

Appendix D

International Examples of Institutional Governance and Management

This appendix considers the lessons for governance of Hong Kong's universities that can be drawn from a comparison with examples of high performing universities overseas. Its purpose is to provide points for comparison and reflection, rather than slavish copying.

Five universities are used to provide the comparisons. They are the University of Pennsylvania (USA), the University of Wisconsin-Madison (USA), the University of Melbourne (Australia), the University of Warwick (UK) and Imperial College of Science, Technology and Medicine (UK). Other universities that are considered world class could have been used, and similarly, different examples of best practice could be found. It should also be noted that what is being presented is not a static picture: a characteristic of these universities is their responsiveness to change and they will continue to evolve at the time of this report.

A number of features of governance that characterise Hong Kong's universities are contrasted with the evolving practices in these institutions. The core question under examination is whether the governance arrangements of Hong Kong's universities are sufficient to allow them to manage the pressures and tensions of the modern world in which they participate as large, multi-billion dollar corporations, while continuing to be preminent learning and research institutions in society.

Universities worldwide are being caught in this dilemma, which contrasts their traditional governance, designed for a self-managing community of scholars operating in comparative isolation, with the governance demands of large public corporations. The tensions are summed up in the words *autonomy* and *accountability*.

The challenge for the universities is to strike the right balance between academic freedom and being responsive to the public good, including the provision of transparent accounts of their use of public monies and the outcomes they have achieved.

Features of University Governance in Hong Kong

There are seven predominant features of university governance in Hong Kong which have been brought out in Chapter Three.

The first feature is that governance is *widely distributed* across the institution, and does not reside in either one level of a hierarchy, or in a purpose built body. In this, it differs from private sector practice where there is usually a single governance body, the Board of Directors.

The second feature is related to the first. Governance in Hong Kong's universities is a *collective responsibility*. Both of these features – distribution and collectivity - reflect the

historical evolution of universities from small, closed communities where each member had his (occasionally her) say in how the collective was run.

This leads to a third distinctive feature, which is the *large size* of the governing bodies. The governing bodies of universities generally have a membership with numbers which contrast starkly with the small size of decision-making bodies in most areas of private business.

A fourth feature is connected to this factor of size. It is the *composition* of the governing bodies. They have very wide representation of political, administrative, lay and academic members, including students and graduates.

A fifth feature is a factor of both size and composition, namely the *style of decision-making*. It is characterised by consultation, democracy and consensus.

A sixth feature is the *interleaving and interaction between advisory governance, executive governance and management*. For instance, the Head of Institution is a player at all three levels. The firm distinctions commonly drawn in the private sector between advice, governance and management are not as prevalent in the universities.

Finally, in the universities there is a deliberate *conjunction and intersection of academic and business management*. In practice, the skills involved and the roles that are played are different, and academic training does not necessarily equip someone with business skills.

Features of University Governance as it is Developing Overseas

The first feature to note within the universities selected for comparison with Hong Kong is the growing differentiation of *governance* and *management*. For example, the University of Warwick and Imperial College both locate governance firmly with the Council of the institution. They have clear roles for the Council, focused on steering the institutions while ensuring good organisational leadership and management, and through establishing an appropriate management framework which the Council then monitor.

This role is sometimes expressed as ‘noses in, fingers out’ - to convey the responsibility of the governing body to be aware of and constructively question what the management do, but at the same time not to have their fingers in the operations.

This brings these institutions close to private sector practice. In commercial settings governance is usually located in one body, the Board of Directors, which is responsible for reporting to the shareholders, and seeking a broad mandate from them. There is normally a strong line drawn between the board and management. As their name implies, directors set the direction and hold the management accountable for achieving it.

By contrast, the governance roles in Hong Kong’s universities are not concentrated in one body but are typically distributed. The role is shared between a number of bodies. These bodies, the Court, the Council, the Convocation of Graduates, the Senate and the Academic and Faculty Boards, are collectively responsible for setting the strategic directions for the university. They operate together, reflecting the university as a unity, a ‘community of scholars’. This is a tradition with a long history, but its relevance is being questioned as

universities have evolved into large, multi-million dollar businesses using substantial public monies.

