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A model for corporate governance, decision-making, and accountability in today's universities

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Keywords

Model, for, Corporate, Governance, Decision, making, Accountability, Today, Universities

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A Model for Corporate Governance, Decision-making, and Accountability in Today's Universities

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The government's goal over the past decade of increased self-reliance has required universities to adopt the corporate mantle of governance consistent with that used in the private sector. The corporatisation of the university sector brought with it a unique set of problems to which senior university management had not previously been exposed. The solution to some of these problems includes developing governance systems to guide strategic decision-making based on well-developed ethical principles. This paper suggests such an approach to governance based on contemporary management and ethical foundations. In this model governance is depicted as an achievement of thinking across four levels, each building on the one below, providing governance through appropriate delegation and empowerment.

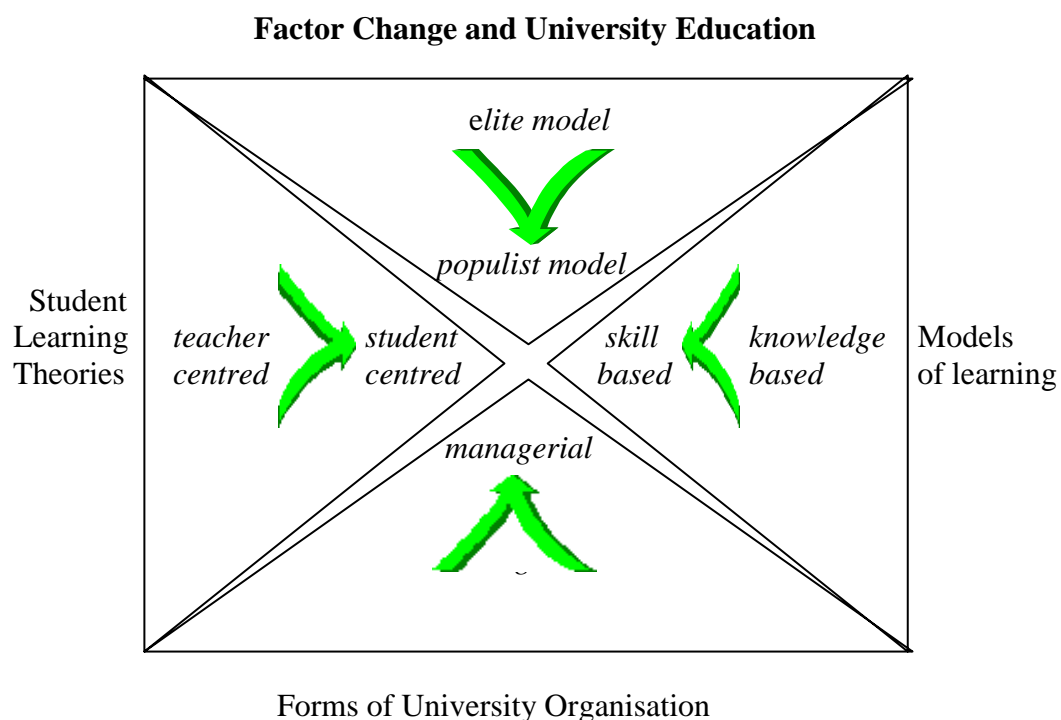
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A Model for Corporate Governance, Decision-making, and Accountability in Today's Universities

Introduction

The restructuring of the Australian higher education sector, commencing with the White Paper in 1988 (Dawkins, 1988) and the introduction of the Unified National System of higher education in 1989 forever changed the face of governance in universities from collegial to managerial (Harrold, 1991; Meek, 1995; Watts, 1996; Marginson, 1997). However, as Meek (1995) points out the imperative for a managerial approach to higher education governance was not the overnight acceptance of economic rationalism, but the culmination of a number of factors. Such factors included: the transition from an 'elite' to a 'mass' system of higher education along with its subsequent growth; transition from a teacher-centred to a student-centred system; perceived inefficiencies within the higher education sector; and government economic priorities. See Figure 1.

Figure 1



By the mid-1980s participation in higher education was starting to increase dramatically, raising questions about its efficiency and effectiveness. This culminated in Commonwealth Tertiary Education Commission's (1986) *Review of Efficiency and*

Effectiveness in Higher Education, which was highly critical of management practices within the sector. The economic downturn in Australia during the 1980's highlighted the government's concern about the perceived gap between the sector's contemporary performance and the performance required to help Australia survive and prosper in a more competitive international economic environment. Thus, the government agenda for reform focused on the size, proliferation, and efficiencies of the Australian higher education sector. This reform agenda was strengthened through a managerial approach to institutional governance reinforced through new regulatory frameworks.

The result of this was the birth of the corporate university with Vice-Chancellors assuming the role of Chief Executive Officers and Councils/Senates becoming boards of governors.

