness (Teixeira *et al.* 2004; Regini 2011). Hence, what was initially regarded as a path to the growing emancipation of higher-education institutions from government influence and interference became a much more complex mode of relationship between the government and higher-education institutions, one that would evolve, in more recent years, towards a regulatory mode that could curtail previous dimensions of autonomy (Teixeira 2023).

One of the major regulatory dimensions for understanding the main trends, reversals and nuances of institutional autonomy is the public funding of higher education (Jongbloed 2020a). Likewise, the evolution of funding systems in the latter part of the twentieth century was one that tended to be regarded as providing much greater autonomy to higher-education institutions, notably regarding their daily management of financial resources. Nonetheless, as in other regulatory dimensions, the evolution of recent decades has highlighted trends that call into question the extent to which institutions have attained autonomy and the degree to which emerging forms of funding have influenced governance and management. Although some of these trends are more nuanced and subtle than previous modes of government regulation, they appear to be having a significant institutional impact on the priorities and missions of higher-education institutions.

In this article, we will address the aforementioned trends in European higher education, starting by mapping the changes in governments' approaches to the sector and the rise of institutional autonomy, and then focusing on the way funding mechanisms have evolved and how these may be perceived as highlighting a swaying of the pendulum between degrees of autonomy and modes of government's influence in institutions.

The Expanding Role of the State in Higher Education: A Brief Historical Overview

The emergence of the modern nation-state fundamentally altered the landscape of higher education. As states consolidated power during the early modern period, they sought to assert control over educational institutions as a means of legitimizing and reinforcing their authority. Universities, once largely autonomous or under ecclesiastical influence, increasingly became instruments for the dissemination of state-sanctioned knowledge and values. The affirmation of state authority in higher education thus reflected broader trends of centralization and bureaucratization characteristic of modern nation-states. In fact, the more we advance in the history of higher education, the more pronounced the role of public authorities becomes (see Hammerstein 1996; Gerbod 2004). This reached its height in the nineteenth and early twentieth centuries, when the modern state explicitly expanded its functions to include higher education under its wings, in what Neave (2000) calls the 'nationalization' of higher education.

This process involved regulating academic appointments, imposing state-approved curricula and utilizing higher education as a tool for cultivating loyal civil servants and professionals. The construction of modern states necessitated the development of administrative and technical expertise, which in turn required a systematic approach to higher education (Neave 2001). As higher-education institutions were increasingly regarded as an instrument for training elites, this increased the perceived usefulness of this form of education. To train the new members of the administration, European states, especially those in Continental Europe, began to either establish new institutions or more visibly regulate existing ones.

Nowhere was this process taken further than in France, with the emergence of the so-called Napoleonic University model, referring to state involvement in steering its specialized higher education institutions, which was considered to have an important role

to play in the modernization of society, as well as in nation-building (Neave and van Vught 1994). The Napoleonic model was to have a lasting influence in many European countries, and its influence would extend beyond Europe, notably to Latin America (via the colonial influence of Portugal and Spain). At the same time, the so-called Prussian or *Humboldtian* University model, established in the early 1800s in response to the Napoleonic model, presented a new pattern of the state's strong administrative influence over university life. In some cases, the steady process of persistent state control over universities began to be reversed only towards the end of the twentieth century.

The new type of relationship between universities and the state that emerged in the nineteenth century and largely persisted throughout most of the twentieth century forged a new and strong state of dependence of universities towards secular authorities (Wittrock 1993). This dependence, particularly noticeable in Europe, was visible at the financial, administrative, educational and political levels. The growing role of the government in funding universities was encompassed by a much greater administrative oversight of the former. One of the most visible signs was the slow but steady establishment of Ministries of Education or similar public administrative structures that would develop a detailed control of university life. These bodies were responsible for setting national standards, accrediting institutions and overseeing the distribution of public funds.

