

**Assessment of Good Governance in the Australian University Sector**

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### Abstract

*Good governance has emerged as a major concern in the higher education sector. Although evaluation of performance of governance is widely used in the private and public sectors, little attention has been given to the assessment of good governance practices in university contexts. The purpose of this paper was to describe the changes in government policy associated with the introduction of Governance Protocols that have impacted on the higher education sector. Data for the study were compiled from annual reports and the Web pages of 37 publically funded universities in Australia and Selected Higher Education Statistics Collection. The assessment criteria were derived from the National Governance Protocols. Findings revealed that governance structures of Australian universities are moving towards a model of universal governance best practice.*

**Keywords;** governance; Universities Protocols; higher education

### INTRODUCTION

The Australian higher education sector has grown dramatically in the past two decades. Student numbers have doubled from 534,510 student enrolments in 1991 (DEEWR 2009) to over a million in 2009, 813,896 domestic students and 320,970 international students (DEEWR 2011). According to the Review of Australian Higher Education Report, 2009 (DEEWR 2011) full time equivalent staff load has grown to around 107,221 and total revenue exceeded AUD 19.9 billion in the year 2009. Thirty five of the 40 higher education providers now have annual incomes of more than \$100 million,

According to the Higher Education Report 2009 (DEEWR 2011), the sector now comprises: 40 universities of which 38 are public institutions and 2 are private; one Australian branch of an overseas university; 4 other self-accrediting higher education institutions; and more than 150 non-self-accrediting higher education providers listed on State and Territory registers and accredited by State and Territory authorities. Several universities and private providers operate in more than one State and Territory. International education was a \$19.1 billion industry in 2009, making it Australia's top export service industry, third overall after coal and iron, and accounting for 63 per cent of government expenditure.

*Table 1. Major government policy initiatives in the higher education sector .....Comes here*

Numerous higher education inquiries (Table 1) have resulted in policy changes that have affected the funding and operations of universities. Among the most significant was the *Our Universities: Backing Australia's Future* package of reforms delivered as part of the 2003-04 Budget. The reforms gave universities access to increased funding and, of relevance to this paper, included significant changes to university governance arrangements. The aim of this paper is to discuss the governance reforms that took place in the higher education sector in Australia and analyze the governance performance of Australian universities.

## UNIVERSITY GOVERNANCE

Corporate governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the top of organisations (Armstrong & Francis 2004). Governance can be defined as “the system or structure of rules and relationships, supervision and control of those who exercise the authority, accountability, stewardship, leadership, direction and control that aims to ensure accountability and efficient use of resources in balancing the achievement of goals of corporations, society and individuals” (Armstrong and Unger, 2009, p47).

### **Governance Reforms in Australian Universities**

Best practice corporate governance has been defined by a number of international agencies. The OECD (2004) and ASX Corporate Governance Council (2003, 2007) distributed a number of guidelines and principles for corporate governance best practice. Governance standards introduced into the higher education (HE) sector followed these developments in governance in the corporate and business environment, especially adapting the generic principles enunciated by the Australian Securities Exchange,

the Australian Institute of Company Directors and Australian Standards International (Armstrong and Unger, 2009).

In line with the above guidelines, *Backing Australia's Future* reforms introduced governance best practice guidelines for the Australian university sector in the National Governance Protocols for Public Higher Education Institutions. The Protocols referred to: the responsibilities of the 'governing body' (Protocol 2); procedures for appointment and selection, and the duties of members (Protocols 3,5 and 6), induction and training (Protocol 4); size (less than 22 members of the body, Protocol 5); risk management in regard to controlled entities and reporting (Protocols 8, 9 and 10).

Many of these requirements reflect governance 'best practice' as it is described in the above codes and standards of best-practice governance (Armstrong 2004).

The National Governance Protocols for Higher Education (Nelson 2003) imposed obligations on universities for: definition of institutional objectives in the enabling legislation; definition of governing body purposes and duties; systematic professional development programs and performance evaluations of governing bodies; systematic procedures for composition of the governing body, including limits on size of the governing body and specifications of expertise; a majority of independent members in the governing body; codification and reporting of business practices and risk analysis;

These initiatives were designed to ensure consistent criteria and quality of standards across Australia in such matters as the recognition of new universities, the operation of overseas institutions in Australia, and the accreditation of higher education courses to be offered by non-self-accrediting providers (Nelson 2003).

