

University Funding through the Lens of the Resource Dependency, Agency and Transaction Cost Theories: A South African Perspective

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Abstract

In this paper, I assimilate three theories, namely the resource dependency theory (RDT), agency theory and transaction cost theory (TCT), to reflect on the South African university funding framework. I relied on a combination of secondary and primary data. Secondary data included audited annual reports of the 26 public universities in South Africa, government publications from the Department of Higher Education and Training (DHET) and statistics from the National Students Financial Aid Scheme (NSFAS). The primary data were in the form of interviews involving 17 respondents representing Student Representative Council (SRC) members, final-year NSFAS-funded students, officials from participating universities' Finance and Registrar's offices, DHET officials and recently employed former NSFAS-funded students. The findings reflect that university funding in South Africa follows the RDT-Agency-TCT theoretical paradigm. In line with this paradigm, public universities in South Africa should diversify their funding sources to maintain their autonomy while remaining financial sustainable.

Keywords: government funding, student fees, commercial income, investment income, public universities

1. Introduction

University funding is a topic of interest to researchers due to the strategic role funds play in higher education institutions' (HEIs) sustainability. Universities require financial resources to achieve their mandate of improving educational quality, expanding participation and access and being engines of economic prosperity (Chiramba & Ndofirepi, 2023). Considering that universities worldwide are grappling with limited financial resources, it is imperative to develop a balanced theoretical perspective on the phenomenon of university funding. To reflect better on university funding and its challenges, its social and historic context should be unravelled, which is achievable through the lens of theories. In fact, Joullé and Gould (2023) explicitly argued that theory could offer the fundamental propositions about a phenomenon from which one can make predictions. The purpose of this paper was to investigate and understand university funding in South Africa through the lens of the following three theories: (a) the RDT, (b) the agency theory and (c) the TCT. Amongst the three theories, researchers have widely used the RDT and agency theories to understand university funding in various parts of the world (Fowles, 2014; Hillman et al., 2009; Powell & Rey, 2015). I incorporated the TCT in this study as a link between the RDT and agency theory. Cuypers et al. (2021) supported this, highlighting that the TCT is rooted in the proposition that organisational actors (principals and agents) are preoccupied with maximising the gains of interdependence (interdependence as explained through the RDT). Aligned to the significance of the three theories, I addressed the following research question in this study:

How does the confluence of the resource dependency, agency and transaction cost theories influence the South African university funding framework?

1.1 The Resource-Dependency Theory

A realisation that the critical funding challenges facing HEIs, particularly public universities, are the scarcity of financial resources and declining government funding, triggers the RDT (Mbhalati, 2025; Zatonatska et al., 2019). The literature has established that Pfeffer and Salancik's (1978) seminal work, *The External Control of Organisations: A Resource Dependence Perspective*, laid the foundation for the RDT. The underlying argument with

the RDT is that we should understand the behaviour of an entity in terms of the context of that behaviour, and that how well an organisation manages interdependencies with other entities determines its survival (Pfeffer & Salancik, 1978).

The RDT operates on the premise that organisations commonly face resource availability uncertainties and scarcity. In line with the RDT framework, Pfeffer and Salancik (1978) proposed five options that organisations may utilise to minimise environmental uncertainties and resolve the challenges of resource availability and scarcity. These options are (a) mergers and vertical integration, (b) joint ventures and other organisational relationships, (c) boards of directors, (d) political action and (e) executive succession. Emanating from these options, Hillman et al. (2009) insisted that organisations that were more dependent on government to leverage resources should engage in political action.

The RDT's political option dimension is recognisable in the way public universities in most countries align their objectives with those of government to access state funding. This then implies that the RDT has implications for university autonomy, particularly when a key funder has too much power over a university. In some cases, the providers of funding to universities place onerous conditions for their funding. While government funding may be important, such funding often comes with political and socioeconomic demands that may affect universities' institutional autonomy and academic freedom (Etomaru et al., 2016). In South Africa, one such demand is the Department of Higher Education and Training's (DHET) implicit enforcing of a fee increase cap on the 26 public universities. Other countries that have implemented university fee increase caps include the United Kingdom, Chile, New Zealand, Ecuador and Colombia (Hubble & Bolton, 2018; Rios-Jara, 2023). Although the fee increase caps are a response to skyrocketing tuition fees, universities may perceived them as government interference.

As such, Pullin (2004) warned that universities should be wary of being wholly dependent on one funder for their financial resources because HE autonomy is critical to operationalising academic freedom (Lyer et al., 2023). Arvidson and Linde (2021) also reflected this view when they argued that universities should accept external funding with appropriate checks and balances to protect the funding recipient's autonomy. In fact, Pfeffer and Salancik (1978) insisted that the RDT emphasises the protection of an entity's autonomy because reduced autonomy can negatively affect an organisation's ability to direct its goals and maintain its values and identity. The RDT's relevance as a tool to understand university funding has been tested in various HE contexts.

In a study conducted amongst public universities in the United States, Powell and Rey (2015) investigated how these institutions leveraged the RDT framework by adapting to the market or society's needs for increased financial resources. Similarly, McAllister-Spooner and Kent (2009) used empirical evidence from 19 community colleges in New Jersey in the United States and suggested that one of the most effective ways of acquiring resources for highly resource-dependent organisations was to respond more to the needs of those in the environment who control critical resources. Furthermore, Youta (2021) analysed HE funding in Nigeria and observed that because more than 90% of university funds came from government, in line with the RDT perspective, government was empowered to link the amount of funding to achievement of specific performance targets.