Nature of the University as a Corporation

When considering the role of a university as a corporation it is necessary to question the nature of the change that drove universities from organisations that derived their core functions from teaching, research, and community service to organisations where 'competition is an end in itself and the creation of a culture of market competition becomes a fundamental objective of micro-economic reform in higher education' (Marginson, 1997, 5). This evolution was driven, in part, by the government reforms of the late 1980s where statements such as 'the Government's restructuring of the higher education system will create an environment that fosters and rewards improved management practices' (Dawkins, 1988, 104), with structures mimicking the size and composition of large private sector organisations (Dawkins, 1988).

The impact of this was the formation of a quasi-market that translated the positional competition between students to a formalised national economic-positional competition between the universities (Marginson, 1997). The Government's mechanism that reinforced this market model, the UNS. Dawkins (1988, 28), stated that institutions that joined that UNS 'will benefit from liberalised resourcing arrangements and a share of the growth in the system' through the ability to 'compete for teaching and research resources on the basis of institutional merit and capacity'. To further encourage competition the Government's funding distribution model, the

Relative Funding Model, established a “level playing field”, supposedly to allow institutions to compete on an equal basis (McKinnon, 1990; Watts, 1996).

From a commercial perspective this competitive imperative could be described as an extremely successful initiative on the part of various Australian governments. From the early 1990s universities were encouraged to sell courses, and other services, to international and local undergraduate and postgraduate students, raise increased research funds from industry, and engage in an increasing national competitive mechanism for research funding. By 1996, the funds generated by universities themselves were estimated to represent 20 percent of university income (Marginson, 1997), and currently, is estimated to be close to 50 percent. However, what was not addressed in this competitive equation was the impact on accountability and governance.

Concerns relating to accountability and governance within the university sector were formally raised in the *Higher Education Management Report* (Hoare, 1995). While acknowledging the changing accountability framework for universities, concerns were raised of ‘excessive provider control’ and accountability requirements, suggesting that central regulation of higher education was antithetical to quality. The report continued that some university managers noted a ‘need for congruence in internal and external accountability requirements to provide a focus for management, claiming that internal and external requirements are often at variance and that current requirements have little connection with measures of institutional effectiveness’ (Hoare, 1995, 36).

There is no argument that governance is of primary importance in the proper and effective functioning of universities. The Hoare Report (1995, 41) was quite specific when it stated that ‘proper governance structures and appropriate governing body membership should assist institutions to operate effectively and meet their distinctive accountability requirements while maintaining autonomy’. However, the Committee was also mindful that universities were undergoing major changes occasioned by opening the sector to market competition. In this respect the Committee found that ‘operating effectiveness of governance arrangements varied significantly between universities, with only a limited number of governance bodies operating effectively’ (Hoare, 1995, 43). The primary concern from this was the lack of focus on corporate

and strategic issues by the governing bodies. These included (i) a lack of focus and emphasis on strategic issues at the governing body level; (ii) inadequately articulated roles and responsibilities of members, and (iii) lack of appropriate skills and knowledge of the higher education sector among members (Hoare, 1995, 45).

Corporate Governance

In the private sector the corporate governance movement emerged in the 1990s supported by stakeholder theory. According to the much-referenced Cadbury Committee (1992) in the UK, corporate governance is the '*system* by which companies are directed and controlled'. Further, managers needed to '*be free* to drive their companies forward, but exercise that freedom within a framework of effective *accountability*'; (emphasis added). Within this vision companies needed to implement a system of checks and balances for effective resolution of conflicts and control over the exercise of managerial power (Charkham, 1995, 2-5).

The argument promoted was that competitive pressures made it imperative that company management remain free to do as they wish, but provide some form of reassurance to stakeholders that they were seen to be accountable. The Hoare Report (1994) outlined deep concerns in society about the standards of corporate governance, the main concern being the level of accountability of management to those stakeholders supplying funds. Corporate governance was seen as an effective method of recapturing the trust of fund suppliers apparently lost in the 1980s.

The key issue in governance, is who decides on a particular course of action? From an economic perspective who decides that a course of action is positively associated with maximising added value to the organisation and its members? From an accountability perspective, who decides that the definition of accountability adopted should or should not be an accurate reflection of the values of the organisation's participants and those of the communities that it affects? When these two perspectives are in conflict who decides the appropriate course to follow? However one tries to answer these questions, members of University Councils and Senates and Directors of various activities in the organisation, are supposed to play a pivotal role.

In the corporate sector we can observe that when economic and accountability perspectives are in conflict, to survive corporate management are likely to follow a (personal) wealth maximisation path. Boards of directors must then assert their accountability obligations and pressure management to follow a more socially responsible path. Corporate governance policies are supposed to arm directors with the policies to do this. However, we know that managers of companies, both in Australia and the USA, when following policies of self-interest that robbed their organisations of billions of dollars of value, were unlikely to be influenced by their boards, even where they had corporate governance policies in place.

