

# Higher Education's Financial Sustainability: The Challenges for Private Higher Education in a Context of Rapid Change

*La sostenibilidad financiera de la educación superior: los desafíos de la educación superior privada en un contexto de rápido cambio*

*A sustentabilidade financeira do ensino superior: os desafios do ensino superior privado num contexto de rápidas mudanças*

Pedro Teixeira<sup>1</sup>

**Received:** October 20<sup>th</sup>, 2025

**Accepted:** December 3<sup>rd</sup>, 2025

**Available:** January 13<sup>th</sup>, 2026

**How to cite this article:**

Teixeira, P. (2026). Higher Education's Financial Sustainability: The Challenges for Private Higher Education in a Context of Rapid Change. *Rastros Rostros*, 28(1), 1-40. doi: <https://doi.org/10.16925/2382-4921.2026.01.02>

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Research article. <https://doi.org/10.16925/2382-4921.2026.01.02>

<sup>1</sup> CIPES - Centro de Investigação de Políticas do Ensino Superior, Conselho Nacional de Educação, Universidade do Porto

E-mail: [pedrotx@fep.up.pt](mailto:pedrotx@fep.up.pt)

**ORCID:** <https://orcid.org/0000-0002-7128-8238>

## Abstract

This text discusses key issues of financial sustainability in higher education, with a particular emphasis on the specific challenges and pressures faced by private universities. These include aspects relevant to the demand, such as demographic changes or the reconfiguration of higher education as a private good and an individual investment. It will also be examined how changing regulatory conditions have influenced institutional access to diverse streams of funding, particularly in a context of tightening competition within private higher education and between public and private higher education institutions, due to the blurring of boundaries between public and private institutions.

Particular attention will be devoted to the organizational challenges associated with a strategy of financial sustainability based on a diverse revenue basis. This will range from issues such as organizational culture and governance to internal reward mechanisms and the capacity to develop coherent strategic and financial plans, all while institutions need to manage multiple funding streams. The analysis will also emphasize the importance of balancing academic and management priorities in a way that mitigates potential tensions and enhances internal cohesiveness and congruence with the mission. Thus, the analysis will emphasize more organizational and mission fulfillment issues rather than financial management ones. It will also reflect upon the former in a context of rapid technological and economic change that potentially challenges the relevance of higher education and introduces greater uncertainty for higher education institutions.

The analysis will specifically address the challenges faced by private higher education. Although much of the recent expansion of private higher education has been characterized as a demand-absorption pattern, this type of expansion is not a sustainable development strategy. In post-massification cases, private institutions need to position themselves as an alternative to the public system, rather than a second choice for those who could not get a place in the latter. Furthermore, private HEIs need to engage much more in research activities, both as a strategy to strengthen their academic quality, to diversify their funding basis, or to foster their partnerships with external stakeholders. These transformations present significant institutional challenges and require particular attention to staff and organizational dimensions in order to become a more attractive institution to prospective students, funders, and other external stakeholders.

**Keywords:** Financial management; Diversification; Sustainability; Competition; Organizational Change.

## Resumen

Este texto analiza cuestiones clave de la sostenibilidad financiera en la educación superior, con especial énfasis en los desafíos y presiones específicos que enfrentan las universidades privadas. Estos incluyen aspectos relevantes para la demanda, como los cambios demográficos o la reconfiguración de la educación superior como un bien privado y una inversión individual. También se examinará cómo las cambiantes condiciones regulatorias han influido en el acceso institucional a diversas fuentes de financiación, especialmente en un contexto de creciente competencia dentro de la educación superior privada y entre instituciones públicas y privadas, debido a la difuminación de las fronteras entre instituciones públicas y privadas.

Se prestará especial atención a los desafíos organizativos asociados a una estrategia de sostenibilidad financiera basada en una base de ingresos diversificada. Esto abarcará desde cuestiones como la cultura y la gobernanza organizacional hasta los mecanismos internos de recompensa y la capacidad para desarrollar planes estratégicos y financieros coherentes, todo ello mientras las instituciones necesitan gestionar múltiples fuentes de financiación. El análisis también enfatizará la importancia de equilibrar las prioridades académicas y de gestión de manera que se mitiguen posibles tensiones y se mejore la cohesión interna y la coherencia con la misión. Por lo tanto, el análisis se centrará más en cuestiones organizativas y de cumplimiento de la misión que en las de gestión financiera. También se reflexionará sobre lo anterior en un contexto de rápidos cambios

tecnológicos y económicos que potencialmente ponen en entredicho la relevancia de la educación superior e introducen mayor incertidumbre para las instituciones de educación superior.

El análisis abordará específicamente los desafíos que enfrenta la educación superior privada. Si bien gran parte de la expansión reciente de la educación superior privada se ha caracterizado por un patrón de absorción de la demanda, este tipo de expansión no constituye una estrategia de desarrollo sostenible. En casos posteriores a la masificación, las instituciones privadas deben posicionarse como una alternativa al sistema público, en lugar de una segunda opción para quienes no pudieron acceder a este. Además, las IES privadas deben involucrarse mucho más en actividades de investigación, ya sea como estrategia para fortalecer su calidad académica, diversificar su base de financiación o fomentar sus alianzas con actores externos. Estas transformaciones presentan importantes desafíos institucionales y requieren especial atención a las dimensiones del personal y la organización para convertirse en una institución más atractiva para futuros estudiantes, financiadores y otros actores externos.

**Palabras clave:** Gestión financiera; Diversificación; Sostenibilidad; Competencia; Cambio organizacional.

## Resumo

Este texto analisa questões-chave da sustentabilidade financeira no ensino superior, com foco particular nos desafios e pressões específicos enfrentados pelas universidades privadas. Esses desafios incluem fatores relacionados à demanda, como mudanças demográficas e a reformulação do ensino superior como um bem privado e um investimento individual. Examinará também como as mudanças nas condições regulatórias influenciaram o acesso institucional a diversas fontes de financiamento, especialmente em um contexto de crescente competição dentro do ensino superior privado e entre instituições públicas e privadas, devido à diluição das fronteiras entre elas.

Será dada especial atenção aos desafios organizacionais associados a uma estratégia de sustentabilidade financeira baseada em uma base de receita diversificada. Isso abrangerá questões que vão desde a cultura e governança organizacional até os mecanismos internos de recompensa e a capacidade de desenvolver planos estratégicos e financeiros coerentes, tudo isso enquanto as instituições precisam gerenciar múltiplas fontes de financiamento. A análise também enfatizará a importância de equilibrar as prioridades acadêmicas e administrativas para mitigar potenciais tensões e aprimorar a coesão interna e o alinhamento com a missão. Portanto, a análise se concentrará mais em questões organizacionais e de cumprimento da missão do que em gestão financeira. Este estudo também considerará essas questões no contexto das rápidas mudanças tecnológicas e econômicas que potencialmente desafiam a relevância do ensino superior e introduzem maior incerteza para as instituições de ensino superior.

A análise abordará especificamente os desafios enfrentados pelo ensino superior privado. Embora grande parte da expansão recente do ensino superior privado tenha sido caracterizada por um padrão de absorção da demanda, esse tipo de expansão não constitui uma estratégia de desenvolvimento sustentável. Em cenários pós-massificação, as instituições privadas devem se posicionar como uma alternativa ao sistema público, e não como uma segunda opção para aqueles que não conseguiram acessá-lo. Além disso, as instituições de ensino superior privadas devem se envolver muito mais em atividades de pesquisa, seja como estratégia para fortalecer sua qualidade acadêmica, diversificar sua base de financiamento ou fomentar parcerias com partes interessadas externas. Essas transformações apresentam desafios institucionais significativos e exigem atenção especial às dimensões de pessoal e organizacional para se tornarem mais atraentes para potenciais alunos, financiadores e outras partes interessadas externas.

**Palavras-chave:** Gestão financeira; Diversificação; Sustentabilidade; Concorrência; Mudança organizacional.

# 1. Introduction

There is no other matter in higher education that attracts so much attention as its funding. Although funding is primarily regarded as an instrument to support institutions in pursuing their mission, it has often become the most important single issue for institutional leaders and policy-makers. The importance of funding in higher education has been underscored by the significant increase in the level of financial resources required, due to various factors (Barr, 2011; Archibald & Feldman, 2010). At the same time, policy-makers have been increasingly influenced by approaches that have conditioned levels of funding to growing accountability demands (Teixeira et al., 2004; Teixeira, 2009).

