



**University Governance:
Achieving best practice and meeting future challenges**

Research Paper for IUA Conference 2010

Meeting the Challenges of the New Decade

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Introduction

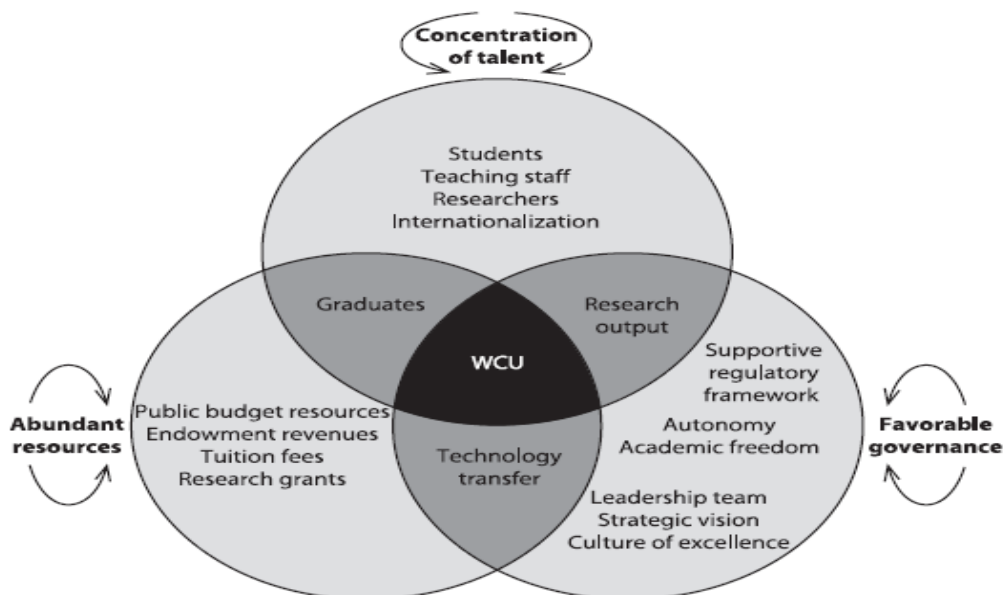
The purpose of this research paper is to provide participants at the IUA’s conference with an overview of developments in respect of university governance internationally and of what is considered to be best practice outside Ireland as well as in publicly-funded bodies in Ireland. It briefly explains the significance that governance—and the concepts and tools associated with it - has assumed in the management and strategic direction of universities and public bodies before suggesting that some recent reports and codes can offer some helpful guidance to universities as they seek to apply the principles of governance to their distinctive structures and unique position in society. The paper will also pose some questions concerning how universities can best meet the practical and operational challenges posed by contemporary corporate governance requirements. In so doing, it will provide the basis for discussions in the conference workshops.

Good Governance in the Global/International University Sector

There are many different ways in which the performance of universities can be assessed and judged. The aspect of university performance that has come to increased prominence recently is the manner of their governance, particularly what might constitute best practice in this field. The premise is that with sound and well understood governance arrangements in place, universities can meet their accountability requirements and responsibilities whilst protecting their autonomy, expanding their capacity for innovation and research excellence, and securing their funding.

As the Figure below from Salmi (2009: 8) identifies, a ‘favorable governance’ environment is an essential pillar on which to build a world-class university.

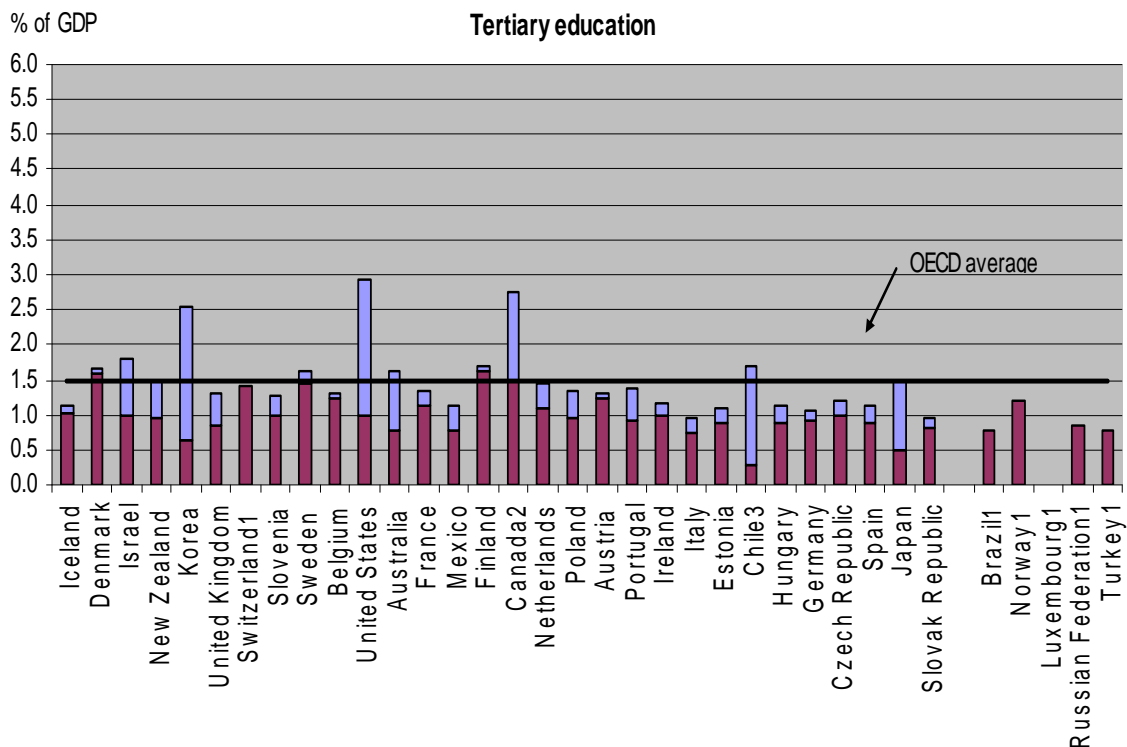
Figure 1: Elements of a world-class university