In continental Europe, this had already occurred throughout the nineteenth century, whereas in Britain it was a more gradual process, not fully accomplished until after the Second World War. Universities became increasingly accountable to state authorities and were required to obtain governmental authorization for a wide range of organizational activities. This development, which occurred in the mid-twentieth century, led to the emergence of the so-called model of rational planning and control (Van Vught 1989). This reached a height in the post-Second World War decades with so-called legal homogeneity (Neave and Van Vught 1991), meaning that governments defined a standard curriculum and syllabus for each institution that was aimed at providing higher training in a specific field. These developments were particularly pronounced in continental Europe.

In addition to national homogeneity, the growing influence of governments in higher education was significantly shaped by the development of modern administrative and political structures (Middleton 1997). The expansion of the government's economic and social roles, especially after the Second World War, created significant needs for qualified personnel that could be met through higher education. Although this demand for certain types of qualified individuals was already present in the nineteenth century, particularly for those with legal training, as well as some engineers, the post-war expansion of the state, especially with the construction of the so-called welfare state, required governments to hire an enormous number of highly qualified professionals in areas such as education or health. The post-war era of macroeconomic demand management also increased the government's demand for individuals with economic training. Governments became the major employers for many of these careers, and therefore, were increasingly interested in adjusting the training provided by higher education, either in the syllabus or in the type of programmes available, to meet the needs of the increasingly expanding governmental structures.

Higher education, therefore, became a major concern for many governments (Gosden 1983; Wittrock 1993). The state's involvement extended to the organizational structure of universities, including the establishment of governance frameworks, funding mechanisms and quality assurance processes. As higher education expanded, universities became increasingly reliant on state funding and regulation, and this financial dependence often translated into administrative and political oversight, with governments setting strategic priorities, monitoring performance and sometimes intervening in institutional governance. The state's role as a primary financier enabled it to influence research agendas, admissions policies and even academic freedom. Although this dependence provided

stability and resources, it also raised concerns about institutional autonomy and the potential for political interference in academic affairs.

The expansion of higher education was also supported by the fact that it came to be regarded as a vehicle for social mobility, offering individuals opportunities to improve their socio-economic status. This was boosted by the dissemination of the views of education and training as an individual and social investment, labelled from the 1960s onwards as human capital (Teixeira 2007), which played a major role in the expansion of higher education in subsequent decades. Human capital theory provided an additional economic rationale for state involvement in higher education, with governments being persuaded that advanced qualifications and high-level skills were crucial factors in promoting economic growth and social development (Grubb and Lazerson 2004). By investing in universities, states aimed to equip citizens with the skills necessary to compete in dynamic labour markets and adapt to technological change, which was regarded as favouring those with higher qualifications in the labour market (Goldin and Katz 2008).

Hence, political, economic and social imperatives have shaped the evolution of universities and their roles within society. This multipurpose state intervention in higher education has evolved into a multifaceted relationship, encompassing political, administrative, social and economic objectives, with higher education being regarded as a key factor of national development, social cohesion and economic competitiveness. This increasingly dense relationship has had significant implications for the governance of higher education systems, to which we now turn our attention.

Evolution of System Governance in Europe

In recent decades, the governance of higher-education systems in Europe has undergone significant transformation. This evolution reflected broader shifts in political, economic and social paradigms, as well as the increasing complexity of managing diverse and expanding higher-education sectors. This has often been characterized by a movement from centralized control to more autonomous and self-regulating institutional frameworks, or, as it was often characterized, from a 'state control model' to a 'state supervising model' (Neave and Van Vught 1994).

Historically, European higher-education systems were characterized by strong bureaucratic oversight, with governments exercising direct control over institutional planning, resource allocation and academic activities. Over time, however, a discernible shift has occurred towards models that emphasized institutional autonomy and self-regulation, supported by the belief that greater autonomy enhanced institutional responsiveness, innovation and accountability. The movement away from tight state planning and control enabled universities to develop more flexible governance structures, aiming to become more responsive to societal needs and to pursue strategic objectives aligned with their core missions.