Although we can apply the RDT to clarify the power balance between a university and its prominent funding provider, we can better unravel the nature of their contractual relationship through a synopsis of the agency theory.

1.2 The Agency Theory

The agency theory, broadly referred to as the principal–agent theory, is in fact an oversimplification of the theory because the principal–agent perspective is but one of its theoretical lenses. I approach the agency theory from two complementary theoretical lenses, namely (a) the positivist agency theory and (b) the principal–agent theory. Although both theoretical lenses are interested in the contractual relationship between the principal and the agent, the positivist perspective explains the causes and costs of the agency problem, while the principal–agent perspective focuses on the way the relationship between the principal and the agent should be managed (Panda & Leepsa, 2017). Though we can trace the agency theory to the 1960s and early 1970s as a method economists used to explain risk-sharing behaviour amongst individuals or groups, its theoretical basis goes back to Adam Smith's seminal 1776 work, *The Wealth of Nations* (Bendickson et al., 2016). The theoretical origin of the agency theory can be explained according to the principle of division of labour, which Smith (1776: chapter 2) described as follows:

Give me that which I want, and I shall have this which you want, is the meaning of every such offer, and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of.

This underlying principle denotes that one individual/group/entity could delegate to another the responsibility of supplying its needs in exchange of specific benefits for both. It is apparent that this principle operates in the same

way as the principal–agent theory (agency relationship). The individuals or groups involved in an agency relationship could best be categorised into principals and agents. The principal determines the work to be done, and the agent undertakes that work. The work should be done in the best interest of the principal, who in turn provides the agent with enough resources and payment(s) to accomplish the stated tasks (Cooley, 2015). Researchers have applied the agency theory in different disciplines such as economics, accounting, marketing, political science, public administration and psychology.

In HE research, researchers have applied the agency theory particularly for exploring governments' relationship with HEIs (Yallem et al., 2018). Our view in this paper is that the theory can go a long way in explaining why public universities in South Africa adhere to specific government requirements. I note that in situations where the principal and agent have divergent goals and interest, a critical agency problem is triggered (Panda & Leepsa, 2017). The agency problem can be complicated when the agent diverts from the collective interest it shares with the principal. I point out that ideally, the agent should not deviate from the principal's agenda in terms of the urgency agreement. In line with the positivist agency theory stream, Eisenhardt (1989) postulated that two important positions should be considered to limit the agent's divergence from principal's interest. I highlight these prepositions as follows:

Proposition 1: When the contract between the principal and the agent is outcomes-based, the agent is more likely to behave in the principal's interest.

Proposition 2: When the principal has information to verify agent behaviour, the agent is more likely to behave in the principal's interest.

McLendon (2003) noted that the theory can be applied in HE research to explain the interest government has in university programmes and how these institutions respond to political influence. Nevertheless, the confluence between the agency and resource dependency theories deserves understanding. Bennet and Law (2020) demonstrated that in contexts where public universities depend more on government funding and tuition fees than other sources of funding, the balance between these funding sources has an impact on the agency relationship and resource dependency correlation. It is apparent that in contexts where free or significant state-subsidised HE is applied, the agency relationship tends to favour the government at the expense of HEIs. While the above may be viewed as detrimental to HE autonomy, emerging voices, particularly in Africa (Ndaba, 2023; Unterhalter & Allais, 2022), have insisted that government's increased funding for HE has the beneficial effect of making HE more of a public rather than private good. To these voices, private funding for universities commodifies university education by making it elitist. Aligned to the above, I posit that the TCT provides a better mechanism to navigate the interest of universities with those of society and the state.

1.3 The Transaction Cost Theory

The TCT holds that a firm is a sum of contracts between various role players (also categorised as principals and agents) to regulate transactions for the purpose of achieving contractual goals where transaction costs are effectively and efficiently managed (Htay & Salman, 2013). Long (2022) aptly captured the theory's crux by indicating that transaction costs are a price mechanism to find transaction partners, negotiate and sign contracts, supervise performance and resolve breach of contract. In line with this view, there is a perception that the TCT implies explicit rather than implicit contracting. While noting that Oliver Williamson could be considered the TCT's founding father, Sent and Kroese (2022) agreed that the theory's origins could be traced to Ronald Coase's seminal 1937 work, *The Nature of the Firm*, which introduced the concept of transaction cost explicitly into economic theory.

The TCT has links to the agency theory because it recognises that all human agents are fallible due to two key attributes: (a) cognitive ability and (b) self-interestedness (Williamson, 1995). As such, the preceding scholar noted that self-interestedness or opportunism by agents poses additional complications to contractual relationships between principals and agents. There is a perception in literature that universities' tendency towards self-interestedness manifests in the adoption of private sector market-oriented approaches that are often viewed with scepticism in some contexts, particularly in societies with a history of socioeconomic imbalances (Mitra, 2009; Ndaba, 2023).

Yousuf (2017) insisted that to mitigate against self-interestedness, a firm should apply safeguards in the form of transaction costs when entering into a contract to be sure of the agreed services/goods. Thus, this implies that the government as the principal incurs transaction costs (subsidies and grants paid to public universities) to limit public universities' self-interested behaviour. In terms of the TCT, Muellerleile and Lewis (2019) strongly argued that government should not step aside and allow public universities to be rationalised solely for producing private goods because this would damage the notion of public universities as important institutions for socioeconomic justice. In

their view, the TCT's purpose is to explain why firms expose some activities to the market (private goods view) and others not (public goods view).

