

Report on the evaluation of the Luxembourg School
of Finance (LSF) at the University of Luxembourg

Based on a peer review as commissioned by the Ministry of Higher Education
and Research of Luxembourg

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COMPANY INFORMATION

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I INTRODUCTION

The Ministry of Higher Education and Research (MESR) of Luxembourg mandated *Interface Policy Studies, Research, Consulting*, Switzerland, to organize and lead a research evaluation of the University of Luxembourg. Simultaneously, the Institutional Evaluation Programme (IEP) of the European University Association carried out an institutional evaluation of the University of Luxembourg. The results of the IEP evaluation are published in a separate report.

The research evaluation was conducted in 2016 and followed two earlier evaluations carried out in 2008 and 2012.

The University of Luxembourg has three Faculties with research units conducting research in different scientific disciplines. In addition, there are three interdisciplinary centres.¹ The evaluation focused on the research performance of the University research units and interdisciplinary centres. This report presents the evaluation of the Luxembourg School of Finance (LSF).

The observations and recommendations presented in this report are based on a peer review by the following three experts working in the research unit's research fields:

- Bruno Gerard, professor of finance at BI Norwegian Business School, Norway
- Thorsten Hens, professor of financial economics at the University of Zurich, Switzerland
- Ania Zalewska, professor of finance at the University of Bath, United Kingdom

The peer review consisted of a self-assessment report written by LSF and a hearing at the research unit that took place in September 2016. The evaluation assessed the period 2012 to 2015. The hearing, which was organized and moderated by Interface, consisted of a self-presentation by the research unit, a group discussion of the self-assessment report, and several individual and group interviews. These included interviews with representatives of the management team, professors, PhD candidates,² and further members of the research staff. Based on the experts' assessments, the report was finalized by Stefan Rieder and Zilla Roose of Interface. The report has been approved by the experts.

The overall results of all unit evaluations are summarized in a synthesis report.³ The synthesis report includes the findings from the interviews with representatives of the management team at the University of Luxembourg.

¹ The Interdisciplinary Centre for Contemporary and Digital History was established in 2016. It is not part of the evaluation, as the assessed period is 2012 to 2015.

² The University of Luxembourg calls its PhD students 'PhD candidates'.

³ Rieder, Stefan et al. (2017): Evaluation of the University of Luxembourg, Interface Policy Studies, Research, Consulting, Lucerne.

The report is divided into two parts: The first part discusses the expert team's observations gathered during the evaluation process. The focus is on the input, the output, and the outcome/impact of the research unit:

- *Input* includes the preconditions for the research conducted, such as strategies, financial and human resources, infrastructure, organization, and quality assurance systems.
- *Output* includes the performance of the research unit, exemplified through research results and their dissemination.
- *Outcome and impact* refer to the medium- and long-term effects as well as the relevance of the output on science, society, economy, and politics.

The second part presents the expert team's recommendations for further development of existing strengths and overcoming observed weaknesses.

The evaluation team would like to thank everyone involved for preparing and implementing the hearing at the LSF, for making the documentation available, and for participating in interviews.

2.1 OVERALL ASSESSMENT

The experts consider the LSF to be a promising research unit. It employs good and, as the experts stress, highly motivated researchers. The entire research unit is committed to the goal of becoming one of Europe's five leading finance institutes.

The LSF disposes of excellent infrastructure and is geographically well located in terms of establishing collaborations. However, the recruitment issues that the LSF has experienced in the last four years have strongly hampered the performance of the research unit. The LSF has recently defined several core areas on which it intends to focus both its scientific research and publication activity and its recruitment of new members.

The experts assess the quality and quantity of the output as appropriate, taking into consideration the size and past development of the LSF. However, to become a leading financial economics institute, the research performance of the unit needs to be improved.