In this text, we will discuss key issues of financial sustainability in higher education, with particular emphasis on the specific challenges and pressures faced by private universities. These include aspects relevant to the demand, such as demographic changes or the reconfiguration of higher education as a private good and an individual investment. We will also examine the changing regulatory conditions and how these have influenced institutional access to diverse streams of funding, particularly in a context of tightening competition within private higher education and between public and private higher education institutions, due to the blurring of boundaries between public and private institutions.

We will devote particular attention to the organizational challenges associated with a strategy of financial sustainability based on a diverse revenue basis (Skolnik, 2020). This will range from issues such as organizational culture and governance to internal reward mechanisms and the capacity to develop coherent strategic and financial plans, all while institutions need to manage multiple funding streams. The analysis will also emphasize the importance of balancing academic and management priorities in a way that mitigates potential tensions and enhances internal cohesiveness and congruence with the mission (Weisbrod et al, 2008).

Thus, several key factors crucial for developing a successful financial sustainability strategy will be discussed. This will emphasize more organizational and mission fulfillment issues rather than financial management ones. It will also reflect upon the former in a context of rapid technological and economic change that potentially challenges the relevance of higher education and introduces greater uncertainty for higher education institutions (Aoun, 2018).

The text will begin by discussing the significant challenges associated with the emergence of mass higher education, with a particular emphasis on the regulatory and financial pressures that accompany it. We will then reflect on the impact of mass systems on changing modes of funding and the growing competition for financial

resources. In the following section, we will devote particular attention to the specific issues of financial sustainability in private higher education, including aspects such as size, mission, and the portfolio of activities. Next, we will analyze the organizational challenges associated with developing revenue diversification strategies. The text will conclude with some final remarks and recommendations.

## 2. The Challenges of Mass Higher Education - Regulatory and Financial Pressures

One of the dominant characteristics of higher education's evolution in recent decades has been its expansion to a global scale (Marginson, 2016; Morrison & Murtin, 2009). Although growth in the most developed parts of the world has slowed in recent years, pressures for expansion continue to be very strong in many parts of the world, fueled by strong social demand for higher qualifications—such expansion of higher education results from complex forces that combine individual motivations with social and political tendencies. At the political level, the priority given to the expansion of higher education seems to have been strongly influenced by the economic relevance of education and qualification (Hanushek & Woessman, 2015; Goldin & Katz, 2008). Generally, governments have considered the high qualification of their human resources to be an essential factor in national economic competitiveness. In times of economic and financial globalization, the promotion of human resources qualifications has become one of the key instruments that governments can use to influence the behavior of market economies efficiently.

Individual motivations have strongly stimulated the expansion of higher education systems. A university diploma constitutes an attractive investment in terms of long-term return in most countries (Psacharopoulos & Patrinos, 2018). This phenomenon is confirmed by the persistent high return rates for higher education qualifications observed in many countries and diverse socio-economic contexts. This has been supported by what many economists have labeled the skill bias of technological progress, which has favored the employability and incomes of those with higher education (Autor, 2019; Goldin & Katz, 2008). Thus, many individuals and families have assigned great importance to the higher education diploma as a mechanism of social and economic promotion.

## 2.1. The Complexities of Mass Higher Education

This higher education expansion, which has led to its massification, has not had a quantitative dimension only. It was hoped that the expansion of higher education introduced into the system would not only attract a large number of people but also an increasingly diverse population across socioeconomic, cultural, and geographic levels. This way, it is necessary to cater to the most diverse needs through a system that is also diverse in the types of programs and institutions it provides. One of the primary forms of implementation that has evolved through the diversification of institutional types, such as the creation of vocational institutions or programs (Teichler, 1988; Palfreyman & Tapper, 2009). Another strategy has been diversification at a regional level, so that higher education provision becomes more geographically balanced, as opposed to the historical tendency to concentrate institutions in specific parts of some countries (Teixeira et al., 2014).

The emergence of massified higher education has promoted the development of more heterogeneous and complex systems; hence, their management and regulation have become even more difficult (Van Vught, 1989; Huisman & Currie, 2004). Even though many countries have traditionally had strong and detailed higher education systems, state regulation has become progressively unviable in systems of such complexity as higher education systems. Hence, the redefinition of regulatory models and the relationships between the political authority and the institutions that comprise the system have been observed in the last few decades (Stensaker & Harvey, 2011; Neave, 2012).

Therefore, we can observe a clear tendency to a greater autonomy of the higher education institutions over the last few decades, since the governments seem to have diverted their attention from a detailed and regular control of the activities of the institutions to an evaluation centered on the performance and the outputs of each institution and of the system as a whole. This movement is often characterized as an evolution from the controlling and planning model of the state to a supervisory model (Neave & Van Vught, 1994), with evaluation mechanisms gaining increasing importance in many higher education systems (Stensaker & Harvey, 2011). This movement has not been specific to higher education per se, but instead mirrors broader trends observed in public policy (Pollitt & Bouckaert, 2011; Le Grand, 2006), although there are some specific issues and nuances in that sector.

The development of mechanisms of accountability in higher education has led to pressure on higher education institutions (HEIs) to utilize greater autonomy to become more efficient, effective, and responsive to economic and social needs. The growing concerns about internal and external efficiency levels have dominated much

of the debate on higher education, particularly in terms of funding. To stimulate this behavior, significant changes were made to the regulatory mechanisms of the system, including an increasing influence of market mechanisms in regulating higher education (Teixeira et al., 2004; Regini, 2011). The introduction of market mechanisms in higher education has become visible essentially through three primary mechanisms: first, by stimulating greater institutional and individual competition in the system; second, through an increasing privateness in the system (e.g., growth of private providers, emulation of private-like governance and management, or changes in the balance of funding revenues); third, a growing autonomy of HEIs and greater flexibility and adaptability in order to make them more agile and more responsive. Since the introduction of these elements tends to occur gradually and partially, some authors refer to the existence not of a market but a quasi-market of higher education (Le Grand, 2006; Jongbloed, 2020).<sup>1</sup>

## 2.2. The Reconfiguration of Higher Education

The growing emphasis on the economic motivations and impacts of higher education has led to a reconfiguration of how higher education systems operate, particularly in terms of their funding (Bok, 2003; Weisbrod et al., 2008). This became increasingly appealing due to the growing volume of resources required to support the cost of higher education (Archibald & Feldman, 2010), for instance, due to the use of more expensive resources and the pressure for higher-quality services. A persistent emphasis on university research has placed pressure on many institutions to qualify their teaching staff and demand more dedication to research activities from them (Geiger, 2004). Such prioritization incurs a significant cost, as the search for more qualified teachers inevitably results in increased personnel expenses, which often represent a substantial portion of the university's operational budget. Hence, the higher education sector has been characterized in many regions as facing rising costs (total and per unit). The

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1 The introduction and reinforcement of market mechanisms in higher education have been surrounded by intense controversy. Particularly there are serious doubts that the provision of higher education would attend social needs if it was set free to market mechanisms, foreseeing that the supply would be inferior to the socially desirable level. Another problem frequently debated in the context of the application of market mechanisms to the higher education sector refers to information issues (Dill and Soo, 2005). The doubts towards the adoption of market mechanisms in higher education have also to do with the specificities of the participant organizations in this sector (see Winston, 1999). The existing doubts regarding the functioning of market mechanisms in the HE framework have been frequently used to justify the maintenance of a high degree of government authorities' intervention in the higher education systems, including the private sector within higher education systems.

cumulative costs of running HEIs (including expanding enrollment, cutting-edge research, and maintaining quality in teaching and infrastructure) are steadily increasing, and this upward cost trajectory places substantial demands on institutional budgets, often outpacing revenue growth.

Another relevant explanation for rising costs is related to the nature of higher education, which is characterized as an activity requiring intense labor, a phenomenon economists refer to as cost disease (Getz & Siegfried, 1991). The expression aims to describe the tendency for unitary costs to grow faster in intensive working factor activities, which have more difficulty in improving their productivity levels by replacing the working factor with technology. HEIs, as well as other services of intense working factor, benefit less from the productivity growth verified in other sectors that could replace part of the working costs by equipment or even displace part of the productive process to regions where the working cost per product unit is smaller (Johnstone & Marcucci, 2010). Despite the slower productivity growth, institutions such as HEIs have difficulty in restraining the increase in salaries because of the staff's expectations that their salaries keep up with the cost of living, which, in turn, is pushed by the sectors that achieve better performances on the productivity level. As a result, HEIs are likely to experience persistent above-inflation increases in expenses, contributing to sustainability challenges and the need for tuition hikes or alternative funding mechanisms.