These bodies in Hong Kong are simultaneously hierarchical and not hierarchical. For instance, while the Senate normally has overall responsibility for academic matters and the relevant Ordinance and Statutes set out clear roles and responsibilities for it, the principle of academic freedom makes it doubtful whether the decisions of a Faculty Board could be overturned in practice by a Senate exercising ‘line responsibilities’, or indeed by the Council.

In the overseas universities which are being used for comparison, management is shifting from being a collective responsibility, distributed across the institution, to an activity located in a specific bodies and office holders. For instance, the University of Warwick has a senior management team. But this pattern for management is not always clear-cut. Until January 2001, Imperial College had two senior management committees – the College policy team and the administration team. These have been combined and replaced by an Executive Committee, comprised of key academic leaders and heads of administrative divisions, who are responsible for the day-to-day policy execution in running the College.

This differentiation between governance and management is also reflected in the growing *division between the academic and non-academic sides of a university* in the overseas examples. The academic element of the university, largely overseen by administrating academics in the faculties and departments, is concerned mainly with teaching and research, whereas the non-academic element of the university has a separate administration overseeing overall financial, budgeting and reporting issues. Perhaps the clearest examples are the Resource Centre Management system at the University of Pennsylvania, and the Finance Committee (which recently replaced the Committee for Financial Strategy) in Imperial College.

This is not manifested in centralisation of power, but rather its opposite. The universities used for comparison show a *clear trend to decentralising management* and increasing the autonomy and independence of faculties and departments and the people who run them (usually deans or heads of department). This puts important decisions such as funding and staffing in the hands of people who have an understanding of their own units. Money is spent wisely where it is needed and the faculty or department becomes vested within the University. With this goes increased clarity of management delegation and accountability.

The overseas universities also demonstrate a shift to *smaller governing bodies* designed to handle more important decisions. For example, Imperial College aims to make a smaller Council than its current 32 members, in line with the recommendations of the Dearing Report which recommended an optimal size of 25. In a similar fashion, the University of Melbourne has moved from a Council of 39 to 23 in 1997, and 23 to 21 in 1998.

By contrast, the decision-making bodies in Hong Kong remain very large, with an emphasis on consensus or democratic decision-making akin to a Parliament. While Hong Kong’s approach has democratic strengths that confirm a very deliberate approach to decision-making, the institutions often move at the pace of the slowest ship in the convoy which does not promote rapid or ‘hard’ decisions (both a strength and a weakness). But it may be that being clear about the model of decision-making that is used is more important than choosing between models. For instance, if an institution falls between these different styles in response

to pressures, then it risks alienating the good will and participation of the large number of members who believe they are serving the public good.

The parliamentary nature of the Hong Kong universities is also reflected in the constitution of their Council membership, which lies mainly with ‘appointed and prestigious citizens’. Many university Ordinances stipulate the exact nature of membership. For instance, City University states that of the 18 external members of the Council, not less than 10 must come from commerce and industry. This suggests a desire for high levels of external members who, as lay members with loyalties lying neither to the Government or the institution itself, can independently advise the university.

However, in the overseas examples, the notion of lay membership is changing somewhat as the notion of ‘stakeholders’ takes hold. The term ‘stakeholder’ points to a shift in the roles assigned to those who participate in university decision-making – replacing the watching brief of the layman with an active duty incumbent on the stakeholder to help negotiate the university’s response to demands from particular quarters.

A further influential development overseas is the acceptance of greater management disciplines and incentives around *internal resourcing*, where departments or faculties have an increased amount of independence and autonomy.

In the University of Warwick and Imperial College, money has been allocated directly to separate departments. The departments then allocate it how they wish. Warwick does not work with faculties and hence there are no Deans. At Imperial, there have always been elected Deans of the constituent colleges (Royal College of Science, City and Guilds College and the Royal School of Mines) which historically make up the College, but although the Deans have a lot of influence they have not been delegated power or authority. While units in Warwick have to consult the centre before spending money on new staff, Imperial College has had no restrictions on departmental expenditure.