The trend towards expansion that has characterized the last half-century has presented significant economic challenges for both institutions and governments alike. The significant increase in the number of students enrolled in higher education over the past few decades has necessitated substantial investment in human resources, as well as in the development of new and better-equipped facilities. The financial cost of the higher-education system has become a significant issue in almost every country, and governments have been struggling to find additional funds to sustain (and often pursue further) the process of expansion (Archibald and Feldman 2010). Moreover, the financial challenges faced by higher education have been exacerbated by an adverse financial situation within the broader public sector over much of the last two decades.

The so-called crisis of the welfare state has challenged the sustainability of the traditional reliance of higher education on public funding (Barr 2011).

Higher education in Europe has evolved from an expanding sector to a mature industry (Levine 2001), in which external stakeholders have become increasingly demanding and are no longer satisfied with merely adding more activities or expanding existing ones. The rising costs of higher education cause concern among policymakers, and public opinion has encouraged increased political and social scrutiny of higher education (Birnbaum and Shushok 2001). Hence, the political environment has focused increasing attention on the external and internal efficiency of the higher education system. This has had significant consequences for prescribed modes of external and internal governance, notably through a more explicit participation of external stakeholders in formal and informal governance mechanisms.

With respect to governance reforms, the main agenda has been focused on fostering a new mode of system governance based on increased levels of institutional autonomy and accountability. From a system perspective, the aim has been to move to a mode in which the state designs a framework of rules and policy objectives for the system as a whole and institutions have the freedom and responsibility to set their own missions, priorities and programmes, decide on their own organization and internal management, manage their own estate and physical assets and recruit, train and incentivize their own staff. In return, universities are to be held accountable to society for their results, including the cost-efficiency and effectiveness by which the desired outcomes are achieved. The state's role became 'evaluative' rather than 'directive' (Neave 2012).

Trends towards greater autonomy were accompanied by various forms of accountability so that institutions were required to report on, to be audited or inspected in relation to their funding and financial management, their quality and academic management, their overall performance and their responsiveness to students and wider stakeholders (Stensaker and Harvey 2011). First, there has been an increasing government interest in accountability, and external and upward forms of accountability are now dominant. Second, in many countries, special agencies set up by the government were created to produce information used for accountability purposes for the government itself, but also for prospective students, their parents and future employers. A third trend is that accountability in most countries was associated with quality assurance procedures. Partly inspired by the Bologna Process (but also by wider government agendas and agency action), quality assurance and accreditation systems have been established and good practice shared across networks within the EHEA (Sursock 2011; Amaral and Rosa 2011).

Alongside this evolution of system governance, there was also the development of quasi-markets within higher education (Teixeira *et al.* 2004; Regini 2011). This involved introducing elements of competition, such as performance-based funding, competitive research grants and increased student choice. The quasi-market model aimed to enhance efficiency, quality and innovation by subjecting institutions to market-like pressures while retaining key public missions. In some contexts, this has been accompanied by trends towards privatization, with private providers and alternative funding sources playing a more prominent role in the sector (Teixeira *et al.* 2014, 2016). These developments reflected a broader reconfiguration of the relationship between the state, the market and higher-education institutions and corresponded to a shifting view about institutions and their primary purposes that has led to a need to rethink and adapt the contextual framework in which these units operate (Bok 2003; Weisbrod *et al.* 2008). The more institutions were regarded as part of an industry, the more the context in which they operated should promote a rational use of resources to maximize the social return relative to the resources allocated to the higher-education sector (Teixeira 2023).

This reconfiguration of the sector along market rules, often through policy initiatives and government interventions, contributed to making the governance and management of

higher education increasingly regarded through the lens of the corporate market (Aghion *et al.* 2010; Middlehurst and Teixeira 2012; Teixeira 2023). According to this view, higher-education institutions should be run more like corporations to increase their efficiency and productivity (Marginson and Considine 2000; De Boer *et al.* 2009). This distinctly different view of institutional governance in higher education clashed with the organizational peculiarities of these institutions, creating tensions with the traditional approach to institutional governance (Keller 2001; Rosser 2002). Moreover, this evolution has shaped the way the concept of autonomy has been utilized as a central theme in policy discourse and academic debate over the past few decades, being increasingly viewed as an instrument for enabling institutions to compete in a so-called globalized knowledge economy (Aghion *et al.* 2010).