If this is the reality, then society cannot rely on corporate governance policies alone to ensure that companies maintain their corporate responsibilities. If this is so, who, or what can society rely on? Voluntary corporate governance guidelines are appealing to the eye and ear, but what are also needed are mechanisms for getting better educated directors on to boards, monitoring corporate culture, and monitoring senior staff's ability to resist unethical pressures (Carson, 1996, 4).

Pressure for Better Corporate Governance and Accountability

In the university sector, with severe budget constraints, any conflict between economic value adding and meeting social responsibilities is likely to result in a focus on the former at a cost to the latter. Governance rules are just one mechanism that could be used to monitor such potential conflicts, but there are doubts as to the efficacy of such policies by themselves. Two further mechanisms need also be developed if governance issues are to be effectively resolved in the interests of all university participants.

Firstly, policies need to be put in place to ensure that members of council, both elected and appointed, receive training to develop the skills necessary to implement and supervise the governance policies developed. Secondly significant participants in universities - especially the government, students, employees and community groups - need to develop mechanisms for monitoring the accountability of management.

Better Governance – Education

There appears to be a growing awareness that councillors need to be better prepared for the sorts of issues that will confront them. Most councillors see this as an education in the process of the university's business, such as approving new courses, approving major spending initiatives, and reviewing policy documents.

While such skills are important, we believe a councillors' education needs to go much further than an understanding of the factors relating to a universities operations, to include an education about factors internal to the councillors themselves – about how they think and feel about the situations that face them and the values they apply to decision making.

Understanding a universities' situation, by itself, is not sufficient to provoke councillors into action. What is needed is the linkage between thinking and doing, between models of the world and models of the mind. If strategy is derived from ideas, what is the basis of generating good ideas? How do councillors know whether an idea is a good one? How do they deal with strong emotions that can often influence their thinking and acting? How do they protect themselves from failures of their colleagues to use their minds well? In short, what sort of model of behaviour for councillors will ensure that accountability, effectiveness and value added are considered together. Below, a model of such thinking for councillors is proposed. See Figure 2.

We believe we have found a way to move to a deeper and more systematic response to these questions by looking at and understanding how people think and feel and relating this to the strategy process. The following describes a set of mental powers that we all, often unknowingly, use in daily life. We then show how these powers are related one to the other, how they are co-ordinated and managed within ourselves, how they relate to established models of strategic thinking and how they can guide one in one's own thinking and that of a management group in their endeavours to add value to a university's output.