Hence, higher education institutions face a demanding and complex context in which they are asked to fulfill multiple roles. Many of these challenges must be addressed in a complex financial context, where traditional funding modes have undergone significant transformation, becoming more demanding and competitive (Herbst, 2006; Teixeira, 2009). The pressures on the cost side are substantial, driven by multiple forces. This has stimulated several relevant developments on the financial side, to which we now turn our attention.

### 3. Changing Modes of Funding Higher Education

Higher education institutions have increasingly been a target of economic analysis, as they require a significant (and growing) amount of resources, raising the question of opportunity cost. By spending resources in higher education, we are reducing the available resources for other activities. Thus, higher education systems are not exempt from facing the kind of questions that constitute the core of economic analysis,

that is, the need to make choices regarding how limited and scarce resources should be allocated in view of multiple possible uses:

- What amount of resources should be spent on higher education?
- To which activities should it be distributed?
- How should the resources be distributed?
- Who should contribute to these resources? In which way?

These are some of the essential questions that the higher education funding mechanisms must answer. The way by which economic analysis answers these questions is based on some fundamental principles (Barr, 2011). First, the funding system must promote efficiency, which has two meanings: on one hand, a funding system must stimulate the agents to use the resources they have the best way possible, which is usually considered to correspond to the internal efficiency of the system; on the other hand, funding mechanisms should favor the external efficiency of the higher education system, thus ensuring that the system provides what is more desirable and necessary from social and individual viewpoints. This way, the funding system must possess mechanisms to stimulate the institutions to produce the kind of graduates that promote social and individual well-being, which corresponds to the needs of the labor market.

The funding system must guide itself by equality principles, either in the relationship between the state and institutions, or in the relationship between the state and families. In a sense, the funding system must have as its objective the promotion of equal opportunities for all; therefore, it is necessary to correct distortions and inequalities in access to and participation in higher education. The funding system should be designed to allow specific groups to attend higher education without financial hindrance, if they so desire and possess the necessary qualifications. Ultimately, the funding system should enhance the effectiveness of higher education systems. Thus, the funding system should be congruent with the objectives and priorities of the system, something that is usually easier said than done. To achieve this, it is necessary to align the funding system with other policies defined for the system, such as the political regulation model, quality management instruments, evaluation and accountability within the system, and models of government and administration of HEIs.

None of these principles exists as a simple symbolic value. Their relevance requires that they permeate the daily reality of the higher education system, either in the relationship between regulatory authorities and institutions, or in the institutions' activities and their internal funding mechanisms. On the other hand, these principles

serve as instruments for improved system performance; therefore, we should analyze their application in each specific context of the higher education system. That is why it is essential to identify the primary challenges faced by higher education systems today, and to specify how the economic principles of efficiency, equity, and effectiveness can help them address these challenges adequately.

### 3.1. Main Trends in Funding Systems

Despite the controversy it aroused, the increasing economic relevance of higher education has had consequences for the policies adopted in this sector. The combination of greater financial needs and limited resources has resulted in the development of various alternative hypotheses for funding the higher education system. For instance, in the case of public institutions, alongside the reinforcement of institutional autonomy, governments began to transfer funds to the institutions as block grants, endowing them with some autonomy in the internal use of these resources. While they increased the financial autonomy of the institutions, the governments strengthened accountability mechanisms, being less worried with detailed administrative control and more interested in the efficient use of the resources administered independently.

At the level of the defined criteria in the funding formulas, a recent trend among governments is to prioritize output criteria over input criteria (Jongbloed, 2020). This tendency has also been reflected in the development of performance-based funding, whereby governments negotiate specific performance objectives with institutions, and funds are distributed based on the institutions' effectiveness in attaining those objectives. What these trends also reveal is a subtle change in the form of the relationship between governments and institutions. By privileging individual contracts based on performance criteria, governments implicitly position themselves as an entity apart from the HEIs with which they contract for higher education services. Once again, it becomes apparent that market logic is increasingly permeating the relationship between the two parties.

Regarding the mechanisms of funding in Latin America, the allocation of public funds to universities is still primarily based on negotiated budgeting via unconditional block grants, which are based on the preceding year's budget, adjusted for inflation, and vary according to the economy's growth rate (Altbach & Balán, 2004; Fanelli, 2020). Regarding the inclusion of specific criteria in the allocation of public funding, although some countries (e.g., Argentina and Chile) use input and output formulas, these mechanisms account for only a small share of the total funding. Thus, formula funding and Performance Base Funding (PBF) are realities that, to date, have had a

limited impact in Latin American systems and have not become a significant tool for promoting institutional change. The attempt to utilize funding mechanisms to encourage specific objectives has been more closely associated with Latin American higher education in the adoption of alternative forms of contractual funding, such as performance agreements or contracts (Teixeira, Sunwoong, Zulfiqar, and Landoni, 2016).

These market-oriented policies have frequently been justified not only by the objective of promoting a more efficient and effective use of resources, but also as a means of stimulating institutions to be more dedicated to improving the satisfaction of both students and employers. The most explicit way of expressing this kind of market relationship between the state and HEIs is contained in the vouchers model, which is one of the most controversial issues in the education funding policies.<sup>2</sup> The idea of funding through vouchers was intended to strengthen students' influence in the funding mode of institutions, while benefiting the beneficiaries of the services provided (Barr, 2011). The possible introduction of these mechanisms of higher education funding has been discussed in several mature economies as a tool to promote greater competition and efficiency (Kaiser et al., 2001). However, the introduction of this kind of system is regarded as complex, and a high degree of regulation would be necessary to protect the interests of system users, especially regarding the amount of available information. Another important implication of such a system would be a significant reinforcement of the quality assessment of the institutions in the market. The complexity, uncertainties regarding associated risks, and resistance from some key sectors have prevented this kind of system from moving beyond academic discussion. However, recent trends in favor of the market suggest that this debate may reappear in the coming years.

### 3.2. Pressures Towards Revenue Diversification

Another significant development has been the trend towards revenue diversification. The contemporary financial and policy context has contributed to placing the issue of revenue diversification on the agenda of both public and private HEIs. Revenue diversification has been defined as the generation of revenue beyond government appropriation through the commercialization of research, technology transfer, consulting, lifelong learning, and customized courses, as well as generating funds from

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2 A voucher system is a system in which public funds would be given directly to the students in the form of coupons; the students would choose the institutions where they wanted to register under the condition that it was properly accredited to perform educational activities.

assets and alterations in financial decision-making and management, among other activities (Koryakina, 2020)

Revenue diversification is also closely tied to debates about rationalizing funding sources. Higher education funding in many countries has relied heavily on public funds, being frequently justified through the social benefits associated with the better qualification of the population. However, the available empirical evidence on many countries suggests that such benefits to society tend to diminish as educational levels increase, being clearly inferior to the private benefits of higher education (Psacharopoulos & Patrinos, 2018). The use of cost-benefit analysis has been instrumental in drawing attention to the need to modify funding mechanisms, particularly through increased contributions from students and families (Teixeira et al., 2006). Most economists have been in favor of introducing this type of payment due to its potential benefits. On the one hand, it is believed that such payment will contribute to greater efficiency in the system's operation because users will tend to be more careful in their decisions and more demanding, as they are supporting part of the costs (Barr & Crawford, 2005).

The defense of introducing tuition fees has also been made on the grounds of equity. On the one hand, numerous empirical studies in the field of education economics suggest that public subsidy policies often have regressive effects, as privileged socioeconomic groups are disproportionately represented in higher education. Then we face a situation in which the population in general would contribute through taxes to finance the education of children from well-to-do families (Barr, 2011). On the other hand, such a situation tends to be particularly serious in those systems where the participation in higher education is lower. In these cases, where the competition is particularly intense, individuals from social groups with higher cultural and economic capital are more likely to benefit from free public education.

The equity issue takes another form in countries that have developed private higher education sectors, as is the case in several large Latin American systems, such as Colombia, Brazil, and Mexico. In these cases, the same education system coexists with students who attend public institutions, where tuition fees are waived, and others who attend private institutions, which generally charge tuition fees that correspond to the actual cost of education. Provided that the primary economic reason for public funding is the social benefits associated with a better-qualified labor force, it is questionable whether some are completely subsidized and others do not receive a significant contribution to help offset the costs they pay.

In the case of Latin America, the majority of public HEIs depend heavily on public revenues to fund teaching and research activities (Fanelli, 2020). The only exception has been Chile, which has had the most significant experience with marketization of

the region. Despite the relevance of public funding, some Latin American governments still spend far less on higher education than other OECD states. Moreover, it is worth noting that in several countries, students and their parents also bear a significant portion of the cost of their higher education. This has not been so much the result of the introduction of tuition fees in the public sector (something that is associated with significant political and social tension), but mainly due to the high share of enrollment in the private sector (as in countries such as Brazil, Chile, and Colombia). The latter is particularly striking as the level of fees in the private (and in the public) sector has been very high for international standards, second only to the U.S.