Discussions on corporate governance issues generally, along with the fall-out from high-profile scandals in the private sector and the globalization of research, have contributed significantly to the spread of ideas concerning best practice in university governance. Though considerable variety in university governing models remains (ranging from faculty to trustee or even stakeholder Boards - Trakman 2008), European universities have been heavily influenced by the governing models of prominent US universities, and many have reformed their structures accordingly. While there is a paucity of research into the effects of reforms on outputs, Europe trails the US in all the global rankings. The most recent research (e.g. Aghion et al 2010; Aghion et al 2007) consistently points towards two issues to explain this: funding and governance.

The funding issue is of course complex (not least because many US universities rely on considerable private funding), but, in summary, Europe invests too little in research and far too little on higher education. Recent OECD statistics (for 2006) bear this out, with the US, Canada and Korea being best in class, but few EU states (Denmark, Sweden and Finland) being above average, and then only slightly.

Figure 2: Public and private contributions to funding 3rd-level education in OECD (Note: Public funding in red and private funding in blue)



Clearly, European Governments must invest more, but equally universities are seeking to make funding go further through a combination of budget-cutting and employment-related measures, and revenue-generating mechanisms (Salmi and Bassett 2009: 20-34). Salmi and Bassett recommend that governments need to 'put in place solid financial aid programs and

recognise the role of tertiary education in support of economic growth' (2009: 69). However, Aghion *et al* argue that 'to make [any] additional funding 'bite', universities should be given more autonomy in budgets, hiring and remuneration' (2007: 1). These are core issues that relate to the second issue noted above – that of university *governance*. Simply increasing funding without considering the governance arrangements and requirements will not improve university performance. In a university setting, Pardy argues, governance is '...based upon a separation of powers among its faculty, administrators, and legislative bodies. This separation of powers is the university's central organising idea and the university's version of an unwritten constitutional principle' (2008: 372).

Aghion *et al* (2010) propose that the best performing European states in university rankings are those that have 'unusually autonomous universities'. Chief amongst these are the British and Swiss universities. Closer analysis (Aghion *et al* 2007, 2008) finds that while they have little control over the level of their own budgets, Swiss universities have a strong research performance tradition. This is attributed to the fact that they enjoy a high level of public funding and have the authority and autonomy to use it flexibly to attract top researchers from all over the world. In Britain, while the proportion of GDP spent on 3rd level funding is not nearly at an OECD average level, it scores highly on OECD measures of university autonomy (financial autonomy, staff policy autonomy with respect to hiring/firing and wages, student selection and course content) and accountability (evaluation mechanisms and funding rules) (Aghion *et al* 2007). It should be noted also that others propose size may also be a factor in achieving high university performance, with larger states more able to achieve economies of scale (Alesina and Spolaore 2003). The tensions between increasing calls for accountability by external stakeholders and the ever-present expectation of internal stakeholders for autonomy and professional respect is also prevalent in the US higher education system (Dunn 2003).

Of course, university autonomy involves many distinctive but inter-related elements. A recent study by the European University Association considered issues of staffing, funding, organisational and academic autonomy (2009). They found a wide variety in arrangements across Europe (some of the relevant details are specified below) and noted that the effects of the recent economic crisis on university autonomy generally had yet to become clear. The report argued that:

...public authorities need to find ways of steering the universities through performance and information measures, without resorting to excessively burdensome and potentially misplaced reporting measures, or too short-term funding. The commitment to long-term stable university funding is crucial for institutional autonomy' (2009: 42).

The complexity of the operating environment facing the sector and the multiplicity of stakeholders is acknowledged in the work of Lane and Kivisto (2008) where they conclude that:

While there exists some rare occasions when a university can turn to a subcontract that clearly defines the goals of the government, universities usually operate under multiple explicit and implicit contracts (most of which declare a relationship between the

university and a specific principal), but the terms of the contract are in constant flux depending on who holds a specific office or title (2008)

Corporate Governance in Universities: Alternative Frameworks and Principles

A major issue for many European states therefore has been balancing the contribution of universities to national educational, economic and social policy with the concurrent need for universities to steer their own path and develop new fields of inquiry. Publicly funded universities must now also adhere to and demonstrate good corporate governance practices. *Corporate governance* has its origins in the marketplace and emerged as a term to describe the way in which suppliers of finance to corporations could assure themselves that risks were being minimised and management was performing in an appropriate manner. Thus, it has become associated not only with financial reporting and controls, but also standards of behaviour and organisational structures and processes.