However, autonomy has different meanings in higher education, and this issue has fuelled substantial debate in higher-education policy and research. Researchers describe various dimensions of autonomy, for example, ‘substantive’ (meaning control over academic and research policy, the awarding of degrees, curriculum design, student selection and portfolio of programmes) and ‘procedural’ (meaning authority over financial management, human resource management, the deployment of physical and other assets) (Berdahl 1990). In the context of higher education, autonomy refers to the capacity of universities and colleges to govern themselves, make academic and administrative decisions and set their own strategic directions without undue interference from external authorities, particularly government regulators.

Autonomy in higher education is not absolute; it exists within a regulatory framework that ensures institutions meet national standards and public accountability requirements. This autonomy encompasses a variety of dimensions, including academic autonomy (e.g., freedom to design curricula, set research agendas and determine admission criteria), administrative autonomy (e.g., authority over internal governance structures, staffing and financial management), or organizational autonomy (e.g. the ability to create and implement institutional policies, including partnerships and collaborations). Despite its difficulty, there have been several attempts to operationalize and monitor the evolution of various dimensions of autonomy (Pruvot *et al.* 2023).

Research has also revealed the existence of variations across Europe in how these dynamics have been understood and implemented. European higher education governance and autonomy display significant regional variation, shaped by national histories, political cultures and policy priorities. Northern and Western Europe (e.g. the UK, the Netherlands and the Nordic Countries) has been characterized by higher levels of autonomy in academic, financial and organizational matters (Pruvot *et al.* 2023). There has been a strong emphasis on trust-based regulation, and institutions often have greater flexibility in governance and resource management. By contrast, in Southern and Eastern Europe, the tradition of strong state intervention has endured, and state control has remained more pronounced, particularly in terms of financial and staffing autonomy. These systems often feature more prescriptive regulations and slower adoption of governance reforms. Furthermore, some differentiation within systems has also been identified, with universities often being granted higher degrees of autonomy than other types of institutions (e.g. polytechnics, colleges, universities of applied sciences) owing to their former historical precedence and prestige.

Despite the widespread endorsement of autonomy, a tension persists between the discourse of institutional freedom and the realities of governance practice, with a visible gap often remaining between formal autonomy ‘on paper’ and the actual ability of universities to act independently. While autonomy is often celebrated as a panacea for systemic challenges, its implementation is frequently constrained by continued state oversight, regulatory requirements and external accountability demands. This disjunction raises critical questions about the extent to which autonomy is genuinely realized and the

conditions under which it can be effectively exercised. The tension between autonomy and accountability remains a defining feature of governance debates, underlining the complexity of governance reform and the need for balanced, context-sensitive approaches.

More significantly, recent years have also shown that the trends towards autonomy can be reversible and that gains in autonomy may not be permanent. Political shifts, economic crises or new regulatory priorities can reverse previous increases in autonomy. For example, some countries have reintroduced controls over the language of instruction, tightened quality assurance or imposed new reporting requirements, reducing institutional freedom. Moreover, heightened accountability demands, which can paradoxically lead to new forms of state steering and administrative burden, offset the intended benefits of greater institutional independence, with autonomy subject to both expansion and retrenchment in response to shifting political and societal pressures.

Funding Mechanisms and Institutional Autonomy – The Swaying of the Pendulum?

Recent years have seen the strengthening of a discourse that emphasizes the advantages of market forces and competition over public regulation in higher education (Bok 2003; Morphew and Eckel 2009; Teixeira *et al.* 2004). This was not only due to constraints in public expenditure, but also due to an erosion of trust (Bok 2003; Neave 2012) and a perception that institutions did not value significantly the pursuit of efficiency in their internal objectives (Docampo 2007; Pollitt and Bouckaert 2011). Competition has almost become an end in itself (Le Grand 2006), with policymakers expecting that greater competition will lead institutions to internalize relevant societal concerns and achieve greater external efficiency, thereby providing the best outcomes to satisfy social and economic needs (Reale and Seeber 2013; Regini 2011). Thus, the criteria for determining the distribution of funding among institutions have increasingly relied on performance comparisons at the institutional level, which resulted in a growing popularity of competitive funding for teaching and research (Geuna 2001; Herbst 2007).