2.2 INPUT

Specific remarks

The LSF, which was originally a pure teaching institute, was established in 2002, one year before the founding of the University of Luxembourg. Only three years later it was integrated into the University and affiliated with the Faculty of Law, Economics and Finance (FDEF). Subsequently, becoming a leading financial economics research institution became the second central aspect (after education) and a highly rated goal of the LSF.

After its integration into the FDEF, the LSF and its former head were assigned the mission to generate high quality research in finance and develop successful outreach to industry. In the following years, the LSF went through a build-up phase, during which the first recruitments were made and study programmes were set up. Unfortunately, over the evaluation period 2012–2015, the research unit was unable to meet its recruitment objective and hire as many high quality researchers as it had desired. In mid-2016, after the period under evaluation, the former head of the research unit stepped down, and a new leader took over.

Research strategy

The LSF formulated several strategic goals for the period under evaluation. The overarching aim was to become a leading finance department in Europe. To achieve this, the members of the research unit defined three goals: produce high quality research, run teaching programmes, and establish a reputation as a research unit with high outreach. In the opinion of the experts, the LSF has been able accomplish these goals only in part (see the following section, 'Human and financial resources, infrastructure, and equipment').

Human and financial resources, infrastructure, and equipment

On a general basis, the atmosphere within the research unit seems good. The research unit members in general, and PhD candidates and recently hired researchers in particular, seem highly motivated.

The experts assess the working conditions at the LSF as good and the wage level as appropriate. However, the absence of a tenure track career path and the lack of internal promotion opportunities with clear standards and criteria for postdocs and associate professors is a major obstacle to the successful growth of the research unit. The lack of internal promotion opportunities for successful postdocs is the most significant competitive disadvantage that the LSF faces in its efforts to attract and retain promising junior researchers. In the experts' opinion, the LSF should offer postdocs and associate professors a long-term professional career path.

In addition, the experts are of the opinion that the LSF should implement a more individualized reward scheme, in which the particular roles and responsibilities of the members of the research unit are taken into account. The rewards would not necessarily need to be financial in nature; other incentives can include reduced teaching load and promotion.

The experts are of the opinion that even though the research unit was able to hire some high quality researchers, the hiring targets set for the evaluation period were only partly met. This is due in part to miscommunication between the research unit, the University management, and stakeholders as well as other issues in the recruitment process (e.g. salary expectations, withdrawal of candidates). As a result, the growth in personnel is not in balance with the resources invested in the hiring process. Consequently, the experts observe that some of the goals that the LSF formulated in the past (research output and outreach in research) have not been achieved.

The experts note the very low number of women among the scientific staff. The lack of gender parity is an issue that concerns all research institutions in the area of finance, but the proportion of female scientific staff members at the LSF is lower than at other finance research institutions, in the opinion of the experts.

The infrastructure in terms of offices, location, and access to surrounding cooperation partners is good. Nevertheless, the experts observed that the University does not yet properly provide access to data sources considered standard for most reputable research and teaching institutions in finance. Some members of the research unit seem to have private access to data due to former affiliations; others have to rely on the access of their co-authors; most have no direct access to standard datasets. This is not a suitable situation. The access to data is not only crucial to generate top quality and publishable research but also for recruiting and for teaching, especially if the LSF wants to develop further training programmes to satisfy industry needs.

Organization

Initially, the organization of the LSF was structured top-down, which gave the main decision-making competence to the head of the research unit. The experts find that this organizational form has not brought about the hoped-for success. In contrast to earlier

years, the new head of the LSF was elected to the position, and further roles, such as research director, were created. The members of the research unit expressed the opinion that the new organization has improved collegiality within the LSF in the recent past. In the opinion of the experts, it was a very good decision to give the research unit a second chance instead of transforming it into an interdisciplinary centre.

The detailed organization of the research unit and how it has been put into practice did not become fully clear to the experts. The organizational chart did not clarify this issue, as it did not show explicitly the daily business procedures in the individual responsibilities. It would be helpful in this context to develop a more detailed overview of the organizational structure.