Figure 2

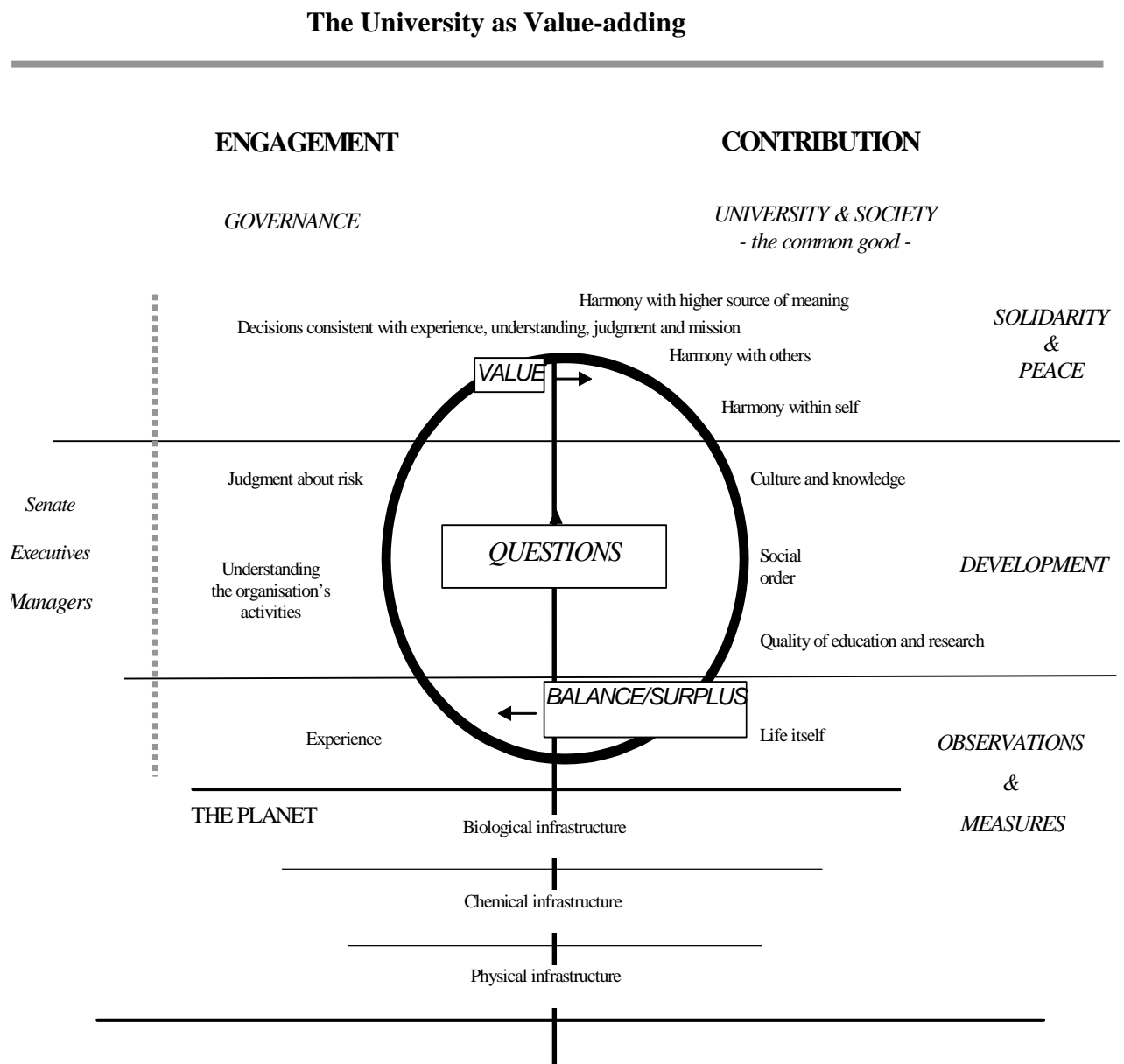


Figure 2 attempts to capture the dynamic nature of the linkage between value adding, which is a university's prime purpose, and balancing the budget or surplus generation, which is a generalised measure of economic value adding. The diagram indicates that many more values beyond a balanced budget or surplus are implicated through the contribution that a university seeks to make.

The diagram shows a direct linkage between governance, on the left, where university stall at senior levels engage with the issues in a disciplined manner, and the 'good', on the right, which is the contribution generated by the universities' activities.

Governance is depicted moving across four levels, each building on the one below: firstly the experience of directors managers and staff, secondly the level of understanding of the organisation's structure, thirdly the judgments made about risk and, finally, the execution of decisions consistent with the university's mission. The 'goods' are another hierarchy, starting with life itself: then quality of education and research, social order, culture and knowledge and, finally, three kinds of harmony or integrity. Life itself is built and maintained on the lower levels of physical, chemical and biological infrastructure each of which need to be protected, preserved and developed.

The 'good' applies both to the university itself and to society in which it operates. The flow in the circle responds to the drive to 'value' given by openness within the organisation to questions and to its monitoring of performance of the various 'goods', 'economic viability or surplus' being one such measure.

A model of contribution

A university primarily delivers the 'good' of quality learning and useful research. But in the process, all other 'goods' are implicated. Warning lights comes on if any are ignored or suppressed. Many now recognise the place of the environment and life itself (issues of student and staff physical and mental safety) in risk assessment and decision.

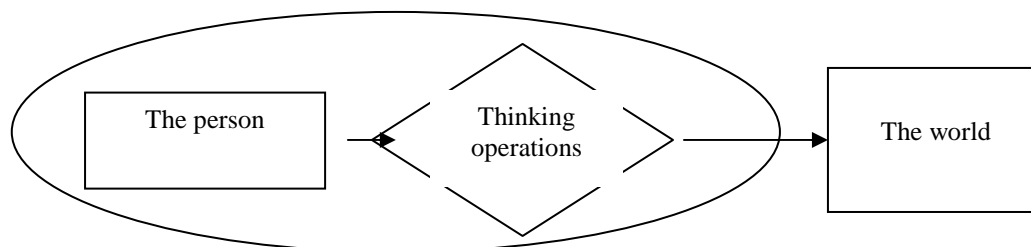
On the right hand side of the chart, 'solidarity' can be opened out to include relationships with students, government, schools, employees, regulators and the community in addition to those relationships within the organisation itself. On the left hand side, 'governance' through appropriate delegation and empowerment oversees leadership, supervision and operations.

A model of engagement

A simple model of thinking shows the person linked to the world through his or her mental operations, such as experiencing, understanding, inquiring, conceiving, judging, deciding, remembering, feeling and so on, as illustrated in figure 3.