2. Methodology

In this section, I discuss the research design with specific focus on the sampling strategy, data collection procedures and methods of data analysis.

2.1 Research Design

I followed the pragmatic research design approach in this study by collecting research data utilising multiple sources such as secondary data from universities' annual reports, government publications (DHET and National Students Financial Aid Scheme (NSFAS) data sources), and supporting these with interviews. The secondary data from university annual reports covered the period 2015 to 2022.

2.2 Sampling

Because the sampling units for the secondary data were all 26 of South Africa's public universities, I had no need to draw a sample. Furthermore, I conducted interviews with 17 research participants. I selected them based on deliberate purposive sampling where I included people with knowledge of the research phenomenon who were willing and available to participate in the study (Etikan et al., 2016). I selected these respondents to represent various role players who had an understanding of university funding. Amongst the 17 respondents, two represented the finance divisions at universities, Registrar's office, final-year NSFAS-funded students and recently employed former NSFAS-funded students, respectively. Three respondents represented the Student Representative Councils (SRCs) and six the DHET.

2.3 Data Collection Procedures

Considering that the primary data reported in the secondary data sources were collected for a different purpose, I had to ensure the data was fit for the research question. I achieved this by recalculating specific indicators (such as the proportion of NSFAS-funded students and proportion of the main funding source per university to total recurrent income).

However, throughout the data fit process, I was well aware that I could not alter the primary data's characteristics (Kelly et al., 2024). I sent the interview questionnaire in advance to all respondents. I conducted the interviews held with DHET officials in the form of a focus group discussion. I adhered to and followed the appropriate research ethical processes throughout the data collection and analysis process. Although I originally conducted the interviews as part of a broader PhD study, for the purpose of this paper, the following four questions align to the main research question:

What is your view with regard to free HE in South Africa?

What is your view on the role of Sector Education Training Authorities (SETAs) in mobilising funding for public universities in South Africa?

What role should universities play in mobilising funding?

Do you think financial sustainability is an important factor in a public university?

2.4 Data Analysis

I analysed the secondary data using a combination of qualitative and quantitative data analysis methods. The quantitative methods involved presenting the data in tables and discussing the trends emanating from them. In the analysis of data collected through interviews, the qualitative methods were in line with Akinyode and Khan's (2018) five-step model: (a) recording the interviews, (b) producing a written interview transcript, (c) developing an in-depth narrative from transcribed data, (d) identifying meaningful keywords and (e) highlighting key themes from the keywords.

3. Findings

I present the study findings along the secondary data interview continuum. I present the secondary data analysis in Figure 1 and Tables 1 to 4. Figure 1 depicts the block grants funding framework. Table 1 shows the 2024/25 to 2026/27 Medium-Term Expenditure Framework (MTEF) for public HE in South Africa. Table 2 depicts the university head count by race (2016–2021). Tables 3 and 4 present the proportion of NSFAS-funded students (2015–2021 average) and the main five funding sources for the 26 public universities in South Africa (2015–2022 average), respectively.

3.1 The Secondary Data

I used an analysis of the secondary data from government records, annual reports of universities and other relevant data to develop a comprehensive understanding of South Africa's university funding framework. The confluence of the three theories are observable when analysing South Africa's public university funding formula called the New Funding Framework (NFF). The DHET (2023) Ministerial Statement on University Funding 2024/25 and 2026/27 highlights the NFF in terms of block and earmarked grants as follows: (a) Infrastructure and Efficiency Grant; (b) New Universities Grant; (c) University Capacity Development Grants; (d) Foundation Provision Grant; (e) Sibusiso Bengu Development Programme; (f) Clinical Training Grant; (g) Veterinary Sciences Grant; and (h) grant institutions such as the NSFAS (biggest recipient of earmarked grants), National Institute of Human and Social Sciences, African Institute for Mathematical Sciences and Council of Higher Education (CHE). As Mpundu and Diko (2017) highlighted, universities spend the block grants as they wish because the qualifying criteria determine the amount of money a university receives, while the earmarked grants can only be spent on stipulated areas as determined in the funding's terms and conditions. Nevertheless, the block grants also force universities to focus on achieving specified outcomes, as Figure 1 illustrates:

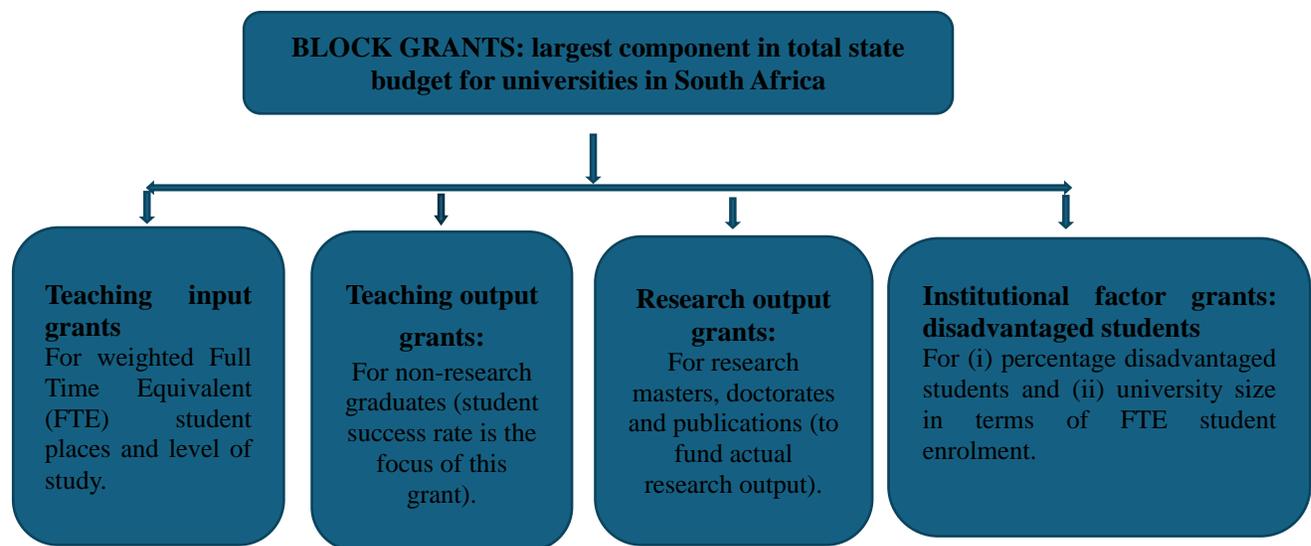


Figure 1. Block grants for funding of higher education in South Africa

Source: DHET (2023), McLaren and Struwig (2019) and Ntshoe and De Villiers (2013).

It is apparent that South Africa's block grants funding system is forcing universities to achieve specific government-stipulated targets. This aligns with the RDT perspectives whereby the recipient of financial resources has to comply with funder's specific priorities (Arvidson & Linde, 2021). In this way, the government is using its power as the controller of funds to force universities to work towards specific government mandates. The advantage with the block grants system is that the four priorities (teaching inputs, teaching outputs, research output and institutional factors) are mutually beneficial for both the resource recipient (universities) and the funder (government). Similarly, the earmarked grants, due to their focus on specific areas requiring state intervention, are meant to provide financial incentives for universities to address those areas of intervention. This supports the TCT perspective that government incurs transaction costs as a way to limit universities' self-interested behaviour (Muellerleile & Lewis, 2019).

A good example is the NSFAS, which the South African government has continued to use as a vehicle to provide access to HE for students from poor families. Government allocation to the NSFAS has grown over the years. In 2016, the percentage of state funding allocated to the NSFAS was just 24% (Jacobs et al., 2019) but has grown in recent years closer to the block grants allocation. Table 1 clearly articulates this.

Table 1. MTEF estimates 2024/25 to 2026/2027

| Grant Type | 2024/25 (R'000) | 2025/26 (R'000) | 2026/27 (R'000) |
|------------------------------------------------------|-----------------|-----------------|-----------------|
| Block grant | R40 274 441 | R42 660 926 | R44 565 205 |
| NSFAS earmarked grant | R37 915 950 | R39 298 616 | R41 251 303 |
| Other grant institutions | R37 772 | R23 122 | R23 496 |
| Other earmarked grants other than grant institutions | R4 202 130 | R4 318 733 | R4 553 978 |
| Capital earmarked grants | R 3 176 278 | R1 387 896 | R1 646 085 |

Source: Calculated from the DHET (2023) Ministerial Statement on University Funding 2024/25 to 2026/27.

We can better contextualise the significance of the NSFAS earmarked grant in the rapid growth of African (particularly) Black students at South African universities. Table 2 presents the student headcount per race at South African universities from 2016 to 2021.

Table 2. University head count by race 2016 to 2021

| Race | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------|---------|---------|---------|---------|---------|---------|
| African | 138 630 | 147 322 | 163 087 | 161 244 | 176 956 | 176 500 |
| Coloured | 12 723 | 12 744 | 14 690 | 13 572 | 14 226 | 13 600 |
| Indian | 10 710 | 11 030 | 11 084 | 10 499 | 10 571 | 9 880 |
| White | 38 739 | 37 844 | 37 049 | 34 259 | 33 787 | 30 877 |
| Others | 2 274 | 1 991 | 2 278 | 2 368 | 2 342 | 2 400 |

Source: Vital Stats, Private and Higher Education 2021. Council of Higher Education (CHE), 2023.

It is apparent from Table 2 that the only racial groups where the head count increased when comparing 2016 and 2021 are African, Coloured and others. The African headcount increased by about 37 870 students (27% increase). This increase links to the high proportion of NSFAS-funded students, particularly at rural and historically disadvantaged universities over the same period. Table 3 highlights this increase.

Table 3. Proportion of NSFAS funded students per university 2015 to 2021

| Institutions | Location | Historic roots classification | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------------------------|-------------------|-------------------------------|------|------|------|------|------|------|------|
| University of Cape Town (UCT) | Metropolitan area | Historically advantaged | 14% | 17% | 16% | 17% | 15% | 19% | 20% |
| University of Stellenbosch (USB) | Metropolitan area | Historically advantaged | 10% | 8% | 6% | 10% | 10% | 13% | 13% |
| University of Johannesburg (UJ) | Metropolitan area | Historically advantaged | 20% | 30% | 37% | 44% | 44% | 40% | 49% |
| University of South Africa (UNISA) | Metropolitan area | Historically advantaged | 8% | 6% | 10% | 17% | 23% | 45% | 43% |
| Wits University (Wits) | Metropolitan area | Historically advantaged | 14% | 15% | 16% | 18% | 19% | 22% | 24% |
| University of Free State (UFS) | Metropolitan area | Historically advantaged | 13% | 14% | 24% | 36% | 42% | 53% | 53% |
| University of | Metropolitan | Historically | 10% | 17% | 13% | 17% | 18% | 23% | 22% |