The impact of the reforms on universities was substantial (Swansson, Mow and Bartos 2005). They aimed to make the institutions more competitive in maintaining international standards, offering universities the ability to exercise academic freedom and managerial autonomy while requiring the Council, as the governing body, to take primary responsibility for the governance and performance of universities.. The proposals which emerged from the Review of Australian Higher Education Report (Bradley et al 2009) required institutions to consider restructuring establishing their mission, and adopting more vigorous strategies as funding would be primarily driven by, first, student choice, and second, the success of institutions in attracting competitive funding allocations and generating revenue from other sources.

The responsibility for the governance and management of a university is typically vested through State legislation in a governing body such as a Council or Senate. Every university's enabling legislation provides for the governing body to have the overall control and management of their university.

In the past governments have exercised control over universities through the conditions attached to their funding. The largest share of funding (55%) for a publically funded university in Australia comes from the Commonwealth Government (Universities Australia, 2010, Bradley et al 2009). The reforms introduced in Backing Australia's future empowered Universities to assume more autonomy but at the same time required more accountability.

Fielden (2008) presented four different models of university governance (Table 2): institutional control, state control, semi-autonomous and independent. The Australian Model was identified as an independent model, which was believed to perform better, as the Australian universities have the power to make their own decisions and control their own destiny.

According to Fielden's (2008) model Australian universities have an incentive to be entrepreneurial and competitive. Any university could choose different ways to respond to national policy goals and they

could be more innovative than others particularly by specializing in disciplines or courses, or changing how courses were delivered.

*Table 2: Four Models from Control to Autonomy..... Comes here*

However, universities cannot enjoy unlimited autonomy, because of their inherent purpose of fulfilling the nation's expectations of providing a quality education and participate in innovative research activities. Hence, within the Independent model there is an implicit acknowledgement that the Commonwealth authorities are entitled to hold the institution accountable in many respects and must retain overall strategic control over the sector. The protocols were designed to meet this need.

The purpose of this research was to evaluate to what extent universities had complied with the governance best practice since the introduction of the Protocols in Backing Australia's Future. The research question was: Do universities practice best practice governance?

## **THE CONCEPTUAL FRAMEWORK**

*Figure 1 Conceptual Framework ... comes here*

The conceptual framework was drawn from the governance mechanisms described in the governance literature (Aldridge 2004; Khanchel 2007). Applications of institutional theory to investigate governance have been advocated in the governance literature (Aldridge 2004; Greenwood & Hinings 1996; Kondra & Hinings 1998). According to Weir and McKnight (2002), institutional corporate governance consists of external governance mechanisms and internal governance mechanisms. External governance mechanisms are those influences, such as government policy, exerted from outside a university. According to the corporate governance literature (Khanchel 2007, Bhagat and

Black 2002), structural composition and the processes of the board characterize a firm's internal governance structure.

The National Governance Protocols considered the structural composition of universities as an important measure of the governance mechanisms of universities. In analyzing the governance structure of Australian Universities, the (size) numbers of members in the council (Yermack 1996), extent of independence of the council and oversight committees (Khanchel 2007) were used as the structural composition of the university's governance system. In this respect, the greater the structural separation of oversight committees from the management of particular activities such as appointment and remuneration of senior staff, the more robust university governance should be. Particular prominence was given to audit committees that are charged with monitoring university's strategic objectives, the overall financial performance, reporting requirements and their compliance with 'best practice' corporate governance standards. Board meetings (Shivdasani and Zenner 2004) and Transparency in reporting were used as measures for board process as of Khanchel (2007).

## **METHODOLOGY**

Data for the study were collected from the annual reports of thirty seven publically funded universities, web pages of universities, and Higher Education Statistics Collection of the Department of Education Employment and Workplace Relations from 2005 to 2007. Bachelors College was excluded from the study due to its special nature.

The criteria for the evaluation in this study were drawn from the Protocols. The data were compiled in a comparative data base and analysed using SPSS. In the current study about governance performance of universities consists of external and internal corporate governance variables.

The external corporate governance mechanism variables that are measured in the study were (a) the influence of the regulatory authority, which was measured by using the universities' compliance with 2003 National Governance Protocols, and (b) stakeholder influence which was measured by using the dependency of universities on government funds. The internal corporate governance mechanism variables were the roles of board independence, board size, role of standing committees, transparency in reporting and board meetings as the board process.