Further, the allocation of administrative and research tasks between senior and junior members was not completely transparent and may have hampered the productivity of the research unit. The experts are of the opinion that a clear assignment of tasks and roles to the members would allow for effective operation of the research unit.

External research collaborations

The experts were uncertain about the relation between the LSF and other research units, such as the Centre for Research in Economics and Management (CREA) and Mathematics Research Unit (RMATH). Although some researchers reported close and satisfying collaborations with these two units, at the senior level of the LSF such collaborations do not seem to exist. The experts are nevertheless of the opinion that several promising opportunities for collaboration exist with the CREA, RMATH, and further research units.

Quality assurance system

The experts strongly believe that a clear definition of the metrics used to assess success in reaching the research unit's objectives is lacking. The experts encourage the LSF to define these metrics and to allow the unit members to check on their own progress.

2.3 OUTPUT

In the experts' view, the quality of research output in financial research is highly correlated with publication in the top three finance or the top five economic journals.⁴ Using this criterion, the experts assessed the output of the LSF as follows:

The quantity and quality of research at the LSF has improved within the last few years. The research output is in line with the output from other research institutions of comparable size and stage of development. However, if the research unit strives to become one of the leading institutes in financial research, it will have to improve both the quality and quantity of its research output.

Concerning top ranked publications, the research unit members had five 'A' publications during the evaluation period. However, some of these papers were started and substantially completed before the authors joined the LSF. Only one of the 'A' publications was initiated, completed, and published while the author was associated solely with the LSF.

The PhD programme was established in 2009. The structure of the programme was subsequently reorganized within the Doctoral School in Economics and Finance in 2012. The experts find the organization of the new PhD programme comparable to other high quality programmes in Europe. The PhD candidates seem highly motivated and strive for a broad education. Nevertheless, even though the establishment of the Doctoral School has brought some favourable changes to the research unit, an evaluation of the results of these programmes is not yet fully possible. This is because success of a PhD programme in finance should be measured by the percentage of programme graduates who then obtain academic research positions. Based on the figures provided during the hearing, only two of the eight recent PhD graduates completed their doctorate under the new PhD programme structure, whereas the other six completed the degree under the initial programme structure. The graduates of the new programme have been hired in academic positions, but the six graduates of the old programme left academia.

As far as the former PhD programme is concerned, the experts find the proportion of PhD graduates who stayed in academia too low. However, the experts view a higher rate of academic appointments under the new programme as a positive development.

Successful recruiting of top candidates for a PhD programme requires stable and clear funding of the PhD positions. Up to now, the PhD programme has been funded through various sources that do not seem to be sufficient for stable and sustainable PhD recruitment. The experts encourage the LSF to seek other financing arrangements for the doctoral programme.

⁴ In finance the journals are: (1) *Journal of Finance*; (2) *Journal of Financial Economics*, and (3) *Review of Financial Studies*. In economics the journals are: (1) *American Economic Review*; (2) *Journal of Political Economy*, (3) *Econometrica*, (4) *The Quarterly Journal of Economics*, and (5) *Review of Economic Studies*. Publications in these journals were the only finance and economics research output that the *Financial Times* considered in its original ranking of finance departments and Master of Science programmes. Since May 2016, one more finance journal has been added to the list: (4) *Review of Finance*.

In terms of teaching, the experts state that the research unit delivers academic programmes and professional training that fit the demands of industry. The two professional training programmes seem to be very successful in terms of providing their graduates with the professional skills sought for by the local job market. Given the current level of staffing, it seems unreasonable to expect the research unit to teach more programmes while maintaining or improving the research output and the quality of their other academic programmes.

From the budget figures reported, it seems that in the period under evaluation the research unit did not seek the level of third party funding that the experts would have expected. During the hearing, it became clear that the research unit is in the process of remedying this weakness. A submission of a PEARL proposal⁵ to the National Research Fund (FNR) is currently expected and seen as a good starting point for improving the situation.

