Changing University Governance Dynamics through Interplays and Convergences with Corporate Governance

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Abstract

Both explicit and implicit pressures on the public funded universities have been increasing to mobilize financial resources in order to remain competitive. The current theoretical paper addresses the following research objectives- first, how the existing governance structure of universities is responding to, or prepared to respond to need to mobilize financial resources; and second, whether the university governance and corporate governance are converging. The current paper has made two contributions to the body of knowledge; first, it helps to understand the dynamics of governance in the institutions of higher education system in the wake of changing institutional settings through the lenses of various theoretical underpinnings, which are complementary and conflicting at the same time; and second, it helps to explore understanding of convergences and divergences between university governance and corporate governance systems.

Keywords: *university governance, corporate governance, agency theory, resource-dependence theory.*

1. Introduction

Governance is a process involving leadership and management. Unsurprisingly the ambit of governance is very vast, vague, complex and dynamic, due to the fact the nature and structure of organizations have become more and more complex over time. A governance structure, either formal or informal, allows various social, political, economic, and institutional actors to create, organize, communicate and implement their mutual commitments [1]. The notion of governance underscores *power and authority* vesting in the hands of those, who are entitled to use it [2]. In the organizational context, *the power to exercise the authority* vests in the hands of leadership and management and it aims to achieve the resource allocation and management efficiencies through actions and interactions of various sets of policies and procedures involving monitoring, control, accountability, decision-making, performance evaluation and reviewing [3].

For every type of organization, be it public or private, for-profit or non-profit, governance plays an important role right from its inception to operations to planning to strategic decision making, and so on. The role of governance is even more pivotal in the context of public sector organizations, especially when they are experiencing rapid transformation and structural changes [3]. Noticeably, the public organizations, in order to fulfill their broad range of missions, may face the daunting task of maintaining, and even enhancing the quality of their governance standards/practices, distribution of functions, monitoring, reducing and/or resolving conflicts to continue to remain

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socially legitimate and efficient and, therefore, serve the interests of their various stakeholders, including the resource providers.

Across the world, the public universities have been experiencing major structural changes; one of the key change is the adoption of the policies requiring public universities to become ‘enterprises’. This development implies that the public universities, on the one hand, continue to explore and innovate more services and improve the quality of existing services that they can offer to their current and potential clients and at the same time generate revenue through such services [4, 5]. Rising competition in the education sector in many countries is due to the emergence of private institutions/universities, both national and foreign, reduction in the government financial/non-financial support and making the state funding contingent to the performance of public universities. However, this phenomenon was missing until recently in many countries due to near monopoly of the state in the education sector in general. In other words, the current policy developments require public universities to increase their *product portfolios* and improve their quality in order generate significant commercial revenue, which in turn will determine their future growth. Undoubtedly, the core elements of intelligence and knowledge creation, development, and transmission as well as critical inquiry exist; however, their nature and objectives are being redesigned through new entrepreneurial parameters. Indeed, the public universities are getting required by the state to upscale and diversify their activities in order to attract, generate and augment income from the corporate sector, reduce expenditure, increase efficiency and become more competitive. Thus, universities are nearing corporates, for example, with respect to their nature, missions, objectives, staffing, ownership and control. Another important characteristic of on-going public universities restructuring is the adoption of performance culture, which has strong commercial orientation [5, 6, 7].

While receiving little attention from commentators, public universities are now carrying significantly more business risk than hitherto as the trend of increased reliance on non-government income is unprecedented [8]. The impact of macro-economic changes is not only restricted to business corporates but also transmitting to other public institutions, including universities. This implies that similar to the corporations, the universities are exposed to both the unsystematic risks (internal risks, for example, weaker monitoring, and control and poor decision-making) and the systematic risks (external risks, for example, increasing inflation, interest rates and fiscal deficit). Increasing competition, and regulatory requirements coupled with their changing dynamics and rising share of performance based state funding have increased the business risks of universities manifold. Many Australian universities have become heavily reliant on international students revenue generated from the students studying in Australia, at overseas campuses, through distance education or at partner providers [9, 10]. At some regional universities, there is a heavy reliance on revenue derived from the private partners, who operate their campuses in major capital cities, including the major Australian capitals. The ‘business’ of international student income has now elevated Australia’s universities to be among the top export earning sectors in Australia. This development has imposed increased external scrutiny on the university sector such as has been experienced in respect to protests by certain international students over personal safety and security issues in Melbourne and Sydney and in relation to particular concerns about the quality of education provided by certain private colleges [11, 12, 13]. Notably, the concept of corporate managerialism is featuring on the key agendas of the public universities to the extent that future funding of such universities by the state, for example in Finland, will commensurate with revenue generated through corporate collaborations, among other things [14].