This funding system has implications regarding (in)equality. Although public higher education is often tuition-free, its access is often highly competitive and skewed towards students from families with higher socioeconomic status. In fact, many higher education students have previously studied in private secondary education to attain better preparation that will give them an edge over those studying in public secondary schools. The latter will struggle to get a place in the most competitive institutions and programs, and often will have no better option than to enroll in a much more expensive private university. Thus, higher education funding in Latin America, particularly, reproduces and exacerbates existing inequalities, although this is certainly not exclusive to those systems.

The changes in funding sources also have important implications for social support mechanisms for students, particularly in light of the concern about equity that should guide the funding systems. The financial mechanisms should ensure the equity principle is upheld, either in access to the system or in attendance, as many students during their studies will be forced to take on a job to support the high costs of higher education. It is essential to consider that the primary expense of attending a higher education institution is the cost of pursuing full-time studies. For this reason, many students must forgo a regular or full-time professional activity. However, even in this case, there has been concern about introducing or reinforcing incentives that promote greater efficiency in resource use. This trend becomes visible in the decline of popularity (and resources) for grants and the increasing popularity of loans in student support mechanisms.

The introduction of loan systems is supported by many economists and justified on the grounds of efficiency and equity, particularly in the form of income-contingent loans (Chapman & Doan, 2019; Barr & Crawford, 2005). Regarding efficiency, it is said that the subsidy policies tend to distort the search for higher education as they drastically reduce the direct costs of attending higher education institutions. Additionally, since the economic analysis assumes that most individuals are sensitive to financial

incentives, it is believed that a loan system would encourage individuals to be more cautious in their choices. Regarding equity, the argument in favor of broad loan systems is that they will enable many students to overcome current financial constraints and invest in their education, with the ability to repay the loan in the future based on higher salaries associated with better-paid occupations.

Loan systems have become highly popular whenever higher education funding is debated. On the one hand, from a financial perspective, they constitute a viable instrument for maintaining expansionary policies in a context of financial austerity. On the other hand, these systems are consistent with the view that regards higher education as an investment, considering the higher future incomes. The government would support the students in the present, especially the neediest, by providing them with access to better opportunities and asking them to repay this support in the future when they achieve higher incomes. Nonetheless, there is also the possibility that some students show risk-aversion behavior, particularly those with very low incomes, that is, precisely those whom such systems intended to help. The fact that these students come from social contexts and homes where the benefits associated with a university degree are less well-known and visible may contribute to underestimating the benefits and overestimating the risks associated with taking out a loan (Callender, 2006). Moreover, there are also concerns of moral hazard and imprudent behavior from institutions and individuals, leading to a significant accumulation of student debt and the risk of serious financial disequilibria, as the recent experience of the U.S.A. vividly shows (Looney & Yannelis, 2018).

Although several of these developments are particularly focused on funding public higher education or systems where public provision largely dominates higher education supply, their implications for private higher education may be particularly relevant. The evolution of funding systems has clearly led to a blurring of the boundaries between public and private institutions of higher education. Developments such as cost-sharing or the possibility of some voucher mechanisms may level the financial playing field between public and private institutions, creating a market opportunity for more attractive and prestigious private institutions. Moreover, the increasing rationalization of public funding according to social and individual returns opens up possibilities for discussing support to private institutions in consideration of their contributions to public missions, such as the better qualification of the labor force or greater equity in access to higher education. For instance, this may justify the eligibility of public student support mechanisms, such as grants or loans, for students enrolled in private institutions.

By contrast, the pressures for revenue diversification and more entrepreneurial behavior among public institutions create greater difficulties for private institutions. This is enhanced by the growing market-orientation of the public sector that has developed a much stronger focus in services to society and stakeholders' satisfaction, a significant internalization of modes of management and government borrowed from the private and business sector, and greater emphasis on revenue diversification, namely through the commercialization of its activities (Morphew & Ecker, 2009; Teixeira, Sunwoong, Zulfiqar and Landoni, 2016). This exacerbates the competition between public and private institutions, as the former increasingly emulate practices of the private sector and compete with the latter for other streams of (private) funding. Although several private institutions have become increasingly concerned in strengthening their academic legitimacy, stabilizing and qualifying its academic and technical staff, and placing a stronger emphasis on research activities (Levy, 2020; Teixeira, Sunwoong, Zulfiqar and Landoni, 2016), the increasing competition among the public institutions makes more difficult for private HEIs to access public funds for socially relevant missions, either because of formal barriers or because of increased competition. These funds may be particularly appropriate for supporting areas such as the development of research capacity, broadening access for disadvantaged students, or internationalization.

Hence, private institutions are also clearly affected by developments in public funding systems, whose impact extends not only to the financial sustainability of public institutions but also to the outlook faced by private ones. This adds to several challenges specific to the private sector, to which we will now turn our attention.

## 4. Financial Sustainability in Higher Education: The Specificities of the Private Sector

By the turn of the twenty-first century, a significant portion of higher education systems included some private higher education institutions, which had emerged mainly during the last decades of the twentieth century. For many countries, the oldest private institutions originated from the traditional role that religion played in higher education. This was particularly important in Latin America, where the so-called first modern wave of private universities in pre-modern times was clearly dominated by the Catholic Church (Levy, 1986). However, with the ascent of the modern State, most of these universities were eventually taken over by the State, and the process

of secularization led to a change in the profile of private higher education. In recent decades, the profile of the private sector in many countries has shifted away from its original players, as the most commercially aggressive approach of many new private players clearly outpaced the growth of church-affiliated institutions.

The changing regulatory and financial contexts pose significant and specific challenges to private institutions. In recent decades, the sector has undergone consolidation, and regulation has gradually come to terms with these emerging and increasingly relevant realities in higher education. However, the regulatory modes that directly and indirectly affect private institutions have often struggled to promote a sustainable and balanced development of this sector (Altbach, 1999; Teixeira, Sunwoong, Zulfqar, and Landoni, 2016; Levy, 2020).

## 4.1. Scale and Scope

One of the most significant aspects regarding private higher education is its striking diversity. This is not an exclusive characteristic of the private sector, but its degree of institutional diversity is substantial. Whereas the public sector is often subject to significant homogenization rules, through instruments of regulation such as legal frameworks, funding, staff policies, and student recruitment, private institutions usually exhibit a reasonable degree of institutional diversity. Thus, it is rather challenging to make a general discussion of the financial challenges faced by private institutions.

One of the main challenges relates to the dominant size of the private sector worldwide. Although we can find a large variety, ranging from very small to substantial institutions, the presence of many small institutions dominates the private higher education sector (Levy, 2002). The size of enrollments is usually far smaller in an average private sector institution than in its public counterpart. This is even the case in countries with a well-established private sector, such as the US, where the number of private institutions represents around 60% of the total institutions. However, they enroll less than 25% of the students. This small scale poses relevant challenges, as most institutions cannot benefit from economies of scale and scope (Toutkoushian & Lee, 2018). The average size of their programs tends to be smaller, and the possibility of mobilizing human and physical resources to diverse missions and activities (e.g., teaching, research, services to society) is clearly hindered by this small scale. This is even more problematic when institutions allow for a proliferation of programs and areas of study, which exacerbate diseconomies of scale and hinder potential synergies within and between missions (Getz & Siegfried, 1991).

In several systems, private higher education institutions have expanded to a more significant scale, although they are often distributed across multiple units operating in different cities and regions. This has frequently been a response to competitive pressures, market opportunities, or consolidation strategies. Although these multi-unit structures create some opportunities to have a stronger public profile, to pool resources and share services (academic and, primarily, nonacademic ones), or to enable other opportunities in areas such as research and development, digitalization or internationalization, they also pose relevant challenges, namely the need to ensure that each campus and each program reach a sustainable size, avoiding excessive dispersion, the proliferation of programs with low enrollments, and the duplication of activities and structures. In these cases, coordination and management challenges are significant.

The smaller scale (whether isolated or part of a multi-campus institution), coupled with other characteristics, also hinders the possibility of exploring economies of scope between different missions. For instance, the development of educational activities, research, and services to society tends to mobilize the same resources, being regarded as partly joint products of the higher educational production function (Toutkoushian & Lee, 2018). Although many private HEIs focus primarily on education, some additional capacity could allow them to diversify the range of activities they perform. Nonetheless, the average small scale and staff constraints make it very complex, as a minimum scale of operation is necessary to develop several of those additional activities effectively. This is also the result of the type of development that has taken place in most private HEIs and the primary services they offer.