Figure 3

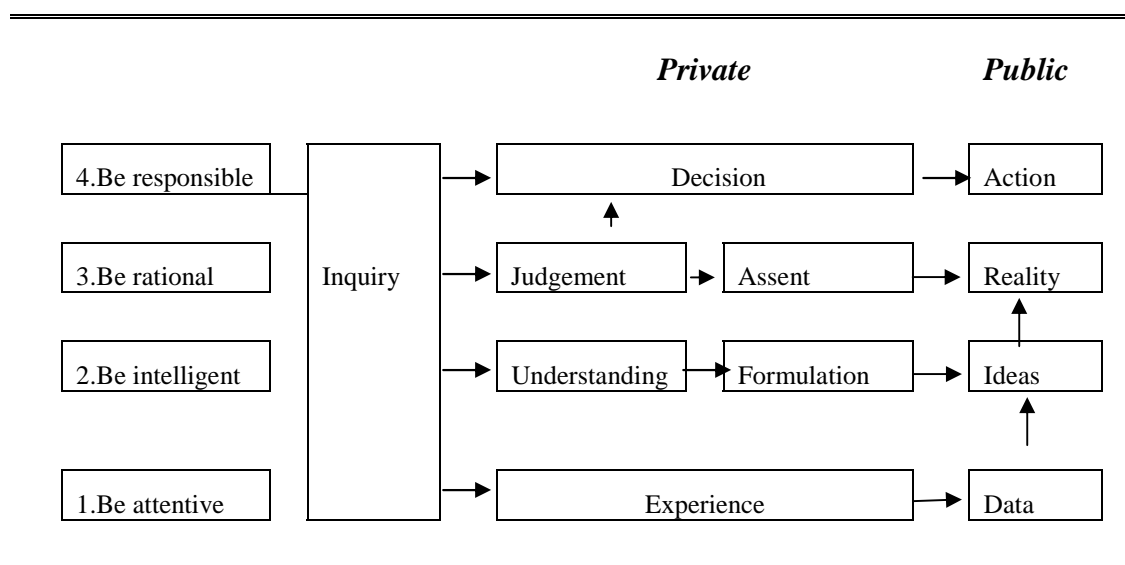
Model of Thinking



The thinking operations are invisible to others, but naturally are clearly accessible to the person thinking. Thus, in carefully observing one's own mental states, anyone can discover and identify the set of thinking operations or powers within oneself, and describe them as constituting four levels, each building on the level below. These states are not capable of observation by others, but are strictly private, yet common to us all. This model, developed by Lonergan (1957), was expanded by Daly (1993), who elaborates on the on four levels which define the structure in its basic form, as illustrated in figure 4. In totality the structure represents a structure of control.

Figure 4

Structure of Control



The implication of this model is that it requires a large measure of personal commitment to 'get in touch' with the data from which one can construct and validate the model for oneself. But this work needs to be done if the full value of the model is to be realised for personal, and hence organisational development

Level 1. Experience: being attentive

This is the level in which we are attentive and in touch with the data both external and within ourselves. Simply, it is the raw material with which we work. The level of 'experience' is the beginning of the journey. One difficulty in this area is that our memories may contaminate data coming in; or alternatively, the data coming in may evoke powerful associations from our memories but which have little experience. Experience here is defined as that full set of data related to the world delivered by our senses, recovered from memory (including past understandings, judgments and knowledge), presented by feelings or arising spontaneously.

Much is made of this phenomenon by Barker's (1993) notion of paradigms where data is simply not seen because our expectations are so set by our personal history and bias that we do not attend fully and carefully to what is presented in the 'here and now'. Experiments conducted by Kahneman and Tversky (2000) on judgement and decision-making in the 1970s pointed to use of heuristics in individual decision-making and biases evident in their use. In their "prospect theory" they pointed to errors in the rational decision-making assumed by many theories of human behaviour.

To exercise our power at this level well, is 'to be in touch; to be attentive', both in reference to our inner world and to the world of sense. The core skills for this power are to attend to the data, to gather a wide range of data.

Level 2. From Experience to Insight: being intelligent

Experience, however, is not understanding. Experience belongs to level 1, understanding or insight to level 2. Experience, so defined, is there to be understood. Level 2 is the level of intelligence, where ideas are born. The conscious or implicit question 'what is going on here?' or questions seeking explanation - move us to the second level, namely that of 'understanding'.

Our powers of inquiry, when acting on Experience, drive us to the second level. Imagination is critical here, for it often delivers an image as the first glimpse of a fresh understanding fresh understanding. Imagination lies at the threshold of understanding, as a holistic means of suggesting or embodying an insight. An image contains or represents a 'whole'. In this sense, insights are fertile and persistent.

Within universities where ideas and information are freely exchanged and in which there is open inquiry, new insights will more easily develop. As strategic thinkers university executives are strategists who seek insights. They attempt to solve puzzles - mostly vast arrays of complex, disconnected information, which furthermore, change as the strategist deliberates. Theirs is commonly not the 'eureka' of Archimedes but like him, they seek the flash of inspiration, the unseen golden opportunity, the unique perspective. They too seek insight into what is happening in their particular world, confirmation that their view is correct and confidence in what to do.

Strategists operate from a predetermined set of values, hypotheses and assumptions, which they may or may not fully understand. An ever-present sense of risk underlies their certainties in their dynamically changing world, not open for scientific precision, but one requiring clear judgment, nevertheless. Theirs is often an edifice of many insights, built up on each other over time and interconnected. The interconnection is rich, within the person and within the organisation. At the Senate level where strategic decisions are made, insights are often hunches and intuitions based on a wealth of experience and familiarity with the field.