The introduction and reinforcement of these competitive mechanisms in funding is complex (Le Grand 2006; Regini 2011, Teixeira *et al.* 2004), due to the specificities of this sector. For instance, it can be pointed out that higher-education institutions are not, in general, for-profit organizations, which is a basic assumption of a market framework (Weisbrod *et al.* 2008; Bok 2003). Furthermore, higher-education institutions tend to distinguish themselves by having multiple objectives and an organizational complexity that differentiates them from other entities that participate in most markets (Winston 1999; Middlehurst and Teixeira 2012). Hence, an analysis of the effectiveness of PBF needs to consider the organizational specificities of higher education and the way institutions may respond to those financial incentives (Clark 1983; Mintzberg 1979; Morphew and Eckel 2009; Stensaker and Harvey 2011). These organizational peculiarities have limited the development of clear and robust institutional strategies in areas such as financial and human resources, which may be crucial for enhancing performance.

The trends towards enhanced institutional autonomy have also been reflected in funding mechanisms, and financial autonomy has become a central aspect of institutional autonomy in European higher education. Universities were increasingly empowered to manage their own budgets, allocate resources internally and generate external income (e.g., through research contracts, partnerships or tuition fees for certain programmes). This autonomy allowed institutions to better align funding with their strategic priorities, such as focusing on specific research areas or expanding professional education offerings. However, the degree of financial autonomy varies widely across countries and is often shaped by national regulations and accountability requirements.

Nonetheless, this trend has also presented challenges, notably through the pervading influence of economic rationales and incentives in funding reforms. Funding systems increasingly incorporate incentives to drive institutional behaviour, such as rewarding research output, graduate employability, or internationalization, reflecting a shift towards market-oriented and performance-driven models. The rationale for these changes was that aligning funding with measurable outcomes would promote competition, improve quality and ensure that public investment yields societal and economic benefits. Hence, there has been a notable transition from earmarked (targeted) funding, where funds are allocated for specific purposes, to lump sum (block grant) funding, which gives institutions greater flexibility in internal allocation.

In addition, in funding mechanisms, a trend towards greater state interference is perceptible in recent years, with a move from input-based funding systems, which characterized the latter part of the twentieth century and the initial phase of institutional autonomy, to output-based funding mechanisms, such as performance-based formula funding (Teixeira *et al.* 2021). Traditional funding models focused on input-based criteria (e.g. student numbers, staff costs). Recent reforms implemented since the beginning of this century emphasize output-based or performance-oriented funding, where allocations depend on outcomes such as graduation rates, research productivity, or graduate employability (Herbst 2007; Jongbloed 2020b). PBF mechanisms aim to increase accountability and align institutional activities with national priorities. The combination of increased financial needs and limited resources led to the development of these alternative approaches for financing higher education systems, with governments increasingly valuing output over input criteria (Jongbloed 2020a).

Although avoiding direct state interference in day-to-day management, these trends increase oversight through the monitoring of results and the achievement of targets and may substantially reduce institutional autonomy. Whereas lump sum funding enhanced managerial autonomy by allowing universities to decide how best to use resources in pursuit of their goals, rather than being constrained by detailed government prescriptions, PBF emerged as a tool to encourage more strategic, innovative and efficient management practices within higher education institutions, which reinforced the power of external stimuli in guiding institutional governance and decision making.

Like many of the developments associated with the emergence of New Public Management and the neo-liberal reform of the public sector, the use of PBF in European higher education goes back to the early 1980s with the introduction of performance contracts in the Netherlands (Jongbloed 2020b; Geuna and Martin 2003). The first system at the national level was introduced in the UK in 1986 with the Research Assessment Exercise (Hicks 2012). This was followed a few years later by several other European countries (Poland in 1991, Slovakia in 1992, the Netherlands in 1993, Finland in 1994 and Denmark in 1995). The introduction of PBF has been implemented through various forms, including funding formulas, performance contracts and quality assessment processes; however, most countries have introduced it through formula components (Gobbels-Dreyling 2003; Jongbloed 2020a). Although the initial application for funding was often focused on research, its scope has also expanded significantly over the last two decades, with an increasing weight in the allocation of funding for teaching as well.