The new Rector of Imperial College has however, recently introduced a faculty structure, headed by appointed Faculty Principals who have executive powers that coexist with Deans. This was formally implemented on 1 August 2001.

In the two US universities and the University of Melbourne, money is allocated to faculties as opposed to departments. The faculty in turn distributes money to the separate departments.

In Melbourne, the Dean works with a faculty budget officer, a department business manager and the department heads to make decision about money allocation. Whereas Deans have authority over departments generally, department heads are responsible for day-to-day decisions. Within the two US universities, the faculty play a very active role within overall university governance (there are 3 core faculty committees within the University of Wisconsin-Madison) and they follow a ‘strong Dean model’ where there is increased autonomy in budgeting and staffing decisions.

This increased amount of autonomy also calls for *greater independence in retaining funds*. Departments or faculties are encouraged to ‘push’ for the money. For example, the University of Melbourne works with an incentive scheme where targets are given and there are financial penalties and rewards. At the University of Pennsylvania the schools are credited with revenues that they generate. At the University of Warwick, departments must report on

previous achievements and outcomes to bid for further resources. This approach leads to faculties/departments working harder to produce better results, so that in the future they will be credited with more money.

All of the overseas universities are seeking to *distance themselves from the Government in order to increase their autonomy and independence*. Hence they are looking for funding elsewhere. All have long-term policies outlining future plans to decrease dependency on the Government. The University of Warwick is building up links with industry and commerce in a bid to increase non-governmental income. The University of Wisconsin-Madison, frustrated at its lack of autonomy from the State, has forged a public-private partnership to secure US\$40 million. Imperial College wants to reduce its proportion of Government funding. It now has five other main sources of income. The University of Melbourne has implemented a strategic plan, part of which is to generate income outside of Government funding.

In line with decreased reliance on the Government, the two English universities are thinking about raising significant funds from donations. While this source of funding is limited in the UK, it is thriving in the US. With this in mind, the University of Warwick and Imperial College are looking at the US model of governance (particularly the roles of President and Provost) in an effort to increase chances of funding from donations.

A noticeable pattern is the emphasis given to internal audit. To provide checks and balances on the management of these autonomous institutions, governing bodies have established audit committees that are serviced by internal audit processes.

The common responsibilities of internal audit are to:

- provide advice/best practice for sound, robust financial accounting and operating systems and controls;
- assist external audits, typically by preparing documentation on compliance with Codes of Practice/good practice guidelines;
- detect fraud and violation of laws and regulations;
- safeguard assets and manage risks;
- provide the governing body and senior management with information for resource allocation within the university; and
- ensure accountability and value for money of public funds.

However, there is some variation in the mandate and reporting arrangements. The universities of Wisconsin-Madison and Warwick both have internal auditing reporting to management, whereas it is the governing body that mandates and receives the reports of internal audits in the other universities. In practice, the distinction may not be great, because in all cases the governing body holds final responsibility for properly audited accounts and annual reports on performance. That responsibility is either devolved to the Head of Institution and monitored, or more directly overseen by the governing body.

In all cases, internal audit is employed by the institutions to assist the responsive functioning of management, allowing a degree of autonomy while providing an account of management decisions and their results.

The University of Pennsylvania

Governance and Organisation Structure

The University of Pennsylvania is highly decentralised, with the individual schools having a great deal of fiscal and managerial autonomy. This decentralisation is tied closely to the University's resource allocation system, which is called Responsibility Centre Management (RCM).

The level of decentralisation works, however, only because of the application of appropriate centralised quality standards and oversight. At the University of Pennsylvania this oversight is provided largely through the Office of the Provost. For example, although the schools determine resource priorities and expenditures, the Provost's Office reviews the strategic plans of the various units and must approve all priorities and expenditures. In addition, a central provost committee, comprising Deans and faculty members from the various schools along with central administrators, provides final review of all promotion and tenure recommendations forwarded by the schools, before approval is granted by the President's Office

The Internal Audit Department measures and evaluates the effectiveness of the controls within the University's and the Medical Center's accounting, financial and operating systems. It reports through the Audit Committee to the Board of Trustees, assisting the Trustees in their governance responsibilities.