2. Existing Theoretical Underpinnings of University Governance

2.1 Corporate Managerialism and Enterprise Governance Framework

The starting point of the integrated governance framework is the enterprise governance. Enterprise governance is a comprehensive framework that encompasses every aspect pertaining to an organization [15]. As given in Figure 1 the scope of enterprise governance is inclusive of business governance, corporate governance, value creation, and resource utilization and accountability, and assurance. The enterprise governance framework, reproduced in governance – encompassing both performance and conformance.

As shown in Figure 1, conformance is the hallmark of corporate governance and it outs explicit emphasis on accountability and assurance, whereas performance is element of business governance that focuses on strategy, value creation and resource utilization [5]. Nonetheless, both corporate, and business governance do not fail to intersect as the optimum strategy, value creation, and resource utilization cannot be achieved without optimum conformance arising as a result of an efficient system of internal, and external controls. Similarly, accountability and assurance standards followed by an organization are markedly affected by its business governance, as successfully performing organizations usually have of the sound system of corporate governance.

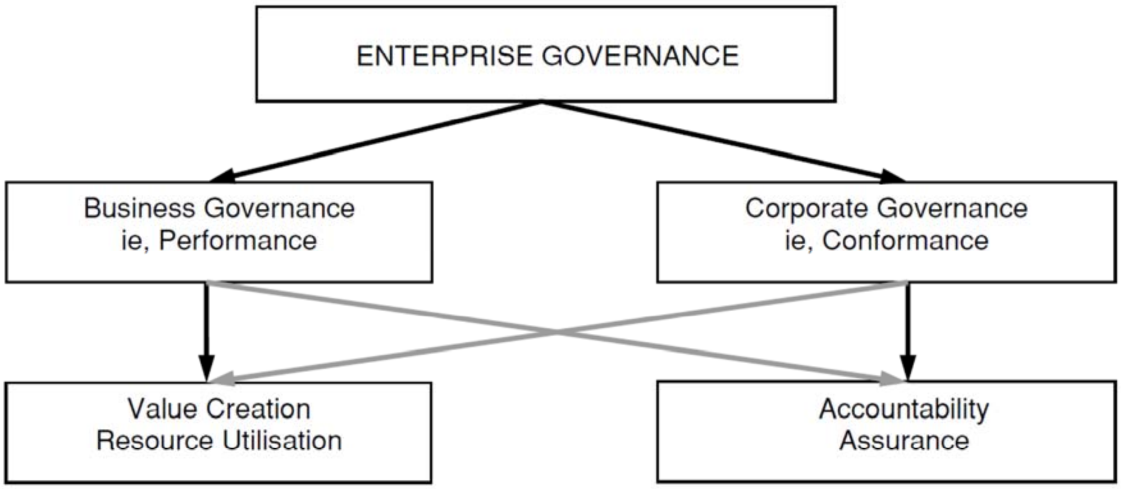

Figure 1. The Enterprise Governance Framework [15]

However, above-mentioned framework finds limited applicability in the context of higher education institutions (HEI) because of its strong inclination towards commercial approach. In order to make the enterprise governance framework meaningful in the realm of HEI the concept of academic governance requires special attention as well deeper inquiry.

2.2 The ABC Model of University Governance

The essence of academic governance is *the scholarship* that the HEI are supposed to support, create and promote. The perceptions and processes related to the scholarship can be different in different HEIs; nonetheless, the scholarship still assumes the paramount importance [5]. Academic governance includes various dimensions pertaining to control, monitoring, assurances, accountability, and disclosures related to teaching, learning activities, and environment, research activities and contribution of HEIs to the society.