| | | | | | | | | | | |
|------------------------------------------------|-------------------|----------------------------|-----|-----|-----|-----|-----|-----|-----|--|
| Pretoria (UP) | area | advantaged | | | | | | | | |
| University of KwaZulu-Natal (UKZN) | Metropolitan area | Historically advantaged | 20% | 39% | 35% | 42% | 44% | 52% | 52% | |
| Nelson Mandela University (NMU) | Metropolitan area | Historically advantaged | 22% | 33% | 37% | 45% | 41% | 49% | 52% | |
| Central university of Technology (CUT) | Metropolitan area | Historically disadvantaged | 26% | 30% | 40% | 54% | 73% | 51% | 41% | |
| Durban University of Technology (DUT) | Metropolitan area | Historically disadvantaged | 35% | 65% | 52% | 78% | 68% | 60% | 64% | |
| Cape Peninsula University of Technology (CPUT) | Metropolitan area | Historically disadvantaged | 27% | 27% | 23% | 36% | 37% | 49% | 52% | |
| University of Fort Hare (UFH) | Rural town | Historically disadvantaged | 43% | 84% | 47% | 50% | 49% | 67% | 50% | |
| University of Limpopo (UL) | Rural town | Historically disadvantaged | 64% | 62% | 61% | 74% | 69% | 72% | 74% | |
| University of Zululand (Unizulu) | Rural town | Historically disadvantaged | 89% | 80% | 69% | 81% | 73% | 78% | 69% | |
| Walter Sisulu University (WSU) | Rural town | Historically disadvantaged | 42% | 68% | 58% | 62% | 65% | 74% | 63% | |
| Mangosuthu University of Technology (MUT) | Rural town | Historically disadvantaged | 74% | 63% | 23% | 64% | 95% | 84% | 64% | |
| University of Venda (Univen) | Rural town | Historically disadvantaged | 52% | 63% | 67% | 71% | 71% | 81% | 67% | |
| North West University (NWU) | Urban Town | Historically advantaged | 10% | 16% | 18% | 26% | 29% | 40% | 43% | |
| Rhodes University (RU) | Urban Town | Historically advantaged | 15% | 22% | 19% | 23% | 28% | 37% | 37% | |
| University of Western Cape (UWC) | Urban Town | Historically disadvantaged | 28% | 35% | 27% | 36% | 38% | 47% | 46% | |
| Vaal University of Technology | Urban Town | Historically disadvantaged | 41% | 44% | 42% | 46% | 50% | 71% | 66% | |

| (VUT) | | | | | | | | | |
|----------------------------------------|------------|-----------------------------|-----|-----|-----|-----|-----|-----|-----|
| Sefako Makgatho University (SMU) | Urban Town | Historically disadvantaged | 21% | 41% | 25% | 45% | 45% | 50% | 45% |
| Tshwane University of Technology (TUT) | Urban Town | Historically disadvantaged | 32% | 50% | 47% | 53% | 54% | 61% | 65% |
| University of Mpumalanga (UMP) | Urban Town | New dispensation university | 37% | 26% | 44% | 71% | 70% | 74% | 73% |
| Sol Plaatjie University (SPU) | Urban Town | New dispensation university | 61% | 77% | 59% | 46% | 52% | 60% | 51% |

Source: Percentages calculated based on data from universities’ annual reports supported by NSFAS statistics and reflected in Mbhalati (2024).

Although the highest proportion of NSFAS-funded students were still in the previously disadvantaged universities, the new dispensation universities (University of Mpumalanga and Sol Plaatjie University) also have significantly higher percentages of NSFAS-funded students. I found the lowest proportion of NSFAS-funded students at Stellenbosch University. Nevertheless, the data show that by 2021, historically advantaged universities such as the University of the Free State (at 53%), University of Kwazulu-Natal and Nelson Mandela University (both at 52%) had a majority of their students funded by NSFAS. A further analysis of the funding sources at each of the 26 public universities revealed five main funding sources, namely (a) government funding, (b) student fees, (c) income from commercial activities of the universities, (d) gifts and donations and (e) investment income. Table 4 provides a holistic representation.

Table 4. Average 2015-2022 proportion of five main funding sources per universities

| Five funding sources | UCT | USB | WITS | UNISA | UJ | UP | UFS | NWU | UKZN | NMU | RU | WSU | UWC | UL | UFH | UNIZULU | UNIVEN | VUT | SMU | MUT | CPUT | DUT | TUT | CUT | UMP | SPU |
|------------------------------------|------|------|------|-------|------|------|------|------|------|------|------|------|------|------|------|---------|--------|------|------|-------|------|------|------|------|------|------|
| 1. Government grants and subsidies | 32% | 39% | 40% | 45% | 44% | 37% | 40% | 42% | 40% | 43% | 44% | 49% | 56% | 48% | 60% | 52% | 51% | 50% | 61% | 44% | 53% | 44% | 51% | 51% | 71% | 73% |
| 2. Student fees | 26% | 24% | 43% | 46% | 39% | 32% | 35% | 34% | 37% | 31% | 39% | 49% | 27% | 38% | 36% | 37% | 38% | 40% | 27% | 34% | 39% | 46% | 37% | 40% | 20% | 21% |
| 3. Commercial income | 28% | 25% | 8% | 3% | 7% | 21% | 9% | 17% | 15% | 7% | 5% | 1% | 10% | 7% | 3% | 3% | 7% | 5% | 9% | 21% | 4% | 2% | 8% | 7% | 1% | 2% |
| 4. Gifts and donations | 7% | 5% | 4% | 1% | 4% | 3% | 2% | 1% | 4% | 13% | 6% | 0.2% | 2% | 1% | 0.1% | 3% | 0.2% | 0.2% | 0.3% | 0.01% | 2% | 2% | 1% | 0.4% | 3% | 1% |
| 5. Investment source income | 7% | 6% | 5% | 5% | 7% | 7% | 14% | 6% | 5% | 7% | 5% | 1% | 5% | 6% | 2% | 6% | 3% | 4% | 3% | 1% | 2% | 6% | 3% | 2% | 6% | 3% |
| | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: Percentages calculated from universities’ annual reports.