Insight, on the other hand, can take a long time to come; arrival is not guaranteed. But we can assist its delivery by being persistent with our questions. Patience is rewarded by sudden and unexpected relief from the tension of inquiry when an insight comes, and we reach the plateau of understanding on level 2 (Lonergan, 1957).

But our act of understanding, sudden as it is, can equally be lost if it is not caught. Hence, there is the power of 'formulation'. We formulate a concept. This power of formulation requires skills of accuracy, brevity and completeness. We must write it down to express what we have understood. Unexpressed, our insights are easily lost.

Equally, we can capture our insight with a drawing or sketch. Words are more difficult ways and can begin to tangle us in cultural and linguistic traps.

Yet insights are not enough. They are only part of a value chain, albeit the most critical part. Furthermore, they can be wrong. Doubt protects us from error and may need to be balanced against the excitement and conviction carried by fresh insight. Processes and methods are needed to ensure not only that insights occur within strategic work, but that they are thoroughly tested and evaluated, for they have the potential both to lead to enlightened decision and action and to mislead. Insights, by their nature, are open for revision. Hard work is often needed to validate and confirm what our insight or hunch has suggested.

Level 3. From Insight to Judgment: being rational

In moving from level 2 to level 3, we seek to be free of illusion or error. This is the level of the real, where the driving precept is to 'be rational'. At level 3, we undertake a longer journey of critical reflection and analysis of what we have understood. We test our insight by relevant questions, against the data of experience to arrive at a confident 'yes'. Logic, language, and data: all are used to subject our ideas, insights, formulations, concepts and theories to analysis and testing. In this process, driven by questions, we exercise our powers of judgment. If an insight stands invulnerable against all questions, our insight becomes a judgment. With a correct judgment we can say a definitive 'yes' or 'no' and, in this, exercise publicly our powers of assent.

It is rare to have certainty in judgment on organisational management issues. Mostly there is a high degree of uncertainty and risk. Certain relevant questions cannot easily be answered. The data is incomplete and costly to obtain; experience may be lacking. Our judgments are hedged and so are our actions. Thus we need to monitor carefully the effects of what we have done, and modify our judgment and revise our action as appropriate. One can seriously err, however, by prematurely curtailing inquiry. Here, great challenge and danger await leaders.

Level 4. From Judgment to Decision: being responsible

Decision is the most complex, and most highly developed operation of the four levels. Inquiry completes its task of taking us to this level by asking, "will I?" In deciding, one commits oneself to implement a set of actions that address the reality one faces to

achieve a set of benefits one seeks within a context of values one holds. This is the ethical level, where the guiding precept is to 'be responsible'.

Since strategic action and leadership imply responsibility and free commitment to implement chosen values and take appropriate action, are senators and directors collectively, at a stage of being able to decide to act strategically? If they understand correctly where their organisations are heading, do their decisions (level 4) align with and grow out of this understanding or some other unexpressed understanding and reserved judgment?

To initiate their reflection on their leadership, their coming to grips with whether their 'walk matched their talk' (level 4 aligned with level 2), we would need to know whether their hearts (level 4) were with their minds (level 2).

Were they worrying about any personal loss from a disastrous result, or were they focussed on the loss of jobs, stake-holder wealth, and supplier contracts. Their rhetoric might conjure up the latter, but their actions might betray it. Had they ascended the four level value chain? Had they worked out whether their universities existed primarily to generate fees from education and research, or to employ their employees', and society's resources in a responsible way, or to protect their public image? This is not an atypical issue as shown by the recent disclosure of the possible alliance (merger) between Curtin and Murdoch universities in Western Australia in order to lift their national standing and research profile (McIlwraith, 2004), or the resignation of the University of Newcastle's Vice-Chancellor following the publication of a report critical of the University's handling of recent plagiarism allegations (Ciglio, 2004).

Personal responsibility and commitment can only be effectively answered by action (a level 4 activity), not by words or ideas (a level 2 activity). Alignment of these two activities may take considerable time. The stage of level 3 is one that requires critical reflection and analysis to confirm that one's idea is a reasonably correct view of reality.

The level of decision is the most highly complex of the four levels, one where the highest value is found and offered. Courage is an intrinsic norm for decision, as are patience, fairness, team-spiritedness and openness to each of the basic goods: life itself, achievement in work or play, social order, knowledge and culture, and harmony within oneself, with others and with higher sources of meaning (Daly, 1993). These *basic goods* open a framework for a robust, empirically based ethical system (Finnis, 1980). We can speak of these norms as skills in our model. And we can speak of their opposites, which contribute to ultimate failure: fear, impatience, meanness, individual grandstanding and suppression of any one of the *basic goods*.

Decision can be seen as adding value to the world, not primarily as taking satisfaction out of it. The ethical dilemmas facing an organisation will be more evident at this level than on the lower levels. The integral set of values, proposed as *basic goods* above, can provide a framework to resolve such value conflicts at the heart of organisational goals.