As given in the Figure 2, ABC denotes three types of governances-Academic, Business and Corporate, and when three are combined Integrated Governance framework of university/HEI can be formed. The integrated governance framework also consists of business governance and corporate governance. Fundamentally, the integrated governance framework depicts the institutional settings of the HEIs. The concept of business governance assumes an important place in the overall integrated governance framework as modern day HEIs, in general, have been experiencing increasing commercial inclination. Traditionally, financial performance has been reckoned as one among the several parameters of performance; however, amidst a situation in which there is disproportionately larger emphasis on commercial activities, the role of financial performance measures has tremendously increased. Owing to the unprecedented pressure on the modern day HEIs to shift their focus on revenue generating activities and achieving the financial bottom-line results, the issues pertaining to resource utilization and risk management have become important dimensions business governance of HEIs. However, it is very important to understand that despite mounting pressure on HEIs, nowadays, to generate revenue and achieve commercial success the notion of business governance in the HEIs is not same as in the context of typical commercial organizations. The stakeholders, including students (current, prospective and past), employees, government, partners, and the wider community and the scholarship orientation are the cornerstones that differentiate the concept of business governance in case of a HEI from that of a 'for-profit' entity [5].

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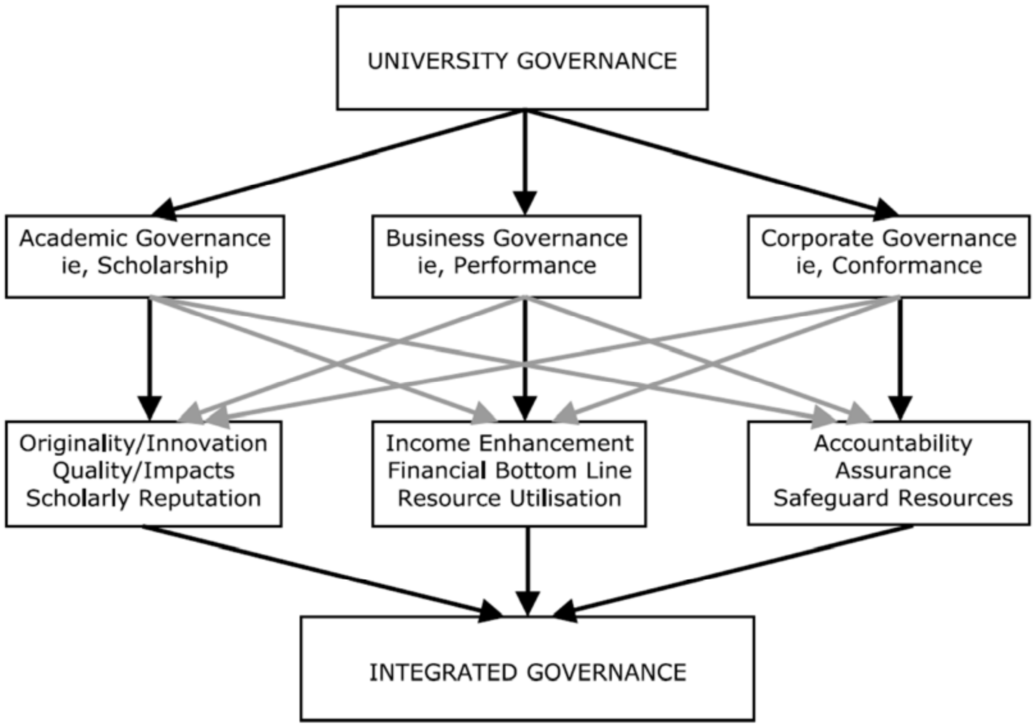

Figure 2. The ABC of University Governance Framework [15]

Corporate governance, which denotes the conformance framework including internal and external control mechanisms, monitoring of actions, accountability system, and disclosures and reporting of an organization, plays a pivotal role in the HEI governance too. However, as in case of business governance, the concept of corporate governance and its applicability with respect to HEIs are not same when compared with those in the context of purely commercial organizations. When studying from the point of view of commercial organizations, corporate governance generally include comprehensiveness and quality of financial reporting and related disclosures, monitoring and control mechanisms, protection of shareholders and other stakeholders, nature and composition of board of directors, executive remuneration and other mechanisms of enhancing accountability. On the other hand, corporate governance, when studied from the HEIs perspective, signifies a system of accountabilities, evaluations, quality assurances and controls; protection, and rational utilization of organizational resources; and protection, rights, and responsibilities related to intellectual property rights (IPRs), among others. The integrated governance framework, as depicted in Figure 2, highlight three core pillars of HEI governance, namely scholarship, performance and conformance representing three distinct but at the same time interactive types of governance-academic, business and corporate, respectively.