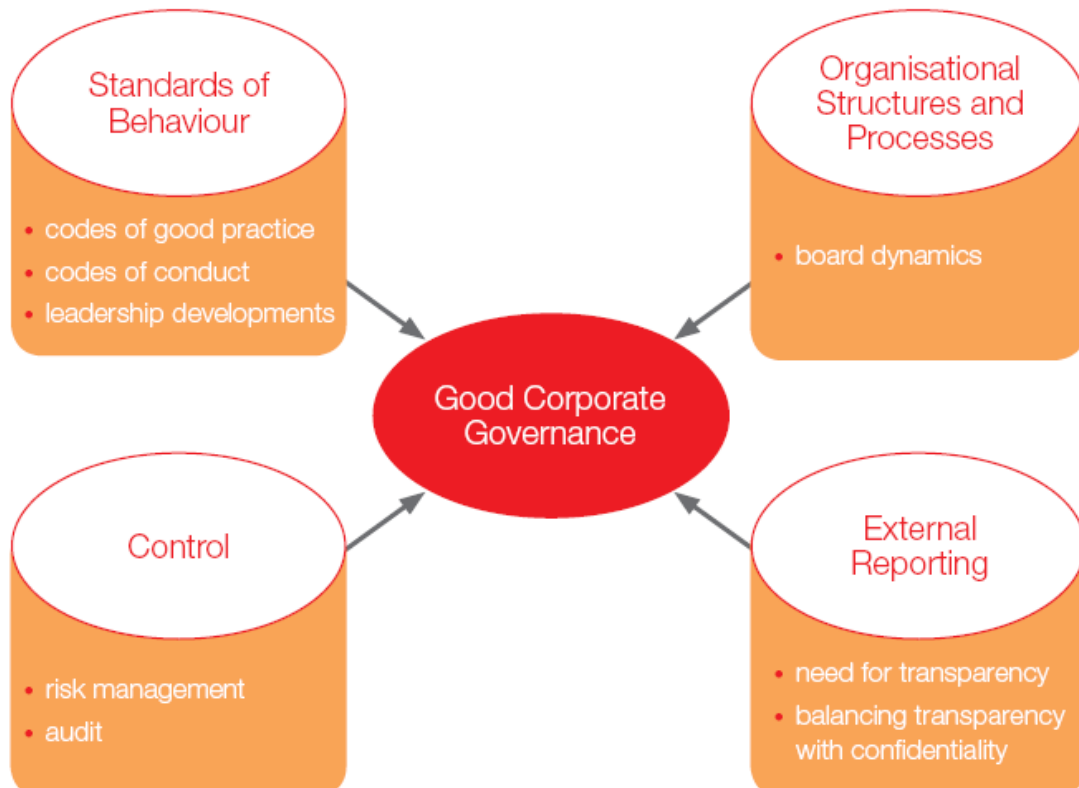
Many principles of corporate governance do not translate easily into the non-private sector, however, and universities provide a case in point. Universities occupy a unique position in society in terms of knowledge discovery and scholarship, and the imposition of rules and codes must always be tempered by recognition that innovation, freedom of thought and creativity must not be stifled. The distinctive nature of universities was recognised in the HEA/IUA “Governance of Irish Universities” in 2007 which stated that:

A robust system of governance is vital in order to enable organisations to operate effectively and to discharge their responsibilities as regards transparency and accountability to those they serve. Given their pivotal role in society and in national economic and social development, as well as their heavy reliance on public as well as private funding, good governance is particularly important in the case of the universities. (2007: 1)

Notwithstanding the distinctive nature of universities, a number of models and reports on the governance of public bodies can be of real value to the university sector as it seeks governance models that are both robust *and* appropriate to its particular position in societies and economies. There are a wide range of professional and authoritative reports and publications, and national and sectoral governance codes that place an emphasis, sometimes using different terminology and perspectives, on what constitutes the principles of good governance. A number of such well-developed models are considered here.

The UK’s Audit Commission (2003) views good corporate governance in public bodies as being comprised of 4 interlocking elements: standards of behavior, structures and processes, control mechanisms (including risk management and audit) and external reporting requirements. Figure 3 depicts this conceptualization.

Figure 3: Corporate Governance: UK Audit Commission (2003)



A more interesting conception of corporate governance is provided by the International Federation of Accountants (IFAC), which views it as being comprised of an interdependent combination of organisational performance and conformance. As Figure 4 details, the *performance* of an organisation is principally concerned with the value it creates and how it uses its resources. It is a forward-looking concept, and is dependent on strategy, implementation and the determination of risk appetite. The issue of *conformance* is about meeting accountability requirements and providing assurance to stakeholders that all actions are in line with their expectations. It is a more historical viewpoint, and is designed to ensure that the organisation is working effectively & efficiently, and management's fiduciary responsibilities being met.