## 4.2. Rethinking the Educational Portfolio

One of the primary characteristics of the development of private higher education is that, in many countries, governments have allowed the private sector to expand rapidly to achieve higher enrollment objectives. This has been done either because those governments were financially unable to support a massive expansion of higher education, or because they attempted to mitigate the effects of massification on the public sector. This pattern of expansion, also known as demand absorption (see Levy, 2002, 2006), typically results from strong social demand and lenient regulation by political decision-makers. The lax regulatory forces often stimulate opportunistic behavior from many of these newly established institutions by lowering entry requirements or simply failing to enforce existing regulatory rules. Accordingly, private institutions

are allowed to proliferate and expand rapidly in terms of the number of programs and enrollment size, at times outpacing the expansion of the public sector.

This kind of evolution may also correspond to a strategy that prioritizes quantity over quality in the development of private higher education, which can erode the reputation of the private sector and its consolidation as a serious alternative to the more established public sector. Governments may use the development of the private sector to insulate the public sector from uncontrolled expansion. However, once demand stabilizes, mainly due to demographic reasons, private institutions may be the most vulnerable to this changing context, and the experience of many countries suggests that private HEIs struggle with contexts of stagnant or declining demand (Teixeira, Sunwoong, Zulfiqar, and Landoni, 2016).

The rapid development of the private sector has made a significant positive contribution to the diversification of access to higher education. In many Latin American countries, where public higher education institutions have sought to retain some of their elitist nature, the expansion of the public sector has often relied on recruiting more students from social groups with high economic and cultural capital (see Altbach, 1999; Wells et al., 2007). This has led many students from families with lower academic qualifications to enroll in private institutions, due to the difficulty in getting access to highly contested places in the most prestigious public universities. The presence of significant numbers of students from families with lower incomes and/or lower cultural capital in private higher education institutions can be found in various countries of Latin America. This creates significant challenges to these private institutions, as it constrains the possibility of charging higher fees in many of them and also pressures many private institutions to adopt relevant student support mechanisms to ensure access and continuity of studies of students coming from disadvantaged backgrounds, to promote their successful academic trajectory, and prevent retention and dropout.

Another important outcome of the rapid development of many private institutions is their contribution to the external efficiency of the higher education system. The expectation was that the development of the private sector would contribute to making higher education more responsive to labor market demands. It was argued that privatization could make higher education supply more balanced from a disciplinary perspective, reaching a wider geographical area than traditional institutions, and produce graduates better suited to foreseeable labor market needs (Geiger, 1986; Meek et al., 1996). However, the strategy towards quantitative expansion and demand absorption appears to have undermined those expectations, and several studies have identified that the private sector has had an overall adverse effect on the diversity of

the higher education system (Teixeira et al., 2013; Teixeira, Sunwoong, Zulfiqar, and Landoni, 2016). Moreover, private higher education supply is also frequently concentrated in low-cost programs with strong student demand, such as social sciences (e.g., law, economics, and management) (Teixeira et al., 2014, 2016; Teixeira, Sunwoong, Zulfiqar, and Landoni, 2016). Private institutions often do not invest significantly in programs with less promising employment prospects or in areas that require significant initial investment in facilities and equipment (medicine, engineering, natural sciences), where their presence tends to be relatively lower than that of the public sector.

This profile of specialization presents several relevant challenges that may weaken institutional financial sustainability, not the least of which is its dependence upon a limited range of subjects. If demand patterns shift, institutions that are strongly specialized from a disciplinary perspective may struggle to develop alternatives and face significant threats to their survival. Furthermore, programs in the health and technological fields appear to be more resilient to changes in demand than those in the overcrowded social sciences, especially in contexts of stabilizing or declining demand. Thus, though institutions need to be cautious about their strategies of expansion and diversification, they must also remain sufficiently flexible to adapt to evolving demand patterns.

A significant portion of recent private sector institutions has also remained primarily focused on undergraduate programs, designed to meet the short-term needs of the labor market. Most recently established private institutions often lack sufficiently qualified academic and technical staff to develop postgraduate or advanced research programs, which are far more demanding in terms of academic and legal requirements than undergraduate programs. Finally, the disciplinary distribution of the private sector's supply also seems to make it more challenging to develop postgraduate programs, as the social sciences and humanities tend to lag relatively behind the sciences and technologies. Private HEIs face the need to expand their coverage beyond undergraduate programs. This may be an opportunity to qualify their academic staff and develop partnerships with other HEIs, which could also have spillover effects in research activities.

The concerns with their educational portfolio become even more significant given the current unprecedented change associated with digitalization and its potential impacts on the labor market. Felten et al, (2023) argued that generative AI technologies, which can produce novel content (e.g., text, images, and code), have the potential to affect a broader range of industries and employments than previous waves of automation and that a sizeable number of jobs currently filled with workers with higher

levels of education and specialized skills, earning higher median salaries, may be more exposed to advanced generative AI technologies (Brynjolfsson et al, 2025).

To address these issues adequately, higher education must critically reevaluate its educational mission and its relative importance in relation to other priorities. One of the main challenges is to rethink the educational portfolio and strike a balance between degrees and other forms of learning, particularly in light of the increasing importance of lifelong learning. Another significant challenge arising from this shift is the growing mismatch between the skills graduates acquire during their education and those employers require (Aoun, 2018). Consequently, there is an increasing need to reconsider the content and structure of educational curricula to ensure that they align with the evolving demands of a digitalized and automated economy.

In the case of private institutions, this rethinking of the educational portfolio may have some particular features, notably by strengthening or developing programs in high-demand fields, even if they require upfront investment (e.g., STEM or health) and avoiding over-reliance on saturated traditional disciplines (e.g., Law, Management, Social Sciences). It may also lead to an expanding role in continuing education programs for alumni and professionals, equipping current and former students with digital and transversal skills aligned with the demands of the emerging digital economy and the technological disruptions that we are increasingly facing.

### 4.3. A Broader Academic Mission

The pattern of development of most private institutions, which focused on short-term trends, had other implications regarding their institutional profile. Many private higher education institutions would not be characterized as universities according to strict criteria, but rather specialized institutions that provide higher training in one or a few fields of study. While some private institutions attempt to gain legitimacy, both in the eyes of public authorities and society, through research, this is not the most common situation. Although, understandably, many private HEIs are unlikely to become research universities, certainly not in the medium term, it is expected that they will develop a visible research activity to attain a significant external reputation. This requires private HEIs to identify and develop potential areas of research excellence selectively and effectively. It is not expected that all areas will be capable of achieving this, but some may have the potential to contribute to a stronger research culture and competitiveness in the long run.

The research activity in private HEIs is clearly hindered by insufficient internal and external funding. Although in the early phase of private sector's development

there is usually a resistance to channel public funding to those private institutions, not the least from public universities that fear to see their funding share diminish, the availability of funding for private institutions has become frequent in those systems where the presence of the private sector has become a common feature of the higher education's landscape. Thus, the development of research activities may contribute not only to strengthening the reputation and attractiveness of private higher education but also to allowing its access to additional funding, both from public agencies and private organizations (nationally and internationally).

Being relatively recent institutions, most private HEIs are unable to attract a large portion of national research funds. On the other hand, they have not developed significant attempts to attract private research funding, which could be an interesting source for some of their areas with greater potential. This could be an interesting opportunity to strengthen a few areas of excellence with high social visibility. In addition, strengthening areas of applied research with strong relevance to local communities may not only enhance those institutions' reputation but also consolidate some research capacity that could eventually lead to more fundamental and high-risk research.

One can, however, observe a few examples of private institutions trying to strengthen their reputation through more intensive research activity. However, even where some research activity is discernible, it is highly contingent on the concentrated disciplinary pattern, mainly in the social sciences, which, on the one hand, tends to have less public visibility and, on the other hand, attracts fewer funds.<sup>3</sup> Institutions that cover both health and technological areas have a greater potential to strengthen their research profile more rapidly and successfully, due to increased access to funding and greater visibility and impact.

Nonetheless, this strengthening of research funding is hindered by the limited research activity of many private higher education institutions, due to their traditional low priority among the main missions, as well as various financial and administrative factors. Research activities, especially those involving basic research, often yield a limited short-term economic return, despite having high social value. Since private institutions in most countries have limited or no access to public research funding (and cannot find alternative sources of philanthropy), they must fund these activities themselves. Thus, when some private institutions develop research activities, this is

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3 Some examples in this regard have been emerging in Latin America, which is not surprising, given the size and maturity of the sector in that part of the world. In his classic study on the research activity of the private sector in Latin America, Levy (1996) noted an increasing research intensity, particularly in the social sciences and public policy. In his study, he identified the important role that private research units, often associated with higher education institutions, have played in those fields in many countries of the region (e.g., Mexico, Brazil, Argentina, Chile).

often based on cross-subsidization from teaching funds, primarily to enhance their prestige and attain a higher degree of academic legitimacy.