The high (low) level of 'scholarship' can increase (decrease) revenue, and at the same time reflect high (low) standards of accountability; the HEIs demonstrating high (low) level of 'performance' are expected to produce high (low) level of original, and innovation based scholarship and maintain high (low) standards of conformance; and similarly, high (low) standards of 'conformance' can influence the HEIs to become successful (unsuccessful) in promoting original, and innovation based scholarship and enhancing their revenue. For example, an HEI that follows in-depth system of conformance that requires performance evaluation of the faculty members is more likely to raise its teaching, research standards and attract high quality teachers and researchers. Resultantly, such HEI will motivate existing students to continue their studies, and potential students to seek admission to it, which will increase its revenue (fees/research funding/financial support by the state).

3. Convergence of University Governance and Corporate Governance

3.1 Complexity Theory and Educational Governance

Educational governance usually tends to be complex rather than complicated and its solutions are not necessarily replicable and transferable [16]. However, educational initiatives often attempt to dwell in the realm of the complicated when in fact they are operating in the realm of the complex [17]. This means that problems are often solved by experts launching a solution they believe is whole, complete, widely replicable and easily actionable. However, complex problems cannot be captured with such linear approaches. [17, 18]

Educational governance thus requires an approach that allows for changing initial conditions, the emergence of non-mechanistic phenomena and flexibility. Above all, it must allow for the fact that reductionism will not work – there will be no single right answer, no single approach that holds the key to successful implementation. Flexibility and feedback are necessary to manage successfully in a complex system, but doing so requires a fundamental reframing of the way we look at common problems in educational governance. Policies must move from one-size fits all solutions to iterative processes derived from constant feedback between all stakeholders and the barriers between design and implementation should collapse. The whole undertake becomes process-driven rather than outcome-driven. This requires strong leadership at all levels, and focusing on the complex interactions of the actors within educational systems, creating a broader view of educational systems as holistic organisms. It will also require an approach that allows key issues to be identified within complex systems so that the nature of educational systems does not lead to systemic paralysis and to the temptation of oversimplification. Viewing governance issues in isolation and seeking reductionist approaches targeting specific policy areas or pedagogical changes is unlikely to yield positive, sustainable change on a large scale. To be effective in a complex realm requires a fuller understanding of complexity itself. [16]

In a survey based study conducted in May-June 2013 covering 140 respondents including directors of R&D, vice rectors, deans, heads of departments, and research services and industrial liaison officers affiliated to research universities and universities of applied sciences in Finland very interesting and conflicting results were found [14] On the one hand, based on questionnaire, an overwhelming majority of the respondents did not consider corporate collaboration adversely affecting their institutions' *business as usual* related to educational or research activities. This can be attributed to the fact that there is an increasing interest in commercialization of intellectual property rights (IPRs), principally created by the research universities; whereas, the Finnish universities of applied sciences are more oriented to develop two-way processes of collaboration, open innovation and joint knowledge creation with corporates. However, on the other hand, when analyzing responses to *the open questions* asked in the survey, the results are certainly not indicative of painless university-corporate collaborations. Among several bottlenecks that do not permit the university-corporate collaborations to become *optimal* are, for example, first, underdeveloped collaboration structures that allows unequal bargaining strength of counterparties; second, contingency of collaboration to specific activities that limit the size of collaborations; and third, the sub-optimality of funding structures that may jeopardize the principle of fairness, therefore, demotivating one or both counterparties. Above study further finds that universities of applied sciences often experience the paucity of time and financial resources, and it can be conjectured that this phenomenon may have been caused by the fact that both types of universities are at the different stages in terms of their collaborations with the corporate sector. However, the Finnish universities are a heterogeneous group of institutions in terms of corporate linkages [14]