Figure 4: Corporate Governance: IFAC (2009)



As well as these frameworks, a number of reports have identified a series of principles which should underpin good corporate governance. Examples are provided below: one from a public service standard and one also from an international good practice guidance note. While statements of principles are in effect fundamental beliefs that should not be transgressed, they are developed on the basis of sets of *values*. At the heart of all activities are values and ensuring that an organisation such as a university has in place a well-defined and understood set of values is core to its success. *Indeed, the events of the last number of years have demonstrated that while codes of conduct and practice abound, they do not ensure the desired behaviour.* Instead, it is adherence to a core set of values (e.g. transparency, independence, selflessness, integrity and fairness) that provides a more powerful determinant of action. Statements of principles normally contain a number of values, which are elaborated on. The samples below help to illustrate this point.

Sample 1: IUA/HEA Governance of Irish Universities

The Universities Act, 1997 sets out a framework of accountability for the effective governance of Irish universities. The statutory provisions within the 1997 Act recognise the uniqueness of the University Sector in terms of governing structures while also incorporating other obligations as applicable to other publicly funded bodies and agencies. This uniqueness and distinctiveness was further recognised in the IUA/HEA 2007 code which provided best practice guidance that allows for both the effective functioning of autonomous universities coupled with robust

processes and procedures to ensure accountability, transparency and stewardship of public funds.

Since the adoption of the code, the Irish University sector has updated and implemented new governance arrangements which comply with the statutory obligations as well as the principles and provisions enshrined in the Code. There are also a wide range of other national and international authoritative governance best practice codes and reports that have evolved in recent years and within the sector the intentions of these codes are respected and incorporated into the Universities governance arrangements as appropriate.

Produced after intensive work between the HEA and IUA, the document provides an important platform for University Boards/Governing Authorities to engage with and meet the requirements of good corporate governance practice. In a global study on university governance, Salmi (2009b) picked out the code for special praise.

In addition to specific provisions the code sets out the key underlying principles that underpin governance within the sector as follows:

- Openness and transparency;
- Selflessness;
- Honesty;
- Leadership;
- Fairness;
- Integrity;
- Independence;
- Accountability;
- Objectivity;
- Efficiency and Effectiveness;
- Value for money.

These principles have been referred to in many subsequent governance codes both nationally and internationally

Sample 2: Public Service Standards

The Office for Public Management & Chartered Institute of Public Finance and Accountancy in the UK has produced a *Good Governance Standard for Public Services* (2004). The standard suggests that there are six core principles:

1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.
2. Good governance means performing effectively in clearly defined functions and roles.
3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour.

4. Good governance means taking informed, transparent decisions and managing risk.
5. Good governance means developing the capacity and capability of the governing body to be effective.
6. Good governance means engaging stakeholders and making accountability real.

Sample 3: International Good Practice

Again, we draw here on the IFAC (2009) work. The guidance suggests that there are twelve key principles for good corporate governance:

1. The creation and optimization of sustainable stakeholder value should be the objective of governance.
2. Good governance should appropriately balance the interests of stakeholders.
3. The performance and conformance dimensions of governance are both important to optimize stakeholder value.
4. Good governance should be fully integrated into the organisation.
5. The governing body should be properly constituted and structured to achieve an appropriate balance between performance and conformance.
6. The governing body should establish a set of fundamental values by which the organisation operates. All those participating in governance should embrace these fundamental values.
7. The governing body should understand the organisation's business model, its operating environment, and how sustainable stakeholder value is created and optimized.
8. The governing body should provide strategic direction and oversight in both the performance and conformance dimensions.
9. Effective and efficient enterprise risk management should form an integral part of an organisation's governance system.
10. Resource utilization should align with strategic direction.
11. The governing body should periodically measure and evaluate the organisation's strategic direction and business operations, and follow up with appropriate actions to ensure appropriate progress and continued alignment with objectives.
12. The governing body should ensure that reasonable demands from stakeholders for information are met, and that the information provided is relevant, understandable, and reliable.

With these frameworks and principles in mind, we turn here to the governance of Irish universities more specifically.

The Governance of Irish Universities: Some Food for Thought

Building on the 1997 Universities Act, the HEA/IUA's Code of Governance for Irish Universities is recognized as a comprehensive document, and draws on best practice in terms of key

corporate governance issues such as audit, risk, procurement and value for money. In a wide ranging article drawing on examples from across the world, Salmi (2009b: 21) lauded the Irish case (the HEA/IUA Code) as 'perhaps one of the most interesting partnerships between a national government and university sector to create a comprehensive accountability framework'. Also reflecting on examples from across the globe, he concludes that the successful evolution of tertiary education hinges on finding an appropriate balance between 'credible accountability practices and favorable autonomy conditions' (2009b: 26). Ensuring that this balance is achieved whilst also adapting to the evolution of corporate governance requirements is an important task for the Irish university sector.