The changing demographic and academic landscape in higher education means that private universities should devote greater attention to rethinking their approach to missions and place more emphasis on developing a focused research strategy that complements and reinforces their standing in education and training. This includes identifying thematic niches where they can establish a good reputation, supporting their academic staff in building projects in those areas, and linking these efforts to teaching (especially graduate education) and local and regional engagement. These will need to be translated into coherent and effective institutional policies, such as through the introduction of internal research incentives, a better management of the allocation of time of key staff members between teaching and research activities, the creation of research units in key areas (with some seed money for their initial development and to enhance their capacity to then apply for external sources), programs focused in attracting and retaining promising early-career researchers. This would eventually strengthen the academic mission beyond teaching.

#### 4.4. Strengthening the Staff Profile

When it comes to greater engagement in research missions, there are also important issues related to staff. Many private institutions have started with a firm reliance on part-time staff, since recently established institutions often find it challenging to recruit new staff and therefore tend to rely on staff already committed to other institutions, usually public ones (Levy, 2006; Altbach, 1999). Moreover, even full-time staff often face a teaching load that is, on average, very high, and this is clearly detrimental to the development of a visible research activity. This situation is undoubtedly aggravated by the dispersion and variability in the distribution of teaching responsibilities, which clearly hinder the development of a significant research activity.

On the other hand, many private HEIs may be inclined to recruit part of the academic staff among professionals in the academic program, due to their cost advantage. Not only do these enhance the public recognition and the link to professional practice, but they also provide a more flexible cost structure that may help the institution adapt to changes in student demand (Wells et al., 2007; Altbach, 1999; Teixeira, Sunwoong, Zulfiqar, and Landoni, 2016). Nonetheless, this staff is also less prone to developing research activities.

This pressure to strengthen the academic staff and research profile of private institutions is also a reply to external pressures associated with quality assurance.

Concerns about quality have been gaining increasing support among private institutions themselves, as many private institutions struggle to compete with public institutions and feel the need for greater legitimacy to attract students in sufficient numbers (Teixeira, Sunwoong, Zulfiqar, and Landoni, 2016).

Accreditation has been a strong incentive for improving quality. Accountability of private institutions is primarily achieved through the market; therefore, being accredited can be a significant asset in attracting students. There is some evidence that private institutions in Latin American countries are more likely to pursue accreditation than their public counterparts, including at the international level. This contributes to strengthening their reputation, helping them not only domestically but also in developing their international profile and collaborations, which in turn reinforces their domestic attractiveness.

In Latin America, accreditation is primarily a governmental endeavor, though it is typically implemented through a specialized, autonomous agency. A common trend is to have graduation requirements for new private universities, usually with mandatory accreditation processes, before they are granted greater autonomy to develop new programs or open new campuses. Some countries have a common set of standards for all institutions, while others have different criteria for sectors (public versus private) or hierarchical levels (such as university and tertiary levels).

To be successful in these transformations, institutions need to support their academic and technical staff. As the demands of the higher education sector evolve, so must the skills and knowledge of those professionals adapt to these changes. This includes pedagogical training that encourages academics to effectively integrate new technologies, teaching methods, and subject matter into their practices, as well as support to develop successful research careers that may connect them to critical national and international networks. Continuous professional development is essential to keep pace with advancements in their fields of expertise and adopt strategies that enhance academic results. The qualification of the technical staff is also critical to support these developments, especially since, in most HEIs, a teacher-centric culture often overlooks the rising importance of these professionals in contemporary higher education.

## 4.5. Tightening Competition

The rising relevance of quality assurance is also related to a significant feature of the private sector: the development of a group of for-profit institutions. Although historically private institutions were established as not-for-profit institutions, the recent

growth of private provision has introduced increasing shades of profit-seeking behavior. This has led to debates about competition, markets, and fairness, as well as calls for a stronger and more attentive regulatory framework (Kinser, 2020).<sup>4</sup> The for-profit dimension of private higher education, combined with transnational activities, raises complex regulatory issues because they are challenging to handle and do not fit into traditional categories, even within the realm of private higher education. The for-profit dimension in higher education goes beyond that of the formally for-profit institutions. In many countries, although private institutions are formally not for-profit, their behavior often has a clear for-profit orientation. This has introduced important dynamics not only to the private higher education sector but also to the entire higher education system, as the for-profit provision has often become a challenge to regulatory powers that have struggled to deal with this emerging type of private institution.

Some of the most critical voices towards these for-profit institutions come from the not-for-profit private sector. This is unsurprising, as the latter are often the most affected by these for-profit institutions in the competition for students and faculty. Furthermore, the for-profit institutions depart more significantly from traditional academic stereotypes. In contrast, previous generations of (not-for-profit) private institutions often mimicked their public counterparts in terms of academic organization, types of programs, and governance structures.

This exacerbates competition, which is further intensified by the evolving patterns of demand in many countries. Although higher education has experienced decades of expansion, fueled by the expectation that it would provide significant private and social benefits, the patterns observed in several mature systems suggest that this growth may slow down. This may be even more visible due to changing demographic trends, with a growing number of countries experiencing demographic transitions, such as aging populations or fluctuating youth cohorts, that directly affect student enrollment numbers and, consequently, institutional revenue bases. These demographic shifts necessitate adaptive strategies to sustain student intake and ensure long-term viability.

The competitive dynamics of the higher education sector increase the risk of increased stratification in perceptions of institutional reputation, which also affects demand patterns. With the expansion of access to higher education and a subsequent increase in the cohort of graduates, many students have increasingly focused not only on accessing higher education but mainly on the institution and field of study they

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4 The for-profit private sector has, in some cases, attained reasonable success regarding enrolments. Examples of this expansion of the for-profit private sector can be found in Brazil, the Philippines, Malaysia, and South Africa, where a large share of the private sector is for-profit.

are aiming at (Marginson, 2016). This has exacerbated competition among HEIs for students, especially in contexts where demand is stabilizing or declining due to adverse demographic trends. This increased competition among HEIs, both locally and internationally, intensifies the struggle for students, faculty, and funding. Stratification within the sector, where elite institutions attract greater resources, can exacerbate disparities and create additional pressures for less prestigious or more recent institutions to maintain financial health.

The analysis of demographic, socioeconomic, and technological trends clearly indicates that the era of easy enrollment growth has come to an end in many contexts. That competition is now multidimensional: for students (both domestic and international), for talented faculty, and for funding. Although these trends, especially the demographic and labour market ones, are not as strong in Latin America as they are in several European and North American countries, the pressures may rapidly tighten in less populated regions or those with more saturated markets. This may be particularly relevant to the aforementioned multi-unit private institutions, since they may face very different competitive contexts. Regardless of the timing and intensity of those changes, it seems clear that the future stress must be in enhancing institutional reputation and attractiveness to prospective students through a greater emphasis on quality, differentiation, and innovativeness, in order to avoid being perceived as a 'second-choice' institution.

Overall, these trends suggest that private HEIs are facing significant challenges to their financial sustainability. In the following section, we will examine how ensuring financial sustainability in higher education requires organizational responses to shifting demand patterns, evolving regulatory environments, and relentless cost pressures. Institutional resilience will depend on the ability to adapt to these multidimensional challenges.

## 5. Financial Sustainability in Higher Education: Organizational Challenges to a Diverse Funding Basis

Private higher education institutions face significant funding challenges that necessitate both innovative approaches to income generation and strategic organizational adaptations. Financial resilience increasingly depends on the ability to diversify income sources while overcoming internal and external barriers. HEIs have expanded their search for revenue beyond traditional public sources. Suppose that is clearly

shaping public higher education. In that case, it also affects private HEIs, as that enhances the pressures to rely essentially on non-public sources and creates additional competition for those non-public revenues, as public HEIs themselves move into those areas, aiming to complement tightening public budgets.

For non-profit private institutions, survival would be the primary operational institutional goal. When long-run sustainable survival is secure, it must satisfy the objectives of stakeholders. Since different stakeholders may have conflicting objectives, the institution must have a functioning governance structure that can effectively manage such conflicts. Institutional goals will be determined through this process. Therefore, the institutional goals for each institution would depend significantly on the composition of stakeholders and available resources. For example, a well-established institution with a substantial fiscal base (either through endowment, donations, and/or high student tuition) that must meet the demands of various stakeholders is likely to prioritize improving its reputation, as this serves the objectives of most stakeholders.