3.2 Agency Theory

Agency relationship defines a contract as one or more persons (the principal) engages another person (the agent) to perform some service on their behalf, delegating some decision making authority to the agent [19] As highlighted in the Figure 3, the agency theory considers 'the principals' as the shareholder and 'the agents' as the Chief Executive Officer (CEO) and other senior executives. In a similar vein, several aspects of the agency theory can be applicable to the university governance too. In a typical university set-up 'the principal' may include government, including other public institutions, both financial, and non-financial institutions; similarly 'the agent' may include rectors, deans and other senior executives. If the principal and the agent are utility maximizers, there is a possibility that the utility function (needs, preferences, interests etc.) of the agent will not be the same as that of the principal. For example, the principal may be interested in the long-term growth of the organization, whereas, the agent may be more interested in achieving of the short-term performance goals in order to claim personal benefits, such as performance-based

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remuneration. The loss arising due to the above-mentioned divergences of the utility functions of the principal and the agent is known as the agency cost [20]. The principal can limit divergences of utility functions and the resultant agency costs by two ways. First, by establishing an appropriate system of monitoring the inputs (actions) and outputs (performance) of the agent incentives for the agent. The input monitoring can be done, for example, by internal audit, and controls and disclosures; whereas, the output monitoring can be done, for example, by benchmarking organization's performance against the specific competitors, national/international university ranking tables, and other recognitions conferred by the external accreditation bodies such as the European Foundation for Management Development (EFMD). Second, by establishing an appropriate system of incentives for the agent (bonding costs) in order to align the interests of the principals to those of the agent. Nonetheless, the agent has the information advantages (asymmetry) over all other stakeholders in an organization and this *residual power* places him/her at an advantageous position [21]. In smaller organizations, where ownership, and control divergences are smaller, lower agency costs are expected. On the other hand, in larger organizations above-mentioned divergences are usually significant; therefore, one may expect higher level of agency costs in such organizations.