None of the four levels discussed above is sufficient within itself. Each draws from, includes and adds value to the one below it. The first level, Experience, operates and functions on the basis of the structures which lie beneath it in our schema, namely those which relate to the physical, chemical and biological orders, and which in turn have their own laws and norms for good performance. The edifice that we have built up to describe our full functioning is the Structure of Control developed from Daly (1993) and illustrated in figure 4). This adds decision and performance to our knowledge. Thus managers build up a knowledge base of how things work and decide and act with a view to exercising enlightened and skilled control over their environment, control based on being attentive, intelligent, rational and responsible.

The Drive of Inquiry

Inquiry, as we have noticed above, has a key role in driving one's mental activities through this structure. It can be likened to a lift shaft in a building, which enables one to move and up down between the various levels at will.

The core criteria for effective inquiry are being open and being persistent and, in the obverse, we fail to inquire well when we drift and are obscure with our questions and

are not really seeking an answer. These core criteria can be defined as the norms for inquiry or the innate skills we need if we are to inquire well. By recognising these norms within oneself and committing ourselves to operate them fully, we increase our competence in this aspect of our thinking and our control, and our ability to escape from illusions and from the paralytic effect of a closed mind.

In most management models, the power of inquiry, of asking questions or the innate drive of curiosity, is overlooked or taken for granted. There are some exceptions. Revans (1980) bases his model of action learning on P and Q: P for programmed knowledge, and Q for the questions for which we can find no answer in the literature. Argyris' notion about double looped learning invites managers to ask themselves 'why' as a way to challenge basic assumptions, and suggests that managers often conspire not to ask themselves questions that would embarrass them or cause them conflict. His model leads them through inquiry to examine the data of their own behaviour and unexpressed thoughts and feelings to reach new insights about themselves (Argyris, 1986).

A Model of Personal Change

Inquiry drives personal learning: it underpins organisational survival, provides raw power for commitment and change and enables us to escape restrictive paradigms. It is a powerful lever for managerial effectiveness, empowerment and change.

The four levels of the Structure of Control, outlined above, carry further conviction, as theory, when we grasp that they merely reflect the full set of questions we can ask, grouped into four levels according to the kind of answers we are seeking, each level adding value to the one below.

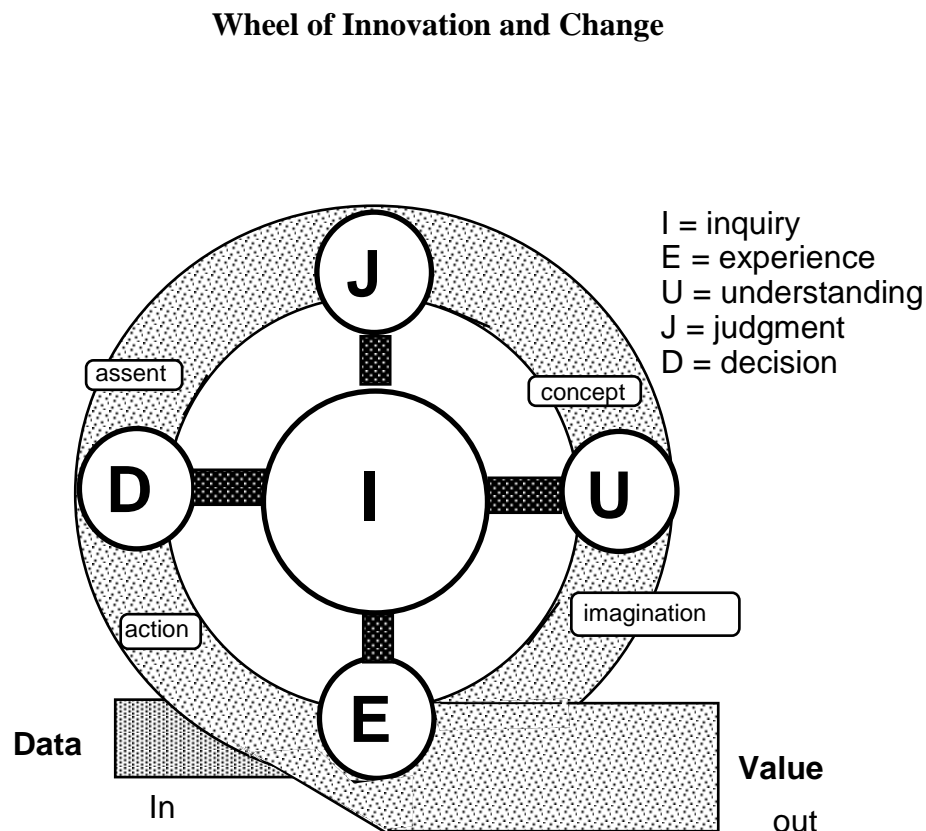
1. Questions which 'point' and for which names are given in answer: who, which, what, when, where. These provide the data of experience, the first level
2. Questions which seek explanation - or to which a long answer can be given: why, how, what is it...these questions lead us up to the second level, that of intelligibility.
3. Questions which aim for the short answer, yes or no: 'is it so?' and all relevant questions which would test the formulation, proposition or hypothesis: this