In the analysis of the universities’ annual reports, I found that NSFAS funding was not incorporated as a funding source because it was an indirect funding source through the university student fees system. The data revealed that universities in South Africa were highly dependent on government funding for their income. The majority of previously disadvantaged and the new dispensation universities were far more dependent on government funding than their previously advantaged counterparts were. The new dispensation universities were receiving higher government assistance in the form of a special subsidy and a targeted new infrastructure grant. In contrast, income from student fees was the second most dominant funding source except in the case of the University of Cape Town (UCT) and Stellenbosch University (USB) where income from commercial activities assumed second position. At Wits, Unisa, WSU and DUT, income from student fees surpassed government grants and subsidies. The dominance of student fees over the other funding sources may pose serious risks because they may not be sustainable due to students’ demands for fees to fall (Mavunga, 2019).

3.2 Interview Data

The ultimate goal of qualitative data analysis is to identify thematic networks (themes) by highlighting key words from the data. Therefore, after highlighting the keywords from the interview transcripts, I was able to identify the following four main themes:

Theme 1: Free HE was not currently feasible in South Africa

With the definition of free HE wide and diverse, I wanted to understand the interviewees' position on the idea of free HE in South Africa. The assumption is that when the NSFAS pays tuition, accommodation, meals and related allowances for students from poor backgrounds, it offers some form of free HE (Bitzer & De Jager, 2018). In the interviews I held with the DHET officials, a DHET director was adamant that 'looking at the numbers, free higher education in South Africa' was not possible. The DHET director was also of the view that the NSFAS model in its current form was not sustainable because it covered a broad range of 'social aspects'.

An interviewee from the Registrar's office in one of the 26 public universities highlighted that the idea of free HE in South Africa might make sense politically but was not economically feasible. An interviewee from Finance in one of the 26 public universities supported the view that South Africa was not '...financially ready' for free HE. In fact, one SRC interviewee (herein referred to as the first SRC interviewee) succinctly indicated that 'at this current state, free higher education in South Africa is a façade...'. In the interview with a 'Final-year NSFAS student', it emerged strongly that 'free higher education is a complex and controversial issue in South Africa'. The most telling comment about free HE in South Africa came from the other interviewee from the Registrar's office who reasoned that:

Free higher education is implementable in South Africa. If we can get everyone educated, then the economy can change for the better. Those people getting South African Social Security Agency (SASSA) grants of R350.00 could be encouraged to channel their efforts towards education and everyone allowed or funded by government for university education.

In the respondent's view, this would involve redirecting the R350.00 (monthly per recipient) SASSA grant towards HE. In my view, this would be too politically controversial considering South Africa's massive unemployment rate. The country's unemployment rate released by Statistics South Africa for the second quarter of 2025 was 42.9% per the expanded definition of unemployment (Maluleke, 2025). As such, the second 'Final-year NSFAS student' interviewee argued that 'free higher education can be implementable, but it must be accompanied by job creation'.

Furthermore, one of the two 'Recently employed former NSFAS-funded students' admitted that the 'idea of free higher education in South Africa should be approached with caution' considering the country's economy was not doing well. The other second interviewee from university Finance was adamant that 'South Africa needs to allocate more resources to the education sector to ensure easy access to higher education for students from poor backgrounds'. Consequently, the second and third SRC interviewees were quite scathing in their views. The second SRC interviewee felt that free HE in South Africa was derailed by universities, which were '...holding back qualifications of students due to outstanding fees'. Accordingly, the third SRC interviewee insisted that 'free higher education does not exist in South Africa as long as students who are deserving of financial assistance are sitting at home without access to universities and we have graduates without their qualifications'.

It is apparent that both the second and third SRC interviewees complained about NSFAS excluding some students from funding, in particular the missing middle. The overwhelming sentiments emanating from the interviewees reflected that, although free HE in South Africa seemed attractive, it was not economically feasible. In fact, De Jager and Baard (2019) conducted a study at one of the public universities in South Africa where the main research question was, 'Does "free" higher education in South Africa make economic sense?' Based on the results of that study, the respondents were of the view that 'free' HE did not make economic sense in South Africa because the economy was not performing well. Those respondents also cited challenges of government corruption and wasteful spending as key hindrances to free HE. In another study, Badat (2015) made similar findings. Hlaka and Sefoka (2022) also noted that free HE could not be realised in South Africa due to the weak economy.