The recent publication by the **European University Association (EUA)** titled *University Autonomy in Europe* makes some interesting comparisons across Europe and has some lessons for Ireland. For example:

- A majority of states have University governing structures which allow for the appointment of external members. Ireland is one of a few states, however, that allows for some of the external members to be appointed by the university itself, and others to be appointed by external authorities.
- In only five countries (Denmark, Finland, Germany, Ireland and Spain) are the university institutions' educational responsibilities stipulated in the national law, determined by the relevant ministry, or negotiated between the Ministry and the university.

This report also made some other, more general, points of interest here, including:

- While the design of internal academic and administrative structures largely falls under university control, governance structures and leadership are often strongly shaped by national legislative frameworks.
- There is a trend towards public funding being allocated as block-grants, which are often based on – or accompanied by – performance criteria or targets.
- The use of dual governing structures, (i.e. with one body such as a Board or Council taking responsibility for strategy and budgetary issues and another body such as a Senate representing staff and concerning itself with issues such as curriculum grading and staff promotions) is now more widespread in mainland European universities than the more traditional unitary system (i.e. one body responsible for all decisions).
- External stakeholders are increasingly involved in the universities' governance structures, and especially in countries where universities use the dual governing structure.
- European processes such as the Bologna process and European frameworks have had a strong impact on many issues related to academic autonomy.

In the UK, the **Committee of University Chairs (CUC)** produced its revised *Guide for Members of Higher Education Governing Bodies in the UK* in 2007. One interesting innovation in this Guide is that as well as an audit and remuneration committee, Governing Authorities are encouraged to consider establishing a nominations committee to seek out and recommend the appointment of new lay/independent/co-opted members to the governing body.

Most recently, in Ireland, the **Department of Finance** produced its revised *Code of Practice for the Governance of State Bodies*. The new Code of Practice takes account of developments within the governance area, both nationally and internationally, as appropriate to state bodies and agencies. Whilst designed principally for commercial state-owned enterprises and non-commercial state agencies, some of the principles and practices identified within it have a resonance within the university sector.

The new code follows from the 1992 State Body guidelines and the predecessor Code of practice from 2001. Compared with its predecessor, the new Code has a stronger tone reflecting a reaction to recent governance controversies, and it is more prescriptive on some topics e.g. a new Appendix on travel expenses. The code states that “State bodies must serve the interests of the taxpayer, pursue value for money in their endeavours (including managing risk appropriately) and act transparently as public entities” and that State bodies should be guided by the principles set out in the Code. These principles are also incorporated in the IUA/HEA Code as referred to above.

At the launch of the Code and reflecting the evolving nature of Governance, it was also announced that a new broader governance framework is in preparation which will include guidance on performance frameworks and departmental oversight, the appointment of members to boards, the role of Departmental nominees and wider stakeholder consultation.

The following are some of the key changes and areas with renewed emphasis in the 2009 Code: compliance statement, good faith reporting, internal control effectiveness, risk management, succession planning, performance frameworks, board evaluation, procurement, reports and accounts, legal disputes and board member attendances

Other Issues Emerging

Sustainability and Corporate Social Responsibility

An examination of some of the top Universities in the world (according to the Shanghai rankings) identifies some other issues which form part of their corporate governance. The issue of environmental sustainability is now a notably prominent feature of many universities' corporate governance objectives. There is also greater emphasis on engagement with neighbourhoods and the direct university environment as part of increasing awareness of Corporate Social Responsibility. For example, in Harvard a Corporation Committee on Shareholder Responsibility (CCSR), a subcommittee of the President and Fellows, has been created.

Board Committees

One of Europe's top Universities, the Swiss Federal Institute of Technology, has six advisory committees (some of which are called commissions) assisting its Executive Board. They are, respectively:

- A Strategy Committee
- A Study Committee
- A Research Commission
- An ICT Commission
- A Risk Management Committee
- An Asset Commission

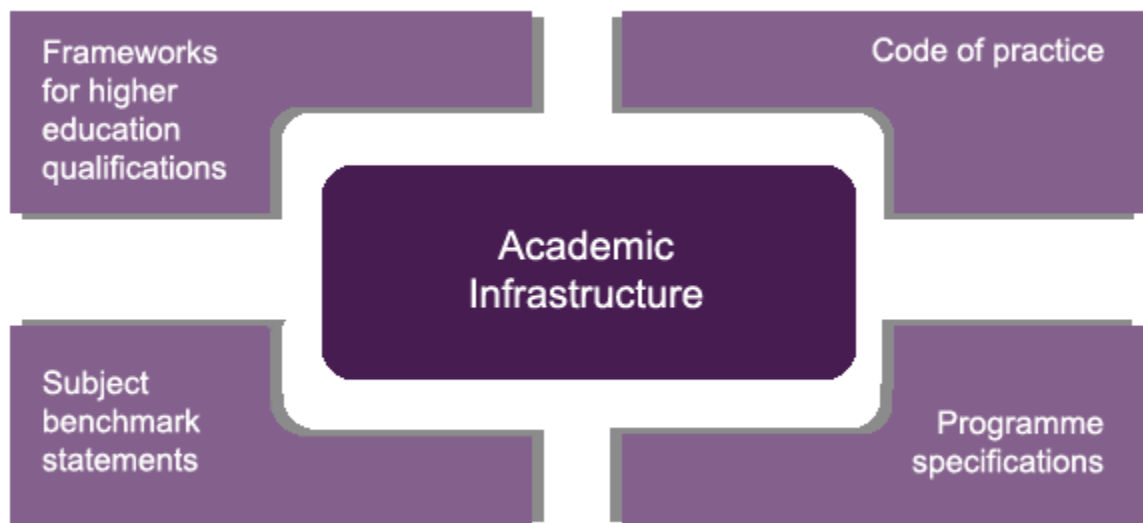
These Boards are delegated specific tasks and report on a regular basis to the Executive Board.