For a fiscally challenged university that needs to meet its financial obligations urgently, securing a stable fiscal base would be higher on the agenda of institutional administrators and faculty. If this institution is required to recruit students competitively, it must focus its energy on designing and delivering programs that can attract more students. Suppose there is no pressure to recruit students (because the government assigns students). In that case, the key decision-makers have no incentive to attract more students and adjust the academic programs by reallocating resources to meet their needs. In such instances, the only predictable outcome is that the quality of education will be lowered.

## 5.1. Cultural Challenges to Revenue Diversification

Despite the urgency to diversify revenue, institutions confront several persistent challenges. A significant concern is the lack of qualified staff or specialized skills relevant to fundraising, business development, and grant acquisition, which can limit institutional agility. Another major challenge is an unsupportive organizational culture, including aspects such as risk aversion, entrenched academic traditions, and skepticism toward commercialization, which may impede efforts to develop new income streams. Another major challenge is career assessment rules, whose incentives and performance metrics for staff (both academic and non-academic) are often misaligned with revenue diversification goals. A significant issue related to both organizational culture and the internal reward system is the weight of bureaucracy and lack of time, as administrative burdens and accountability demands reduce the

time available for entrepreneurial activity or external engagement, thereby hindering the capacity of HEIs to engage in successful revenue diversification. Finally, national cultures and their impact on philanthropy are also very relevant, as the degree of philanthropic support available often reflects broader national traditions and tax policies, with some systems less accustomed to private donations for higher education.

Most studies indicate that success in attracting alternative resources is neither simple nor accessible to many institutions (Alstete, 2020; Koryakina, 2020). Many institutions confirm that the results often fail to meet expectations and that these new sources of funding are often highly concentrated among a small number of institutions. This suggests that some institutions are being more effective in attracting new sources of funding, either due to system or institutional characteristics. One of the aspects highlighted in several studies is the correlation between institutional autonomy and the financial sustainability of HEIs, since more autonomous universities are characterized by a more substantial capacity to attract funds from various sources. Thus, the limitations posed by inadequacies in the regulatory framework have a negative impact on the efforts of private HEIs to diversify revenue.

Revenue diversification requires a new set of skills and a different behavior from higher education institutions (especially public ones) and from their members. HEIs are required to adopt a more entrepreneurial mindset, which is generally characterized by creativity, innovativeness, self-reliance, and risk-taking. Higher education institutions that demonstrate entrepreneurial behavior typically exhibit the following organizational qualities (Clark, 1998). It is essential to emphasize that the entrepreneurial organizational model is about empowering individuals at all levels of the organization to have the freedom of action. Although the entrepreneurial concept shares some features with business and corporate approaches, the peculiarity of HEIs as not-for-profit organizations necessitates some adaptation to their unique nature and public mission.

Existing studies also indicate that some of the most significant obstacles are within the institution (Teixeira & Koryakina, 2013; Koryakina, 2020; Alstete, 2020; Drezner and Huehls, 2014). Namely, there is a need to adapt the internal organization and decision-making process, as well as to address the lack of specific skills, to develop effective revenue diversification activities. One of the difficulties encountered by HEIs in diversifying their funding is that there is a widespread perception that the increasingly important sources of competitive funding are very demanding and often do not cover the associated costs. Moreover, most institutions often remark that obtaining these types of funding is time-consuming and requires the development of institutional skills and organizational changes. This is often viewed with some

disappointment by HEIs, as the results seem somewhat marginal for the difficulties and tensions they bring to many institutions.

One of the difficulties is related to the reward system in place in academic institutions. Many of the projects involving university-industry collaboration may not yield the type of outcomes that are typically highly valued by research assessment exercises. Hence, there is a risk that individuals' efforts will be detrimental to their careers. Thus, the institution needs to find ways to reward involvement in those activities. In this context, several measures are suggested, including establishing a workforce of skilled knowledge transfer staff in universities (with a professional qualification and accreditation scheme), fostering a more entrepreneurial mindset among university staff, and facilitating staff exchanges between research organizations and industry.

Hence, in order to diversify their revenue structure, higher education institutions will be required to make a careful and consequential assessment of the need for internal reform. This may include aspects such as revising its administrative processes, investing in staff training for new competencies (e.g., project management with the business and public sector or building a unit dedicated to business and external engagement), and adapting its performance-evaluation systems to value less traditional contributions (such as technology development, consulting, or university-based entrepreneurship).

## 5.2. Organizational Challenges to Revenue Diversification

Several of the issues enumerated above point to the need for HEIs to change their organizational culture and processes if they are to address successfully the challenges associated with financial sustainability. This also requires that HEIs find the best way to address the internal tensions associated with ongoing transformation in funding models and sustain their focus on core missions. Hence, HEIs need to find a balance between academic and management priorities, ensuring that financial imperatives do not undermine academic values. Striking an adequate balance between those priorities requires coherence between institutional priorities and mechanisms of sanctions and rewards, which produces an alignment between resource allocation and career incentives. This also requires that the pursuit of strategic priorities enhances institutional effectiveness rather than fosters tensions and contradictions.

Organizational culture profoundly shapes a private university's response to financial pressures. In many private HEIs, entrenched resistance to entrepreneurial activities or a preference for traditional teaching and tuition models breeds risk aversion

and undermines revenue innovation. Even when leadership promotes diversification, the broader culture—defined by values, informal norms, and entrenched hierarchies—may discourage staff from pursuing nontraditional ventures. In successful private institutions, promoting an institutional culture that recognizes market realities, rewards innovation, and supports collaborative decision-making is more likely to achieve sustainable change.

This deficit not only hinders their ability to innovate but also leads to the inefficient use of resources and missed opportunities for partnerships. Additionally, limited investment in staff development and training further exacerbates the skills gap, hindering efforts to build sustainable, diversified financial portfolios. Addressing these issues successfully requires an organizational culture that values innovation, collaboration, and adaptability, thereby fostering proactive responses to financial pressure. This may also include collaborating with other institutions and organizations through consortia that can bring new organizational resources and expertise, as well as mitigate risks.

A strategy of financial sustainability based on managing diversified funding streams requires sustained and persistent engagement with external stakeholders. This means an active cultivation of alumni, business partners, and community stakeholders broadens the base of support. Nonetheless, to be effective, the University must be perceived as a credible partner. Stakeholders must view the institution as effective and relevant, which is reinforced by tangible results and societal impact.

Another common feature is an approach that combines professionalization and persistence in addressing institutional challenges to financial sustainability. This requires that the HEI is equipped with expertise in key areas, coupled with continuous effort, both of which are essential in competitive fundraising and business development. Private higher education institutions frequently encounter staffing challenges, including shortages of personnel with expertise in financial planning, alternative revenue generation, donor engagement, and entrepreneurial ventures. Many private institutions lack access to experienced professionals capable of driving new business models or handling complex income streams from consulting, research, commercialization, or digital education.

Another key factor in successfully managing financial issues is effective communication, both internal and external. Communication breakdowns within private universities, both among schools or departments (horizontal) and between administration and academic units (vertical), are common and detrimental. Such issues hinder collaboration on income-generating initiatives and obstruct the free flow of critical financial data. In private institutions, the urgency to adapt to market conditions

and diversify funding means that departments and leadership must align rapidly; yet they often lack integrated communication systems. Inefficiencies in communication result in duplicated efforts, misallocation of resources, and slower implementation of strategic revenue projects.

Revenue diversification in private institutions increasingly depends on data-driven decisions regarding “third stream” activities (e.g., consultancy, executive training, industry partnerships). Many institutions, however, lack robust mechanisms for systematically collecting and sharing data about the performance and impact of these ventures. Poor data collection practices hinder evidence-based planning, diminish transparency, and compromise the institution's ability to track progress or benchmark against peer organizations. In turn, this makes it difficult for PHEIs to demonstrate the value and sustainability of alternative income streams to stakeholders or potential investors.

### 5.3. Balancing Academic and Management Priorities

The pressure to actively seek alternative sources of funding has fostered a more competitive climate in higher education, stimulating significant inter- and intra-institutional competition. Institutions are also stimulating and often rewarding individual members and departments for their commitment to those goals, introducing increasing competition inside the institution. This environment creates tensions because not all institutions, departments, and individuals can respond to those competitive pressures in the same way. At the institutional level, many higher education institutions realize that they will not be able to compete effectively in all areas and tend to prioritize their research areas, often according to their visibility and competitive financial advantage. This is also likely to stimulate some inter-institutional cooperation to build critical mass, especially in more expensive areas of research.