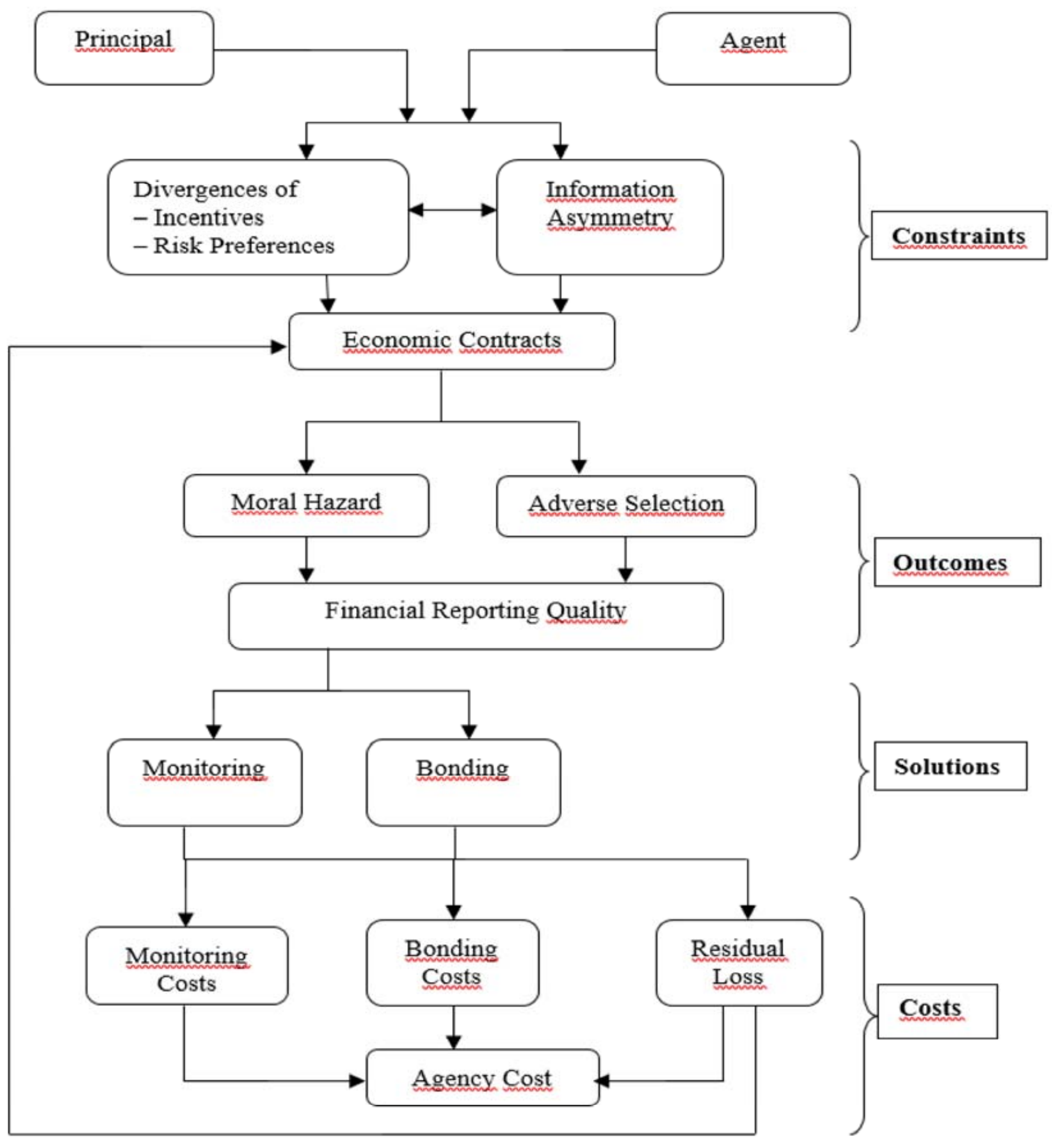

Figure 3. Agency Theory Framework (modified by authors)

3.3 Resource-dependence Theory

According to the resource dependence theory, a resource is anything that can enhance value of an organization [22]. Board leadership is one of the most significant resource of any organization. Pfeffer and Salancik (1978) have cited the following types of contributions that board leadership can make to the organization they are affiliated to [23]:

(i) Advice and Counsel: Professionals such as lawyers, accountants, senior managers of other organizations, current/former government officials, and community leaders serving on the board of an organization contribute valuable expertise, experience, and skills to it [24].

(ii) Legitimacy: The high level as well as diversity of skills, knowledge, experiences and external linkages of directors provide legitimacy to the action of an organization [25].

(iii) Communication Channels: An organization having effective channels of communication with other organizations is likely to be relative successful in, first, obtaining timely and valuable information, and second, developing cooperation. These communication channels help to develop shared resources, which further help to minimize transaction costs that the organization incurs when operating amidst various uncertainties [26, 27].

An organization, when appointing agents and other board-level directors, who also serve on boards of other organizations, must consider whether they bring resources to it in the form of both, human capital (education, experience, expertise, skills) and relational capital (network of ties to other firms, external environment and external contingencies). The sum of human and relational capital of such *intelligentsia* of an organization as *reputational capital* [28, 29]. The modern day universities function in relatively uncertain environment and at the same time experience complexities in terms of their operations, and organizational structures; therefore, by recruiting directors and senior executives, both having high level of reputational capital, the universities may experience improvements in several aspects, for example those related to their policy, planning, strategy, operations, and decision making. One can be argue that *reputation begets reputation,* which implies that once a university is having its leadership possessing high level reputational capital, it may witness an escalation in its resource base, brand name, and overall image in academia; and as a result of the above, the talent-inflows to it may accumulate in the future, as such organization becomes the preferred future employer of the people endowed with exceptional skills, and qualities [28, 29]. High level of reputational capital of directors of an organization act as a stimulus to other job seekers, and it can be interpreted that university directors having high reputational capital display higher order of professional conduct, for example, attending the board meetings. Such behavior may be, first, out of fear of losing their *hard-earned* reputation in case such directors do not lead by example, and second, they want to consolidate their reputational capital further. The nature of the strategic contingencies that an organization observe or factors that affect its operations, planning, decision making and even its survival as important determinants of its board composition. The essence of strategic contingencies or other related aspects is the uncertainty. An organization that operates in a highly uncertain business environment can justify is actions if it has rich resource base comprising of directors carrying high reputational capital [28]. Directors owning high level of reputational capital play a pivotal role in rescuing the organization when it is struggling with impending bankruptcy, as such directors not only thwart looming bankruptcy situations but also implement the effective restructuring process by capitalizing their reputational capital so that such adverse situation do not arise in the future. Increasingly, the performance of public universities is measured and evaluated in calculative terms, especially in financial terms. In line with New Public Management (NPM) philosophies, Australian universities are required to use full accrual accounting in the determination of their periodic financial performance and financial position [30]. The classification of directors as per agency, and resource-dependence theory are given in Figure 4.