Ensuring Quality and Standards

In Britain, the Quality Assurance Agency for Higher Education (QAA), has developed a set of reference points (Figure 5), known as the Academic Infrastructure to help universities set, describe and ensure the quality of their higher education courses.

The Academic Infrastructure has four inter-related elements (see chart below). The Code of practice element is concerned with the management of quality and the other three elements give advice to institutions about setting standards.

Figure 5: QAA Academic Infrastructure



The Academic Infrastructure is currently being reviewed as part of an evaluation of its achievements to date.

In recent months, Walker (2009) examined key governance areas in UK banks and financial institutions including the effectiveness of risk management at board level, member skills and experience and board practices. Within the recommendations were issues which are consistent with much of contemporary best practice governance guidance. The issues include a focus on the size, composition and qualifications of board members, the functioning of and process at the board, the evaluation of performance and the establishment of risk committees.

Having considered some developments both nationally and internationally in corporate governance, we turn here to consider in more detail the **Conference Workshop Themes** and some issues for further discussion in the Irish university context.

Workshop Theme 1: Moving from compliance to performance

There is no predominant model for higher education corporate governance in Europe. There are a number of common themes to recent university reforms however: increasing public funding for higher education, granting autonomy to institutions in the management of financial resources (this is a key trend), promoting the direct link between results and the amount of public funding allocated, and encouraging the diversification of funding sources and creation of partnership with business (Veugelers & Van der Ploeg 2008). They also find that the link between governance and performance is complex.

Aghion et al (2007) report that size, age and budget per student all positively affect research performance. Other than these, the only governance indicator that turns out to be significant is budget autonomy. The positive effects of having larger budgets per student are higher when the institutes enjoy a higher degree of budget autonomy, suggesting policy reforms should tackle simultaneously funding and governance.

Veugelers & Van der Ploeg (2008) argue that in return for being freed from over-regulation and micro-management, universities should accept full *institutional* accountability to society at large for their results i.e. less *ex ante* checks and greater *ex post* accountability of universities for quality, efficiency and the achievement of agreed objectives.

The OECD's review of the Irish public administration *Ireland – Towards an integrated public service* (2008) was a benchmark study reviewing and contrasting norms across different countries. Amongst other areas, the review referred to the significant increase in the creation of new agencies tasked with delivering state and public services and the necessity to formalise the arrangements for the establishment, oversight and monitoring of the work of these bodies.

The government's *Transforming Public Services* policy statement was issued in November 2008 as a response to the OECD report. On the issue of 'Strengthening Governance' the report emphasised the need for greater agency coherence and inter agency collaboration as well as new performance frameworks for state bodies and agencies. The report, in particular, affirmed the need for agencies (and all public bodies) to produce output statements and for a greater performance dialogue between parent departments and their agencies.

The predominant feature of governance obligations arising from corporate scandals and frauds focused on audit and control systems linked to robust oversight and accountability protocols and related declarations. Updated Codes and standards generally address this dimension with compliance being validated through audit, assurance and inspection regimes. The areas addressed ordinarily include the clarity of roles of the apex of the organisation, sub-board and committee structures including audit committee composition, non executive director roles, declarations and conflicts of interest, internal controls and audit regimes in an organisation.

Unfortunately, many accountability arrangements tend to be rigid and procedural in focus with limited discretion to 'think outside the box' or look for opportunities to enhance or refocus services. Callahan (2007) reflects a growing concern that 'the accountability burden may

actually undermine performance because more effort is going toward documenting performance rather than improving performance'. The dilemma of balancing compliance with performance has been acknowledged as the key challenge for boards, governing bodies and senior management, particularly as the performance expectations of stakeholders, government and public, are ever greater. It should be asked, notwithstanding the widespread view that audit and control systems have failed, and spectacularly so in certain sectors, whether the predominant accountability arrangements and codes leave the requisite space for innovation.

In contrast to the excessive compliance focus, there is an alternative perspective which emphasises the performance dimension and the achievement of business objectives. The focus here is on helping the board or governing body to make strategic decisions, understand its appetite for risk and its key drivers of performance, and identify the critical points at which it needs to make decisions and monitor and assess performance.