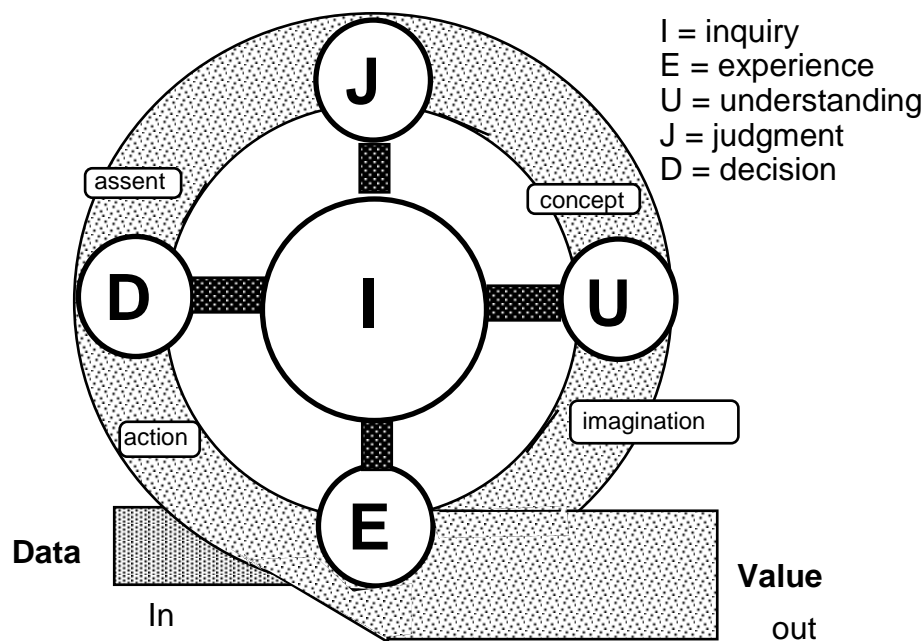
brings us to the third level, that of reality. We judge something as being true, free from error and illusion.

4. Questions for which the answer implies action to change the world: 'will I?' or 'so what?' questions. This is the fourth level, of decision.

In figure 5, an alternative illustration of the Structure of Control, as a wheel of innovation and change, places inquiry at the centre. There it provides turning power or torque for the wheel, or directional power in the way it can shift understanding by moving the wheel into new data sets of experience.

Figure 5





This diagram also illustrates that what flows from decision, in addition to adding value to the world, reframes our experience and, in effect, reframes and rewires us as well. Understandings, judgments and decisions, gained in the turn of the wheel, become the 'data of experience' for a subsequent round of the wheel. The diagram respects the action research model of Revans (1980). By including the central and driving role of inquiry and being more precise about the different elements and their place around the wheel, this formulation of our structure adds significantly to the learning models of Kolb, Rubin and Osland (1991) and of Honey and Mumford (1986).

As a further way of illustrating the power of this model, if we cut the wheel and lay it out straight, we can find that its features are replicated in all social and organisational systems, each having its own set of procedures and terminology, but following the general precepts and skills applicable to the original model which is found within oneself through careful introspection. This unfolding of the wheel is represented in figure 6.

Figure 6:

Model of System and Organisational Change

THE PERSON	ENQUIRY				
	DATA	UNDERSTANDING	JUDGEMENT	DECISION	ACTION
THE SYSTEM	GATHER	PROPOSE	JUDGE	COMMIT	IMPLEMENT
Government	Consult	Green paper	White paper	Legislate	Executive
Law	Investigate	Accuse	Judge	Sentence	Imprison
Science	Puzzle	Hypothesise	Know	Design	Build
University Governance	Problem/need	Solution/plan/policy	Validate	Prioritise	Resource

Conclusion

It has been suggested that the issue of university governance and accountability has become prominent because of poor management practices and performance in the corporate sector and the partial commercialisation of universities (Hoare, 1995). So, while the government initiative to transform the university into a corporate entrepreneurial organisation, which now often earn more revenue from commercial activities than government grants, has been a success, there still remain some concerns relating to the fundamental underpinning that provides the essential elements of accountability and good governance.

To-date many of these issues are only innuendo – soft marking for full fee students, ‘acceptable’ levels of plagiarism, payments to administrators to ‘review’ unsatisfactory marks, and questionable commercial practices – in that few have found their way to the Independent Commission Against Corruption. Although, one Vice-Chancellor has resigned, admitting that he had plagiarised material as a student.

We would argue that the application and testing of the corporate governance and accountability model depicted above may provide a mechanism to fill the gap between inquiry and decision, between knowledge and action, and reconcile the relationship between Governance and the Common Good.

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