Theme 2: SETAs can play a complementary role to government funding

SETAs arose in South Africa because of section 9(1) of the Skills Development Act No. 97 of 1998, and the first SETAs came into operation on 1 April 2000 (Turner et al., 2013). The National Skills Development Plan 2030 has identified the reprioritisation of levy resources available to SETAs towards increasing enrolment and completion rates in occupations of high demand (DHET, 2019). During the interviews, I wanted to understand SETAs' role in mobilising funding for public universities. In the focus group interviews with DHET officials, one of the two deputy directors revealed that 'SETAs collect money from different sectors, and they use that money to pay entities that

champion certain learnerships'. Furthermore, the respondent was of the view that the SETAs also 'fund students directly'. The respondent was of the view that 'SETAs are seen to be ineffective because of policy shortfalls' but these were being addressed through the 'new National Skills Development Plan'.

The DHET director agreed that SETAs were often seen to be ineffective and that 'SETAs are currently just doing the bare minimum'. Furthermore, the respondent postulated that SETAs should target areas of 'critical skills for funding than just funding legacy programmes'. The second deputy director also agreed that 'SETAs should address critical skills in line with the skills gap in the country'. The second 'Final-year NSFAS-funded student' interviewee echoed that SETAs should expand their funding facilities. According to the first 'Final-year NSFAS-funded student' interviewee, SETAs 'play a significant role in mobilising funding for universities'.

The SRC interviewees considered that SETAs were addressing the gaps left by NSFAS funding. In fact, the first SRC interviewee was of the view that 'SETAs bridge the gap that is created by the NSFAS...' by including the missing middle students in funding. The view was that SETAs provide 'financial refuge for students neglected by NSFAS'. The third SRC interviewee also supported this view, seeing the SETAs' role 'as a substitute to students who are wrongly defunded or not considered by NSFAS'. Nevertheless, the second SRC interviewee was sceptical of SETA funding 'because some of them only make payments late in the year'. However, in the interview with the first 'Recently employed former NSFAS-funded student' respondent, the interviewee highlighted that SETAs 'only benefit the elite employers in terms of tax rebates'.

According to this interviewee, SETAs were only there for training purposes. This view contrasts with that of the second 'Recently employed former NSFAS funded student' respondent who saw SETAs' role as to 'allocate funding to public universities to support disadvantaged students through bursaries, scholarships or other financial assistance programmes'. The interviews with Finance officials provided evidence that SETAs played a dual role. As such, the first Finance official interviewee explicitly revealed by highlighting that 'the main function of SETAs is to contribute to skills development' but that 'if their funds were partnered appropriately with NSFAS funding', that could provide a holistic approach to student funding in South Africa. The second Finance official interviewee believed that SETAs already play a role 'in addressing the problem of the missing middle students...'. Nevertheless, the first interviewee from the Registrar's office noted that most of the SETA money was lost on administrative issues, such as payment of salaries for staff and renting of offices. The respondent was of the view that 'maybe a new SETA model' was required.

According to the second interviewee from the Registrar's office, the problem was not in SETAs 'but universities seem too busy on the academic project and other challenges' and were not paying 'much attention and support to SETA funding'. I agree with the first 'Final-year NSFAS funded student' that 'SETAs have a potential to play a significant role in mobilising funding for public universities' particularly if clear policy imperatives would place their focus on funding scarce skills programmes and the missing middle students. Chawula (2021) also suggested this.

Theme 3: Universities should diversify their funding sources by mobilising additional funds

I note that universities could never neglect their role in mobilising funding because a financially sustainable institution would effectively implement the academic project (Almagtome et al., 2019). The interviews with the two Finance officials revealed that universities should play an active role in the mobilisation of funding. According to the first Finance official interviewee, the universities' student financial aid offices should be more 'about mobilising funding, rather than just playing the role of administrator of funds received'. The second Finance official indicated that universities could mobilise funding by partnering with other stakeholders, 'particularly the private sector...'.

The first interviewee from the Registrar's office expressed an interesting view about the concept of a triple-helix model. The respondent described this concept as 'a triangular relationship between government, private sector and universities' where 'universities should focus on contract research that benefits government and society' as a way of universities mobilising funding. The SRC interviewees were emphatic in their view that universities should mobilise additional funding to supplement government funds. As the third SRC interviewee highlighted, 'universities should ensure that they mobilise funds that are going to assist all the students who are unfairly disadvantaged by NSFAS'. This implied that where NSFAS would be unable to assist, universities should step in and assist deserving needy students. The second SRC interviewee agreed that universities should ensure adequate resources were available to assist students from previously disadvantaged communities. In contrast, the first SRC interviewee highlighted the establishment of 'partnerships with local companies' to garner 'bursaries for needy students'.

The first 'Final-year NSFAS-funded student' respondent highlighted that universities can garner more funds 'by demonstrating the impact of their current initiatives and highlighting the areas where additional resources are needed'. The second 'Final-year NSFAS-funded student' interviewee highlighted that one area that needed additional funds was postgraduate studies. The majority of the interviewees were adamant that universities should mobilise funds to remain financially sustainable to support deserving needy students.

Theme 4: University financial sustainability should be the critical goal in a funding model

I asked interviewees to indicate through a yes or no response whether they thought financial sustainability was important for a university's funding model. Thereafter, I requested them to provide a reason for their responses. A realisation that financial sustainability was a crucial pillar in any funding model triggered these questions (Carlo et al., 2019). All the interviewees answered yes but gave varied reasons. According to the second 'Final-year NSFAS-funded student', a university's financial sustainability was critically important in the provision of financial support to the increasing number of students. The first 'Final-year NSFAS-funded student' interviewee believed that 'without financial sustainability, a university will not be able to maintain its operations and continue providing quality education to students'.