4. Conclusions

The current theoretical paper addresses the issue of the preparedness of the existing governance structure of universities in response to the ever-increasing pressure to mobilize financial resources and whether due to this pressure the university governance and corporate governance are converging. The public universities have been experiencing major structural changes in the form of the policies requiring public universities to become ‘enterprises’. The current policy developments require public universities to increase their product portfolios and improve their quality in order enhance their revenue and promote the future growth. The is also mounting pressure

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on the public universities to upscale and diversify their activities in order to attract, generate and augment income from the corporate sector, reduce expenditure, increase efficiency and become more competitive. Thus, the governance structure of universities and corporates are converging. Furthermore, in the wake of public universities restructuring process the performance culture of the universities is tilting in favor financial key performance indicators (KPIs). Overall, the current paper has made two contributions to the body of knowledge, first, it helps to understand the dynamics of governance in the institutions of higher education system in the wake of changing institutional settings through the lenses of various theoretical underpinnings and arguments, which are complementary and conflicting at the same time; and second, the current paper helps to explore understanding of convergences and divergences between university governance and corporate governance.

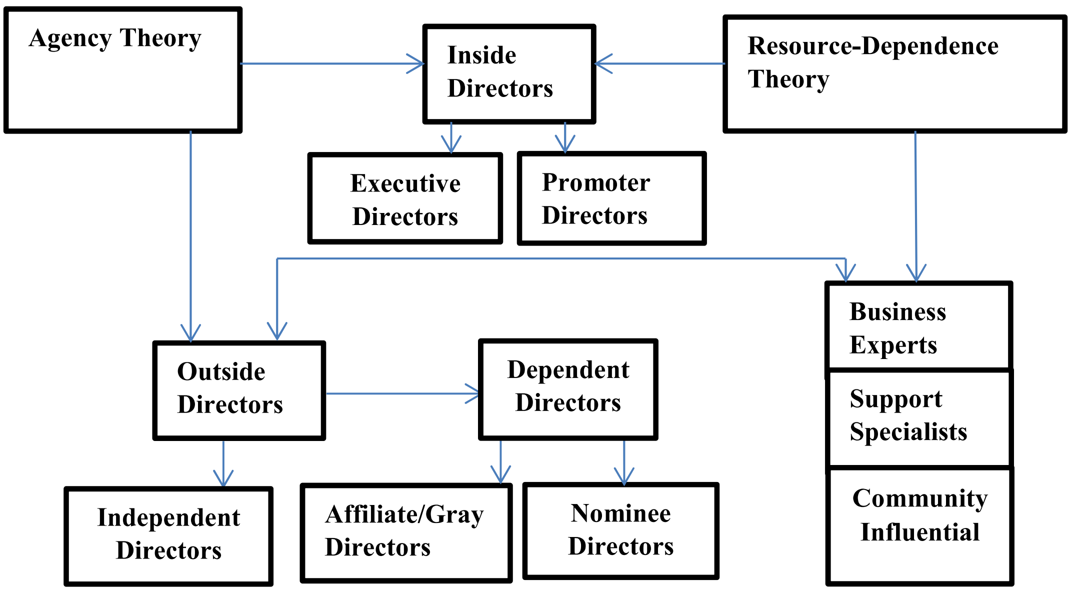

Fig 4. Classification of directors based on agency theory and resource dependence theory (modified by authors)

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