2.4 OUTCOME AND IMPACT

The experts state that several individual LSF researchers have a very good reputation within the financial research community. However, the good reputation of these individual members has not yet translated into an equivalent reputation of the research unit as a whole for high quality, not in the international scientific community and not among its local stakeholders. Therefore, substantial improvements are necessary in order for the LSF to become one of the top five research units in Europe, as formulated in the self-assessment report. The experts expect the reputation of the LSF to improve, as the research unit will be able to hire and retain qualified staff. Furthermore, the production of high quality research output ('A' publications) by the researchers employed at the research unit is necessary to reach the ambitious goals regarding scientific reputation.

According to the experts, the LSF delivers high quality educational services to the financial community of Luxembourg in terms of both professional training and high quality practitioner conferences. Nevertheless, the image of the LSF is not that of a research unit providing knowledge to the national finance industry. The experts are of the opinion that the research unit has not yet been able to communicate fully to stakeholders its contribution to the local financial community. Recently, the LSF has undertaken efforts to draw more attention to its service to the Luxembourgish society.

⁵ The PEARL programme is directed at public research institutions in Luxembourg and leading research professionals abroad. The goals of the programme are to recruit internationally leading researchers with outstanding track records and thereby to strengthen the research areas that are of strategic importance to Luxembourg. PEARL projects have a lifespan of five years with a financial contribution of between three to four million euros by the FNR (see <www.fnr.lu>).

2.5 STRATEGY FOR THE FUTURE

As mentioned above in the section ‘Research strategy’, the strategy of the LSF during the evaluation period was poorly formulated, and it failed in part. The recruitment of new staff could not be completed. Therefore, it was also difficult to deliver the intended increase in output and outreach that would have been necessary to meet the expectations of the local stakeholders. Consequently, the existing and the future research fields were revised and newly defined. Together with the rector’s office of the University of Luxembourg, the management of the LSF identified six core research areas⁶ for the future. In addition, resource planning for the recruitment of up to eight additional researchers (professors and junior researchers) was carried out, and an initiative for the introduction of a tenure track system in the revisited law of the University was formulated.

The experts acknowledge this effort and encourage the LSF to develop a more detailed and concrete strategy for the research unit, with explicit goals and benchmarks for success as well as metrics for assessment. The ranking of the PhD programme by the *Financial Times* and the ranking of the research unit in the top five by a reputable external ranking body are examples of short- and long-term goals striven for by the LSF. The implementation of the strategy gives the LSF a chance to improve its visibility in research and its outreach to the local economy. The personnel are highly motivated to engage in this, and the Faculty and the rector’s office have assured their support. The experts encourage the stakeholders to pursue this further. During implementation of the new strategy, the LSF should consider formulating a clear communication strategy and establishing means for the LSF to interact regularly with its stakeholders. An advisory board including representatives of the major stakeholders and senior members of the LSF could be one such way to ensure interaction. Joint projects with local industry may also help to improve the outreach of LSF. Joint projects are most successful when the results are disseminated in multiple papers addressing different stakeholders, through research publications for scientific purposes and practice-oriented publications for industry partners.

The approach outlined in the paragraph just above is not without risk. The scientific output is highly dependent on successfully motivating current staff and on the outcomes of the recruitment process. Only with a good mixture of experienced and young researchers will it be possible to work on the six diverse research areas mentioned above. For example, for the research stream Fintech, the research unit could consider hiring a researcher with fewer publications and allowing the researcher to build up this area. Whether a high quality researcher can be hired remains uncertain in the light of the current lack of tenure track.

Furthermore, the priorities of research and education need to be clarified. It is not clear whether the LSF has decided to be a research unit that also provides services or to be a training department that also carries out research.