The first 'Recently employed former NSFAS-funded student' supported the preceding view. The respondent concurred that financial sustainability would give a university the capacity to run programmes because 'everything depend on monetary issues'. The second 'Recently employed former NSFAS-funded student' was rather explicit when indicating that 'financial sustainability ensures that a university can operate effectively and continue to provide education and research opportunities over the long term'. Similarly, the second interviewee from the Registrar's office agreed that financial sustainability was an integral factor in ensuring a university's growth and future. According to the first SRC interviewee, 'financial sustainability should be the main agenda for an institution of higher learning', while the second SRC interviewee was adamant that financial sustainability 'ensures students are able to focus on their academic studies without being stressed of financial issues'. The third SRC interviewee linked financial sustainability to a university's capacity to 'enhance access to the institution...' for students from poor backgrounds.

4. Discussion

The secondary data demonstrated that the majority of public universities in South Africa were highly dependent on government funding. Two universities (UCT and USB) had commercial income as the dominant funding source, whereas, four universities (Wits, Unisa, Walter Sisulu University and Durban University of Technology) highly depended on student fees. The dominance of students' fees has far-reaching implications considering the #FeesMustFall Movement's effect. Wits in particular has had running battles with students who complained about high student fees (Mavunga, 2019). The dominance of government funding supports the TCT perspective that an entity that aims to dominate in any contractual relationship should be prepared to pay high transaction costs (Yousuf, 2017).

It is apparent in the analysis of the MTEF for HE that the South African government was heavily subsidising public universities directly through the block grants and indirectly through NSFAS funding. The NSFAS appeared to be closing the gap when compared to the block grants. As Masutha and Motala (2023) illustrated, the NSFAS grew from about R11,8 billion in the 2016/17 financial period to R36,2 billion in the 2020/21 financial period. The secondary data from the MTEF puts the NSFAS figure at R41,3 billion for the 2026/27 financial year, while the block grants are envisaged to reach R44,6 billion.

Government funding's dominance has pushed South African public universities towards government's transformation agenda (Mbhalati, 2025). This aligns with the agency theory that universities who are heavily dependent on government funding (RDT perspective) are implicitly acting as government agents when they push themselves to achieve outcomes spelt out in the government funding framework. To wean themselves from overdependency on government funding, it would be important for South African universities to focus on improving their capacity to generate additional funding through other income streams. These may include university-initiated commercial ventures and commissioned research.

I note that the outcomes and inputs spelt out in the block grants funding framework align with the South African government's transformation agenda. Thus, the three theories (RDT, agency and TCT) intertwine when analysing the South African university funding framework. Nevertheless, government funding's dominance in the South African university funding model implies that the agency theory could be described as being more dominant, with the RDT and TCT being complementary theories. Even at the few universities (e.g. UCT, USB) where commercial income

supersedes government funding as the dominant funding source, they could not escape the RDT-agency-TCT dynamics. As observed in the secondary data analysis, USB had the lowest proportion of NSFAS-funded students, which attracted widespread complaints that this university was deliberately working against the government's transformation agenda.

In fact, Nordling (2022) cited a Kampepe Commission Report highlighting that Black students and staff accused USB management of subtle forms of racism. Although funding implicitly pushes public universities in South Africa towards the government's agenda, limited government financial resources implies that government cannot afford free HE. Thus, the interview data confirmed that free HE might be politically appealing but not economically achievable. The implication of this finding is that universities should diversify their funding sources to remain financially sustainable and avoid losing their autonomy when government dominance becomes explicit (Kimathi & Irungu, 2024). Nevertheless, there is no escape for universities from aligning with societal expectations because we cannot view HE as a private good in a country with a history of inequalities (Muellerleile & Lewis, 2019).

5. Conclusion and Recommendations

The findings presented in this paper have far-reaching implications for public universities and government policy-makers because they highlight that public universities, particularly in the context where there are still historical imbalances, would not be able to escape their agency role. Therefore, government should acknowledge that the appropriate way to entice universities to play some agency functions is by incurring transaction costs in the form of government funding. Similarly, public universities should diversify their funding sources to avoid being heavily dependent on a single dominant funding source. This aligns with the RDT perspective that external funding should be approached with caution to protect the recipient institution's autonomy (Arvidson & Linde, 2021; Pfeffer & Salancik, 1978).

Although interview data have shown that SETAs can play a role in university funding, there is evidence, as some interviewees cited, that, similar to NSFAS, they are riddled with administrative inefficiencies. University management could use this study's findings to assist government in developing an appropriate funding model for public universities in South Africa. University management could also use the findings to design and implement alternative funding strategies to avoid over-reliance on government funding, which may have potential to compromise their autonomy. Student formations such as SRCs can rely on this study's findings to understand the key drivers of university funding.

However, relying on historic data as presented in audited annual reports of the 26 universities constrains the study. With only 17 interviewees participating in the study, there are limitations regarding the findings' generalisability. Nonetheless, there is valuable insight emanating from the secondary data. The UCT and USB funding models, where commercial income supersedes government funding, seems to be viable provided that such institutions would not neglect their role in contributing to correcting past imbalances. Therefore, this study has shown that balancing university autonomy and agency role lies in the confluence of the RDT-agency-TCT theoretical paradigms. Researchers should investigate the reconfiguration of the South African university funding framework to avoid the situation whereby block grants, SETAs and the NSFAS are financed from the same government budget, thus making them compete for government allocations.

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