Moreover, whereas there has been an expanding literature on performance-based research funding systems (Hicks 2012; Besselaar *et al.* 2017; Geuna 2001), the assessment of the impacts of such funding in teaching appears to be far less significant. Although several European countries have introduced output criteria related to student progress and graduation, there is hardly any significant study that can help us to understand the actual impact, positive and negative, of this type of policy. In the case of Denmark, the so-called taximeter model had a small positive effect on student performance, although there was no major improvement in drop-out rates or completion rates (Jongbloed and Vossensteyn

2016). Moreover, perceptions about the effects of PBF on teaching tend to be less positive than those identified in research, as such funding may lead some institutions to inflate their student numbers or downgrade their academic standards to maintain a high level of funding. Several studies have found that performance funding policies were not significantly related to improvements in the number of degrees awarded (Dougherty *et al.* 2016; Umbrecht *et al.* 2017). Rigorous studies have found that student outcomes are related to student profiles, institutional characteristics and state environments, but are not enhanced by performance funding policies (Rutherford and Rabovsky 2014). Moreover, student outcomes could decline following the adoption of these policies, thus making them largely ineffective (Bell *et al.* 2018).

One of the key dimensions to consider when reflecting on the effects of PBF is the impact on the system and how this may alter the sector's dynamics, steering institutions in a particular direction. For instance, the introduction of explicit criteria for funding will increase transparency in the funding process, which may encourage institutions to better define their research and teaching strategies and to be better aligned with government goals (Box 2010; Butler 2010). Nonetheless, the impact on performance may also be affected by diminishing returns. The initial impact of PBF on improving institutional performance may be significant, especially given its novelty; however, over time, it can be expected that many institutions will reach a threshold in terms of performance. Moreover, PBF may be a costly experience for institutions, as it requires a significant number of resources to acquire the necessary information to feed the performance indicators (Geuna and Piolatto 2016).

The emphasis on performance and selectivity has also raised serious concerns regarding possible perverse effects of linking funding to performance in higher education and research (Gándara 2020). Several studies have identified its impact in reinforcing inequalities among institutions and individuals (Hicks 2012; Good *et al.* 2015; Hamann 2016; Cattaneo *et al.* 2016; Grisorio and Prota 2020). Favero and Rutherford (2020) emphasized the need to consider seriously the distributional effects of performance funding policies across institutions, noting that such policies, which allocate more resources to some institutions but not all, have implications at various levels, including for students and staff. Alongside an improvement in the overall performance of the system (and all institutions), there may also be an increase in the disparity of performance, which could widen the overall situation in terms of quality and effectiveness among all institutions within the system. Thus, it is also important to analyse the potential interactions between this emphasis on performance and programmes that focus funding on a few select institutions, as these trends may amplify their effects (Sörlin 2007; Teixeira *et al.* 2021).

One of the primary objectives of PBF was to foster significant internal change, enabling institutions to improve their performance more effectively. However, it is difficult to assess the internal effects of PBF in institutional and individual behaviour (Auranen and Nieminen 2010; Bogt and Scapens 2009). In some cases, HEIs have internalized the system, namely by adapting the criteria used in the funding formulas for regular evaluations of the academic staff and deciding their promotions and awards according to those benchmarks (Hammarfelt *et al.* 2016; Aagaard 2015). PBF systems have also led to changes in institutional policies and programmes aimed at improving educational and research outcomes (Dougherty *et al.* 2016). Moreover, PBF mechanisms provided institutions with externally determined criteria for distributing public funding among different units, thereby sparing the institutional leadership the need to justify those options. This may be particularly relevant in many European systems, given the recent development of institutional autonomy and the historically weaker position of the central level of the institution.