Size of the governing body refers to the number of members in the council as elected and appointed members. The extent of independent members in the university council was calculated as a percentage of external members to the total members in the council. Board meetings held during the year 2007 was used, assuming maximum number of meetings for the year should be twelve. A board committee index was calculated for each university. The variables used to construct this index were audit committees, remuneration committees and nomination committees. Existence of an audit committee, chair external or not, majority external members or not and number of meetings held during the year were considered for audit committees. Existence of a nomination committee, CEO not a member of the committee for nomination committees and existence of a remuneration committee and CEO not a member of the committee were considered for remuneration committees. Depth and the extent of the information disclosure in the annual reports were used to calculate the transparency index.

## RESULTS

The following presents the results of the analysis of the measures of internal and external governance mechanisms.

### **Descriptive Statistics for External Governance Mechanism**

Two variables, stakeholder influence and a regulatory index (Table 2) were used as proxies in the construction of an external governance mechanism index. Government assistance, as a percentage of total revenue, represented stakeholder influence and measures of compliance with the protocols formed the regulatory index



*Table. 3 Descriptive Statistics for External Governance Mechanism Variables... comes here*

### **Stakeholder influence:**

Government as the main funding body for the publically funded universities was considered as the main stakeholder of the study. As discussed in chapter 4, universities' dependency on government funds including HECS and HELP was calculated as a percentage of government assistance to total revenue for 37 universities in Australia. The mean of the government funding and the total revenue of 37 universities over three years from 2005 to 2007 were used to calculate the percentage of dependency on government funds. The minimum value of the government assistance as a percentage of the total revenue was 33% for the Central Queensland University and the maximum value for dependency on government funds was 94% for the Flinders University of South Australia. The mean value was 56.84% where the standard deviation was 12%. This explained that on average around 57% of the university revenue comes from government funds.

### **Regulatory Index**

Universities' compliance with National Governance Protocols was used as the regulatory index of the study. The minimum value for compliance with the protocols was 92 percent and the maximum was 100 percent. The standard deviation was only 3 percent at the mean value of compliance with protocols was a high 94 percent. Compliance with the 2003 National Governance protocols represented the role of the influence of regulatory authority or the regulatory index in the study. Descriptive statistics showed that the mean value of the compliance with the protocols was 94 % at the time of study and this agrees with the findings of the Australian Government Higher Education Report (2005) which confirmed that all the Australian universities have made some effort to comply with 2003 National Governance Protocols by year 2005. Some universities could not address the risk criteria as outlined in the protocols and this brought down the mean value to 94%.

### **Descriptive Statistics for Internal Governance Mechanisms**

There were five indices used in the construction of the index of internal governance mechanisms. They were board size, board independence, board committees, board meetings and transparency in reporting. Descriptive statistics for the internal governance mechanism variables were presented in Table 3, followed by the summary in detail.

#### ***Table 4. Descriptive Statistics for Internal Governance Mechanism Variables***

##### **Board Size**

Descriptive statistics for board size of Australian universities varied from maximum 22 council members to minimum 12 council members and the mean value was 19 members in the council or the governing body of the university. According to the research findings of the study, 8 out of 37 universities had 22 council members and the minimum 12 council members were at the Central Queensland University. This confirmed the adaptation of the suggested board size of the Higher Education Protocols (2003) and the stake holder theory. The higher average of 19 suggested that universities prefer to have larger governing bodies.

##### **Board Independence**

Board independence showed the extent of the appointment of external members in the university councils. Descriptive statistics showed that the minimum value for board independence index was 50 percent at James Cook University and the maximum value 70 percent was at Edith Cowen University. The mean value for board independence was 60 percent. This confirmed the protocol (2003) requirement that there should be a majority of external members in the university governing body.

##### **Board Committee Index**

The Board committee index in the current study referred to the process of appointing standing committees to the university council. This variable examined the existence, process and the independence of audit committee, remuneration committee and the nomination committee as standing committees in the university governing body. In analysing the process of the audit, remuneration and nomination committees, the number of meetings held and the influence of the Vice Chancellor as the Chief Executive

Officer of the University on those committees were also addressed. The maximum value for the board committee index was reported as 76 percent at the University of Sydney and the minimum value of 18 percent was reported at the University of Tasmania. The mean for standing committee index of Australian universities was 54 percent. The research results revealed that every university has an audit committee and the chair of the committee was an external member. This explained that all 37 universities had independent audit committees. The research results further disclosed only 12 out of 37 universities had remuneration committees and 20 out of 37 universities had nomination committees as of 2007 and other universities were in the process of establishing, remuneration committees and nomination committees.