⁶ (1) Asset Management/Alternative Investments, (2) Banking and Corporate Finance, (3) Risk Management and Financial Stability, (4) Law and Finance, (5) Wealth Management/Household Finance, (6) Finance & Technology (FinTech).

3.1 SUMMARY

The LSF's overarching aim is to become a leading finance department in Europe. Therefore, its goal has been to focus on producing high quality research, running teaching programmes, and establishing a reputation as a research unit with successful outreach to the business community. In the opinion of the experts, the LSF has accomplished these goals only partly, mainly due to problems in hiring new permanent staff.

The experts assess the available infrastructure of the LSF as very good. In addition, its location is in a promising environment for external collaboration. The research unit currently employs both highly motivated young researchers and established researchers. However, the limitation of non-permanent contracts to five years and the lack of a tenure track hinder the hiring and retaining of high profile researchers.

In consideration of its size and history, the quality and quantity of the LSF's research output is comparable to other research units at the same level of development. However, the experts stress that if the LSF is to become a leading finance institute, the output will have to increase in terms of quality and quantity.

Regarding outreach and impact, the assessment of the experts is twofold: First, they praise existing collaborations with industry but clearly stress that there is room for improvement. Second, the LSF does not yet sufficiently communicate its achievements and fruitful ongoing collaborations.

Overall, the experts acknowledge the efforts made by the research unit to start development of a future strategy. They consider the future performance of the research unit as highly dependent on the successful recruitment of highly qualified researchers.

3.2 RECOMMENDATIONS

Based on the observations stated above, the expert team formulates the following recommendations for the research unit, the University, and the MESR:

Recommendation 1: Develop a new strategy, including a team-building process

The experts encourage the LSF to initiate a process to revise and update the research unit's strategy, with clear goals and explicit success criteria. The new strategy should be based on the new research areas that have been defined. Within this process, it is also important to develop a team spirit and to agree on an appropriate division of labour, in which team members are assigned roles in order to prevent conflicts and guarantee efficient processes. The experts furthermore recommend establishing an advisory board to support the development of the strategy. The board should include representatives of the research unit and stakeholders from outside the University (e.g. from industry, public sector, regulators).

Recommendation 2: Promote a tenure track system and incentives for excellent performance

In the opinion of the experts, successful professional development of existing staff or recruitment of new staff is an integral part of the implementation of any new strategy. The establishment of a tenure track system is a prerequisite for the success of this process. The experts recommend that the University and the Ministry promote the introduction of a tenure track system in the revision of the University law. In addition, the experts recommend that the University and the Faculty introduce an incentive system that allows for rewards for excellent performance (e.g. in publishing or acquiring third party funding). This would support the recruitment of new staff and work as an incentive for output of high quality among current staff.

Recommendation 3: Improve access to standard databases

The experts stress that access to standard databases is an essential precondition for successful research and teaching in finance. In this respect, the situation at the LSF is very unsatisfactory, as only some staff members have access to the standard databases – indirectly through co-authors or their former affiliations. To secure the success of the future research and recruitment strategies, access to standard databases should be established as soon as possible.

Recommendation 4: Reflect upon interdisciplinary collaboration

Within the scope of the hearing, the experts were given conflicting information on the collaboration between the LSF and other research units of the University (e.g. CREA, RMATH). Members of the management team of LSF argued that the collaboration was difficult because of the small overlap between the research areas of the LSF and the other research units and the physical distance between the facilities. Other members of the LSF reported successful collaborations and are in favour of strengthening these. It is difficult for the experts to estimate the potential of such interdisciplinary collaborations. Nevertheless, they recommend reflecting upon synergies and interdisciplinary projects with other research units when developing the strategy as per Recommendation 1 above.

Recommendation 5: Finance PhD projects with profits from executive education

In general, the (professional) master's degree courses in finance are very profitable. The experts recommend that some of the profits from these programmes run by the research unit be used to provide stable financing for PhD projects.