PBF schemes have also impacted internal dynamics at the organizational level. On the one hand, low-performance departments tended to view PBF as an incentive to

improve their outputs. In other cases, these developments have created greater internal tensions, with the institutional leadership often under pressure to close or reduce non-profitable departments. On the other hand, better performers have strengthened their position within the internal allocation process. However, it would be hard for these national policies to be completely replicated at the institutional level. First, allocation mechanisms are inherently political processes. Second, institutions appear to be keen on maintaining their autonomy relative to government policies and preserving a certain degree of autonomy regarding their funding priorities. Finally, as at the national level, there are important rigidities in the cost structure of the different departments that do not necessarily align with the funding that would be attributed to them if the national rules were strictly followed, thus forcing individual institutions to relax some of those criteria. These points are particularly relevant in European countries where the state traditionally regulated many areas of internal governance, especially human resources.

Moreover, the replication of these criteria at the institutional level does not, in itself, ensure the improvement of the quality of the institutions and/or their units. Although PBF may increase the efficiency of HEI (or its parts), we should not assume that this effect will be visible across the entire institution or in all missions and activities. Moreover, institutions may improve their performance according to certain quantitative criteria without significantly improving their quality and effectiveness, i.e. individuals and institutions may adapt their behaviour to what is being measured, without substantively improving their teaching and research. This may lead to the emergence of tactical or short-term behaviour (Ma and Ladisch 2019; Butler 2010). Institutions may tend to focus more on obtaining results within a short timeframe, potentially neglecting long-term projects, focusing on less selective publications and disregarding publications that may be less valuable for their measured performance (Butler 2010). This short-term bias may be detrimental to the long-term development of research, innovativeness of teaching and the social contribution of research (Bogt and Scapens 2012).

Finally, there were also concerns about institutional diversity and the fact that PBF may foster institutional isomorphism (Birdsall 2018). It was argued that not all institutions should be required to deliver the same outputs, as they could be more socially relevant by adopting different roles in the system. For instance, smaller/regional institutions could be of a greater value to the system and their local communities if they focused on their regional role, instead of trying to compete on the same goals with the leading institutions in the system (Box 2010).

Although the existing literature on the subject tended to emphasize more the negative effects of PBF at the system level, this has not prevented the dissemination of this type of funding and its contribution to making funding systems increasingly complex (often combining multiple streams such as block grants, performance-based allocations, competitive project funding and targeted initiatives). This complexity is accompanied by greater intrusiveness, as governments and funding agencies impose more detailed requirements, reporting obligations and performance metrics on institutions. The proliferation of indicators and contractual arrangements means universities must devote significant administrative resources to compliance, sometimes at the expense of core academic activities. These trends reflect rising expectations and impatience regarding the higher education sector's capacity to deliver on major political and societal objectives.

Policymakers, employers and the public now expect higher education to deliver more: improved graduate employability, research impact, innovation and social engagement – all within shorter timeframes. Hence, funding reforms are often justified by the need for greater efficiency, responsiveness and accountability, leading to impatience with perceived underperformance or slow adaptation by institutions. This environment places

universities under persistent pressure to demonstrate effectiveness and adapt quickly to shifting policy priorities. Thus, in the case of funding mechanisms, institutional autonomy has increasingly been hindered or subordinated to external demands and objectives, thereby questioning the degree of autonomy notionally awarded to institutions.

Concluding Remarks

In recent decades, higher education has taken a central role in public policy. However, with this increased visibility also came high pressures. Higher education has been increasingly presented and perceived as being of strategic importance for many dimensions of governments' policies. It has become a cornerstone of national policy agendas, encompassing aspects related to economic competitiveness and innovation, as well as issues of social mobility and equality. Governments have expected institutions to deliver on a wide array of objectives. These high expectations have become intertwined with rising performance demands, including rapid adaptation to labour market needs, internationalization and measurable societal impact. Hence, institutions are facing a growing scrutiny over their efficiency, accountability and responsiveness to multiple societal and policy needs.