The HEA/IUA Governance code, while building on the Universities Act 1997, acknowledges in the foreword the move towards 'an increasing focus on ensuring effectiveness and on assurance based on identifying and managing risk'. The code seeks to balance the principles of autonomy as enshrined in the Act¹ with appropriate governance and accountability arrangements to assure their stakeholders that the investment being made in them is being effectively used.

The recent Innovation Taskforce report acknowledges the necessity and critical importance of investing in education to drive economic and social development and to position the country to embrace the new opportunities.

For discussion at the workshop:

- ***How can funding streams to universities be determined and structured to encourage performance?***
- ***How can governing bodies ensure that the level of investment in the sector maximises the potential which exists and meets and surpasses the wider expectations of stakeholders?***
- ***Given the increased emphasis on the performance evaluation of governing bodies of public benefit entities, how can governing bodies of Irish Universities ensure that a reasonable balance is achieved between evaluation and performance that does not restrict the ability of their institution to achieve their strategic goals?***

¹ Section 14(1) provides that a university shall 'have the right and responsibility to preserve and promote the traditional principles of academic freedom in the conduct of internal and external affairs in accordance with its independent ethos and traditions' and 'if, in the interpretation of this Act, there is a doubt regarding the meaning of any provision, a construction that would promote that ethos and those traditions and principles shall be preferred to a construction that would not so promote.'

Workshop Theme 2: Innovation and Risk Management within the university governance agenda

Balancing innovation and risk management is a common theme in corporate governance literature (OECD 2004) and there appears to be no literature that makes a distinction in respect of universities. For all organisations, there seems to be some consensus that when the management of risk is integrated into the business activities of an organisation, as well as ensuring management and staff are more aware of risk issues relative to business objectives, it will increase the likelihood of achieving these objectives and / or being capable of responding to unforeseen events if they arise.

The Transforming Public Services programme, combined with a new governance agenda for public service organisations, has been significant. The central vision of the various reform and modernisation initiatives has been to make all state, public service, public benefit², and higher education organisations focus more on the issue of performance, as well as to develop more innovative and flexible organisations. Whilst seeking to imbue a culture of efficient, effective and high quality service provision, the public service values of integrity, equity, impartiality and accountability must also be promoted.

The focus on performance and results has emphasised innovation and entrepreneurship but as Horan (2007) states there is 'some suggestion that the process of accountability actually inhibits and impairs the very innovation which is at the core of the various modernisation initiatives'. Striking a balance between the resources and energy spent complying with accountability requirements and the resources and energy committed to delivering the continuous improvements demanded, is an ongoing and complex dilemma for senior management, governing body members and senior civil servants. It is increasingly recognized that good accountability arrangements on their own cannot ensure success and the adoption of robust and effective risk management systems holds out the prospect of supporting reasoned and reasonable risk taking to grasp the opportunities which present themselves.

Risk Management

Risk management is now seen as a fundamental building block of good governance and as suggested in the code of practice for the governance of state bodies is a regular agenda item for the board or governing body. Similarly the Good Governance Standard suggests that one of the six core principles means 'taking informed, transparent decisions and managing risk'. Schofield (2009) suggests that one of the outcomes of effective governance is 'effectively assessing risk and supporting innovation'. The 2007 IUA/HEA code also reflects this. It is acknowledged that a sound system of internal control provides assurance that the organisation will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its activities, by circumstances which may be reasonably foreseen. Circumstances that are reasonably

² Public benefit entities are reporting entities whose primary objective is to provide goods and services for the general public or social benefit and where any risk capital has been provided with a view to supporting that primary objective rather than with a view to a financial return to shareholders/stakeholders.

foreseeable are in essence risks. Having such foresight has obvious implications for the governing body, senior management and all staff.

The HEA/IUA code also states that:

This document will assist universities and their governing authorities in the good and proper management of universities and in ensuring that appropriate procedures and controls are implemented to manage the risks facing such complex institutions, while at the same time respecting their autonomy.

It will also provide comfort to the State and the public at large that universities are operating to the highest standards of governance and accountability in relation to all their activities. (2007: 5-6)

What is risk?

Risk is usually viewed as an event, action or failure to act, which could adversely affect the achievement of an objective. ISO (2009) on risk management considers risk to be 'the effect of uncertainty on objectives' - such effects can be both negative and positive. ISO (2009) establishes a number of principles that need to be satisfied to make risk management effective. These include making Risk Management an integral part of all organisational processes and part of decision-making, tailored to the needs of the organisation.

This Standard further recommends that organisations develop, implement and continuously improve a framework whose purpose is to integrate the process for managing risk into the organisation's overall governance, strategy and planning, management, reporting processes, policies, values and culture.

As with any initiative, effective implementation will not be achieved unless a strong mandate, leadership and commitment are demonstrated from the top. Therefore it is vital that the mandate and commitment are given to the implementation of risk management at the most senior level in an organisation.

Risk Appetite

Risk appetite is defined as the amount of risk the organisation is prepared to accept or retain in the pursuit of its core priority objectives. In decision-making, governing bodies and senior management implicitly consider and reflect on the environment in which their organisation operates and the risks inherent to that environment, and the amount of risk and opportunities they are willing to accept or pursue in that environment. IFAC (2009) states that an explicit articulation of this position in relation to risk appetite will allow for a constructive dialogue and challenge around the governing table. Of course, an increased focus on risk management should not be interpreted by organisations as a need to become risk-avoiders.