### **Board Meetings**

The board meeting index was used as the measure of board process. Council meetings held during the year was used as the board meetings for the present study and the descriptive statistics varied from maximum 12 meetings at the University of Melbourne and the minimum 4 meetings held during the year at the Australian Catholic university. The mean value for board meetings showed as 6.8 which could be considered as seven meetings per year. Shivadasani and Zenner (2004) suggested that, board should increase the frequency of meetings if the situation requires high supervision.

### **Transparency in Reporting**

Transparency in reporting was measured by using the transparency index. The transparency index was constructed to measure the depth and the extent of information disclosure in the annual reports of the universities in addition to fulfilling the mandatory requirements in reporting for government agencies. The annual reports of universities are considered as one of the main instruments that could be reliably used by the external users of information in making informed decisions regarding universities. The minimum value for transparency in reporting was 25% for the University Of Canberra and the maximum value was 100% for the University of Melbourne in the index. The mean value of the transparency index was 60% where the standard deviation was 18%. Statistics showed that on average universities exhibited 60 percent transparency in reporting in their general purpose reports (Annual reports) in addition to the fulfilling of mandatory disclosure requirements.

## DISCUSSION AND CONCLUSION

Analysis of the Governance structures and process of Australian universities were performed for the year 2007 by using descriptive analysis. All the universities comply with the National Governance Protocol requirement of maximum board (council) size majority external members. Board committee index suggests that universities are moving towards universal best practice, but not every university has nomination and remuneration committees. Though the number of meetings held during the year 2007 was varied among universities the average of seven meetings per year suggests the councils make an effort to regularly screen and monitor the performance of the universities.

The reforms in higher education governance in recent years were driven by internal and external pressures. Some remarkable changes that took place in the governance systems of universities were that every university has established as an autonomous independent entity by its enabling legislation and the withdrawal of the commonwealth and the state government from certain control and management functions, devolution of responsibility to university councils, adoption of funding models which gives more autonomy and freedom to universities. In other words universities are encouraged to develop new sources of income, which leads to development of new forms of accountability through performance and outcome based funding for universities. The results of the empirical study revealed that governance structures of the universities are becoming more independent and moving towards universal best practice governance. Effective governance structures play a very important role in attracting most needed funds and stakeholder confidence to be competitive in the demand driven Australian university sector.

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**Table 1. Major government policy initiatives in the higher education sector**

<b>Higher Education Policy Initiatives 1995-2000</b>
Hoare Committee Review of Higher Education Management (Hoare 1995); Victorian Ministerial Committee of Advice on University Governance (Storey 1997); West Review (West 1998); Victorian Review of University Governance, (Hamilton 2002); Auditor General, Victoria, Report on RMIT University's finances (Cameron 2003); Nelson Review Backing Australia's Future (2003); (Bradley review )Review of Australian Higher Education(2008). Transforming Australia's Higher Education System (DEEWR 2009)

**Table 2: Four Models from Control to Autonomy**

<b>Institutional Governance Model</b>	<b>Status of public universities</b>	<b>Examples in</b>
<b>State Control</b>	Can be an agency of the MOE, or a state-owned Corporation	Malaysia
<b>Semi-Autonomous</b>	Can be an agency of the MOE, a state-owned corporation or a statutory body	New Zealand, France
<b>Semi-Independent</b>	A statutory body, a charity or a nonprofit corporation subject to MOE control	Singapore
<b>Independent</b>	A statutory body, charity or non-profit corporation with no government participation and control linked to national strategies and related only to public funding	Australia, United Kingdom

Source Fielden (2008)

**Table. 3 Descriptive Statistics for External Governance Mechanism Variables**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>Government assistance/ total revenue(stakeholder influence)</b>	37	.33	.94	.5684	.12210
<b>Comply with protocols (regulatory index)</b>	37	.92	1.00	.9395	.03480
<b>Valid N (listwise)</b>	37				

Source 2009 research

**Table 4. Descriptive Statistics for Internal Governance Mechanism Variables**

	<b>N</b>	<b>Minimum</b>	<b>Maximum</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>Board size</b>	37	12.00	22.00	19.2432	2.76290
<b>Board independence</b>	37	.50	.70	.6000	.05185
<b>Board committees</b>	37	.18	.76	.5424	.14090
<b>Board meetings</b>	37	4.00	12.00	6.8378	1.48162
<b>Transparency in reporting</b>	37	.25	1.00	.6038	.18067
<b>Valid N (listwise)</b>	37				

Source 2009 research

**Figure1 Conceptual Framework**