However, HEIs also feel the need to balance those competitive trends to sustain their levels of internal cohesion. For instance, institutions may use cross-subsidization between areas that are most successful in obtaining additional funding and those that are less successful. They may also use some of the additional funding for the promotion of inter-disciplinary and inter-institutional projects, which often receive less attention due to the prevailing competitive environment and the additional complexities involved in developing those projects successfully. Institutions also fear the potential impact this competitive environment may have on the degree of internal collaboration and the willingness of academics to engage in certain activities that may not look very attractive.

Several observers have also argued that the stimulus towards greater responsiveness to external needs and demands could lead some institutions to develop a bias towards short-term strategies. This emphasis on a business-like approach could be damaging to some academic values (Bok, 2003). In the case of enrollment policies, lowering admission standards to accommodate larger numbers of fee-paying students can undermine academic standards and educational quality. Similarly, commercial research can divert some researchers from exploring more interesting and intellectually challenging problems, thus lowering the quality and the share of basic research (Slaughter & Leslie, 1997). Another danger is the secrecy of research results. The community of scholars, freely sharing their ideas and materials in a common quest for knowledge, may be compromised by commercial firms' requirements to keep any valuable results away from competitors (Geiger & Sá, 2008).

The tendency to perceive institutions as quasi-economic organizations in search of multiple sources of funding has overshadowed the view that they are a peculiar type of economic organization (Winston, 1999). Furthermore, we should not forget that higher education is more than just an organization. Universities are institutions with a mission, and not merely an organization, although these terms are often used interchangeably, and the latter has tended to predominate in recent times (Gumport, 2001). The focus on the organization tends to (over)simplify the nature and the social role of HE, and it devalues the role of history, tradition, norms, and path-dependency. Thus, these changes in language about higher education reveal significant shifts in political and social perceptions and simultaneously contribute to promoting a particular view about it. Namely, it contributes to giving a narrower view of the scope and legitimacy of higher education as a relevant and sustainable social institution.

The balance between academic and management or financial priorities is particularly challenging in higher education due to the peculiarities of HEIs from an organizational point of view. The diffuse and collegial leadership models often prevalent in higher education present unique challenges for driving organizational change. Although private HEIs tend to have more autonomy in their decision-making and a more streamlined internal structure, they are also influenced by the institutional culture prevailing across the sector. Thus, changes aimed at promoting financial sustainability need to be supported by a leadership approach that understands the specificities of HEIs and the unique identity and culture of its own institution. This is also crucial for sustaining internal cohesiveness and maintaining unity across the diverse fields, activities, and missions of the University, which are essential for both its internal morale and external reputation.

Private HEIs are under increasing pressure to strengthen and diversify their revenues, but they need to balance their financial necessities with a consistent commitment to their (long-term) institutional mission. This is something that can be recommended even from a management perspective, since it is doubtful that firms can endure if they limit themselves to responding to short-term incentives and pressures, losing sight of their long-term goals. Any effective strategy for revenue diversification needs to be sustainable not only from a management perspective but also to contribute to strengthening an institution's capacity to improve its relevance in the production and dissemination of knowledge. The pursuit of financial sustainability also poses issues due to its inherent complexity in strategic and financial planning. Dealing with multiple, unpredictable revenue streams complicates long-term planning, requiring new approaches to risk management and financial forecasting.

Institutions that succeed in meeting funding challenges often exhibit several common features. A crucial one is quality and effectiveness in the pursuit of their core missions. Sustained quality in teaching, research, and service underpins institutional attractiveness to students, funders, and donors. If these are significantly affected by strategies to address financial sustainability, that may erode the long-term sustainability of the University, despite some apparent short-term gains. Private HEIs often operate in volatile environments marked by fluctuating enrollments, unpredictable funding, and policy shifts. Internally, staff may face frequent leadership changes, unclear strategic priorities, or fears over job security.

Such conditions foster insecurity and risk aversion, sapping motivation for organizational learning or the pursuit of long-term, ambitious diversification projects. When uncertainty prevails, faculty and staff are less likely to take necessary risks, participate in cross-departmental initiatives, or invest effort in income-generating programs beyond tuition. This requires a strategic vision and commitment from institutional leadership that will be critical in mobilizing teams and integrating funding diversification into core missions in a way that enhances them, rather than eroding their relevance and effectiveness. Thus, long-term sustainability depends on clear strategic direction and external engagement.

In addition, it requires a crucial capacity of the institutional leadership in balancing multiple missions, ensuring that efforts to expand or diversify do not lead to mission drift or fragmentation. Although this is often proclaimed, a strong mission orientation is harder to attain, as the University needs to balance reputation-driven ambitions with broader development-focused objectives, which shape its strategic identity and guide sustainable growth. Achieving financial goals requires more than

identifying external opportunities, since it also demands transforming the institution itself, its people, and its culture.

In summary, private higher education faces unique internal constraints to financial sustainability and revenue diversification, including skills gaps, internal communication inefficiencies, insufficient market data, risk-averse cultures, and endemic organizational insecurity. Overcoming these barriers demands investment in staff capabilities, modernization of internal communication systems, robust data collection and dissemination, and intentional cultural change to enable innovative, market-responsive strategies. Moreover, contemporary funding challenges demand that HEIs combine entrepreneurial energy, organizational adaptability, and strategic vision to secure their financial futures, while preserving their academic values and social missions.

## 6. Concluding Remarks

Although private higher education has a long historical significance, its role was relatively small in many higher education systems until recently. However, during the last decades, this situation has changed significantly, mainly due to the massive and continuous expansion of higher education worldwide. In many parts of the world, the promotion of private higher education has emerged as a viable policy alternative to the often-overstretched public sector. Although in some cases it has been viewed as a transitory phenomenon, the evidence suggests that private higher education is becoming a permanent feature of the higher education landscape. For that to happen, both the regulatory framework and institutional behavior need to adopt an adequate strategy.

Although much of the recent expansion of private higher education has been characterized as a demand-absorption pattern, in the systems where the private sector has emerged after the consolidation of the massification process, this type of expansion is not a very plausible strategy of development. In post-massification cases, private institutions tend to cater to market niches and present alternatives to mass higher education, rather than reinforcing it. This more specialized approach could be expressed in aspects such as the types of programs offered or the teaching methods. Private institutions need to position themselves as an alternative to the public system, rather than a second choice for those who could not get a place in the latter.

The consolidation of the private sector and its pursuit of sustainability is linked to another potential force of differentiation among private higher education institutions, namely, through a more substantial commitment to research activities. Even if it may not be viable or even desirable for most private HEIs to mimic the strategies

developed by their public counterparts, private HEIs need to engage much more in research activities, both as a strategy to strengthen their academic quality, to diversify their funding basis, or to foster their partnerships with external stakeholders. There is a growing number of private institutions that are increasingly aware of the potential for this to undermine their legitimacy, thus aiming to promote the better qualification of their academic staff, increase the number of research centers affiliated with them, and develop postgraduate programs.

To successfully address these challenges, higher education institutions must focus on a few key strategic objectives. Given the analysis developed in the text, we would highlight the following ones:

- i. Focus more on a strategy based on quality development than on quantitative expansion.
- ii. Strengthen the educational portfolio by focusing on its quality (instead of demand absorption), differentiation (instead of emulating competitors), and innovativeness (both in the form of delivery and content).
- iii. Develop a broader mission by embracing research and graduate education selectively, namely by identifying areas where the institution can realistically attain high quality and become an attractive partner for other academic and non-academic organizations.
- iv. Bolster partnerships with external stakeholders aligned with priorities defined for education and research (continuing education, consulting, projects with industry, philanthropy), aiming both to enhance reputation and bring additional revenues.
- v. Invest in qualifying and motivating internal human capital, promoting staff development in core education and research missions, enhancing supporting activities (pedagogical and curriculum innovation units, project and innovation management activities), and revising incentive structures to align efforts with strategic goals.
- vi. Develop strategies that aim for financial robustness and diversification, aligning with the mission and priorities. Ensure that these strategies align with and reinforce the institution's mission.
- vii. Avoid excessive dispersion in new initiatives and activities by establishing clear priorities, steps, responsibilities, and resources.

These transformations present significant institutional challenges and require particular attention to staff and organizational dimensions. Although financial

constraints may be significant, institutions must strike a balance between short-term needs and long-term sustainability. This requires strengthening the qualifications and commitment of their academic and technical staff to respond to both the imminent academic transformations and to develop a successful strategy of financial diversification. They also need to develop an effective and qualified technical staff that can sustain both the leadership and academic staff in attaining a higher level of academic reputation, thereby becoming a more attractive institution to prospective students, funders, and other external stakeholders.

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