These rising expectations have also shaped the evolution of institutional autonomy in the higher-education sector, with the emergence of new forms of state interference. Although many European countries have formally increased institutional autonomy, particularly in the financial and organizational domains, this autonomy has often been counterbalanced by new mechanisms of state steering, such as performance contracts, detailed reporting requirements and external quality assurance. These tools enabled governments to influence university priorities and operations without direct intervention, creating a paradox of 'steered autonomy'.

Funding mechanisms are a clear example of these trends. Although institutions had growing discretion to manage the funds allocated to them, primarily through the consolidation of financial and management autonomy, the dissemination of performance-based allocations and performance contracts meant that the apparent flexibility was increasingly tied to the achievement of externally set targets, illustrating how autonomy can coexist with significant oversight. These trends also show that funding mechanisms increasingly serve as instruments for steering institutional behaviour, with autonomy granted on the condition of meeting external targets or performance criteria. While universities possess more formal autonomy over finances, their freedom is often constrained by the strings attached to funding and the need to comply with detailed requirements. The higher education sector's limited collective response to these changes – often adapting rather than resisting – reflects the strong influence of funding incentives and the challenges of coordinated action in a competitive environment. Hence, recent changes in higher-education funding have introduced more complex and intrusive models, heightened expectations and a competitive ethos that risks deepening inequalities. The evidence for the effectiveness of these reforms remains limited, and while institutional autonomy is formally expanded, it is often instrumentalized by funding mechanisms that steer universities towards externally defined objectives.

Underpinning this growing governments' intrusiveness in institutional autonomy is a trend of declining political and social support for higher education. In fact, the conditionality and instrumentalization observed in funding are part of a broader trend also evident in other areas, such as research agendas, admissions policies and curriculum design. This has become politically viable as the wide political and social backing for higher education has weakened in some contexts, with public debates questioning costs, value and the role of universities. This has led to tighter regulation, increased accountability

demands and even to tighter funding. Thus, universities may find themselves with formal autonomy but less substantive support and greater vulnerability to shifting political priorities.

A puzzling aspect of these trends is the limited sectoral response and the apparent inability of most higher-education institutions to react to them. Several factors may have contributed to this apparent passivity. One major factor is that the rising competitive ethos that has dominated higher education in recent decades, and that has been particularly exacerbated by funding mechanisms and other similar competitive forces, has eroded solidarity between and within higher-education institutions. The normalization of competition – between institutions, departments and even individuals – has become a defining feature of the sector, driven by PBF, rankings and research assessment exercises. Although competition can drive performance and innovation, it has also expanded inequalities, favouring well-resourced institutions and disciplines. Solidarity within and between institutions has diminished, making collective advocacy and coordinated responses to policy challenges more difficult. As a result, the higher-education sector's reaction to these trends has often been fragmented or muted, with limited collective resistance or strategic engagement.

Moreover, there is a puzzlingly limited internal awareness of the aforementioned trends and the loss of autonomy, with insufficient ownership of the responsibility for defending institutional autonomy vis-à-vis external pressures and challenges. Many within higher education – faculty, staff and even leadership – may not fully recognize the incremental erosion of institutional autonomy or its long-term risks, and the question of who should defend autonomy is often unclear. University leaders, governing boards, academic senates and national rectors' conferences all have potential roles, but coordinated action is rare. Hence, while higher education has gained prominence in state policy and formal autonomy has expanded, this has been accompanied by new forms of indirect control, declining societal support and a competitive ethos that undermines sectoral solidarity.

The responsibility for defending institutional autonomy is diffuse, and internal awareness of these challenges remains limited, underscoring the need for more proactive and coordinated advocacy within and across institutions. One should hope that a reinvigorated understanding of institutional autonomy, based upon more cooperative behaviour (within and between institutions), may become a critical factor for institutions to expand their substantive degree of autonomy and mitigate the trend towards greater state interference.

Acknowledgements. I am very grateful for the comments received to an earlier version of this text, especially those provided by Juergen Enders, though the usual caveat applies. Financial support was provided by the FCT-Foundation for Science and Technology (project UID/757/2023).

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