For discussion at the workshop:

- *The HEA/IUA code states that ‘Good governance should be seen as an aid to effectiveness. It is not there to inhibit enterprise or innovation’. To what extent do current governance arrangements support or hinder the innovation and risk-taking agenda which is core to the transforming state and public services agenda and universities more specifically?*
- *Is the concept of risk appetite and its role within strategic and operational decision-making acknowledged and communicated to both internal (e.g. management) and external stakeholders (e.g. funding providers)?*
- *How could the current accountability and autonomy frameworks within the sector be enhanced to support greater levels of innovation and risk taking?*

Workshop Theme 3: Aligning governance and strategy with outcomes and deliverables

There is little literature available providing clear data on how governance and funding are linked to performance in Universities. The dominant work in this area, by Aghion et al (2009), found that university autonomy and competition in the university sector are positively correlated with university output. The European University Association has recognized this and started a programme to examine the issue of autonomy in more detail (EUA 2009). There is also an issue about striking the right balance between core, competitive and outcome-based funding (underpinned by robust quality assurance) for higher education and university-based research (Veugelers & Van der Ploeg 2008).

It is generally acknowledged that governance and accountability arrangements in public and state services are more complex, reflecting multiplicity of objectives to be pursued. Whereas enhanced shareholder value, in terms of capital appreciation or dividends, is the key determinant of corporate success, the multiplicity of stakeholders in a public, state or university environment means there is no single or comparable measure or indicator of success. Any valid and reliable assessment of public service performance would need an appropriate agreed range of quantitative and qualitative indicators by which to assess achievement.

In whatever way the 'board' is configured, constituted or described, best practice would suggest that all organisations including public benefit entities must have at their head a group which is responsible for:

- Setting strategy and organisational priorities
- Giving leadership and strategic direction
- Strategic decision making
- Defining control mechanisms to safeguard public resources
- Supervising the overall management of the body's activities and ensuring appropriate accountability arrangements
- Reporting on stewardship and performance

Section 34 of the 1997 Universities Act identifies the strategic planning process for universities. The HEA/IUA *Governance of Irish Universities* document notes that this Act very usefully set out a framework of accountability for the effective governance of universities. It also re-emphasizes the Act's protection of key features of university autonomy, such as the provision that a university shall 'have the right and responsibility to preserve and promote the traditional principles of academic freedom in the conduct of internal and external affairs and be entitled to regulate its affairs in accordance with its independent ethos and traditions' (Section 14(1)).

The UK's Committee of University Chairs notes that 'the governing body plays a key role in the strategic development of the institution. It should be involved in the development and approval of the institution's strategic plan, which influences and guides all decisions coming before the governing body. It should also approve an annual operating plan that identifies those aspects of the strategic plan being implemented in the year in question.'

At the launch of the new *Code of Practice for the Governance of State Bodies* and reflecting the evolving nature of Corporate Governance, it was also announced by the Department of Finance that a new broader governance framework is in preparation which will include guidance on performance frameworks and Departmental oversight.

The sector's traditional role in terms of teaching, learning and research has been supplemented by government and society expectations on the sector in terms of promoting economic and social development, contributing to the knowledge economy and addressing competencies and skills gaps. The level of public and taxpayer resources in the sector does necessarily demand robust governance and accountability regimes to demonstrate the return on the investment.

Outcomes

As was outlined earlier, a range of qualitative and quantitative measures are required to assess performance outcomes. Accountability is the responsibility to demonstrate that specific and carefully defined outcomes result from higher education and that these outcomes are worth what they cost. One of the Good Governance Standards principles similarly emphasises that good governance means focusing on the organisation's purpose and on outcomes for citizens and service users.

In terms of international comparisons, considerable work has been undertaken on relative performance and league tables. In many cases, the EU lags behind the US in terms of perceived top performance institutions, although there are some very significant differences in terms of funding and participation rates. Jacobs et al (2008) suggests that the average quality of higher education institutes (HEIs) is regarded to be better in Europe, accessibility of higher education for children from less privileged backgrounds is better, and there may be a stronger focus on long-run research. In terms of participation they point to the admission in the Education Commission of the United States recent report 'Closing the College Participation Gap' that the United States does far worse than other developed countries.

Schofield (2009) suggests that among the outcomes of effective governance is:

- (1) the strategic plan is achieved
- (2) there is accountability and regulatory compliance, and
- (3) there is quality in academic and service provision

It is therefore suggested that the sector needs a clear strategic vision, needs to engage in effective strategic planning and implementation, including risk management, and needs to maintain a focus on outcomes coupled with appropriate assurance and accountability mechanisms.

For discussion at the workshop:

- ***To what extent does the strategic process in Universities and at the governing body table maintain the focus on longer term outcomes and deliverables?***
- ***Is there clarity among all the stakeholders on the outcomes and deliverables required from the sector?***

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