Responsibility Centre Management

RCM, which was adopted over 25 years ago, is the managerial framework used to carry out all of the University's internal budgeting and financial reporting activities. It seeks to promote the broadest possible stewardship of financial resources, and to encourage and reward innovation, creativity and efficiency.

There are two basic types of Responsibility Centres (RCs) at the University of Pennsylvania: revenue-generating centres, and non-revenue generating centres. The primary revenue generating centres are the Schools. Resource Centres and the Auxiliary Enterprises are the other two categories of revenue-generating centres.

Under RCM, the Schools and other revenue generating RCs are credited with revenues that they generate. With those revenues, the Schools and revenue-generating centres are expected to fund the direct cost of their own operations; pay a pro-rated share of the University's central overhead costs; and maintain internal budget balance.

Some special provisions of RCM

- *Subventions.* A portion of the operating revenues generated each year in the Schools and through the activities of the central University Administration is placed in a special pool of funds that is then allocated among the University's Schools and Resource Centres by the Provost. These centrally controlled funds are distributed to the Schools and RCs, and give the Provost a pool of resources for strategic investments in the various Schools and RCs and also, when necessary, deal with unanticipated financial difficulties.

- *Centrally determined policies.* In RCM, many policies are made on a decentralised basis. However, important policy decisions which affect the financial status of the Schools and other RCs are made by the President and the Provost, and the central University Administration, or must be approved by them. Some may even need the approval of Trustees. Policies which are decided centrally include:
 - the annual rate of growth in Undergraduate Tuition and other undergraduate charges;
 - the size of the Undergraduate Financial Aid budget;
 - the allocation of Subventions; and
 - the rate of growth permitted in the central Government costs to be allocated between the various Schools, Resource Centres and Auxiliaries.
- *Harmless budget variances.* The central University Administration guarantees each School's undergraduate tuition revenue, undergraduate financial aid expenses and its 'allocated cost' expenses. If actual undergraduate tuition revenue falls below the level of tuition guarantee, or if undergraduate financial aid expenses or central administrative costs come in at levels above the financial aid and 'allocated cost' guarantees, the differences must be made up out of the central University resources. The Schools are protected from budget variances.

Supporting accounting and budgeting procedures

For the system to work, the university's accounting and budgeting procedures have to be able to marry revenues to the activities that generate those revenue. For example, since students take many courses in Schools other than the one in which they are enrolled, the university must allocate tuition income, based on the number of students that a School is teaching, rather than simply forwarding tuition dollars to the School in which that student is enrolled.

The net cost of operating the university's administrative units which are not revenue generating, is shared among the University's revenue-generating units using methodologies that are accepted as reasonable and consistent. Such allocations are made based on two factors: services rendered and ability to pay (both of which need to be balanced).

Strengths and weaknesses of the RCM system

The strengths of RCM are that it:

- encourages units to conduct long term financial planning, budget analysis, and understand operating capital tradeoffs;
- encourages schools to generate revenues and reduce costs;
- encourages schools to be innovative;
- turns every unit administrator into a budget executive for the University;
- delivers few surprises;
- expands the number of people worrying about efficiencies and lowering costs, as well as the income side of the ledger;
- creates an incentive to teach and teach well, lest students take their student credit hours to another school; and
- requires a balance of trade among the schools e.g. between professional schools and arts and sciences.

Equally, RCM has weaknesses. It:

- encourages parochialism e.g. curriculum decisions that keep students enrolled in a particular school rather than encouraging students to select course in other programmes (a problem especially at the graduate level);
- stimulates disagreements over the level of taxation and the cost of support for centralised services;
- requires a complex set of rules for assigning incomes and expenses; and
- requires substantial, reliable and accurate information systems.

Application of RCM to a publicly funded university

Most of the American universities using the RCM system are private institutions. The most well known public university using RCM is Indiana University. There are different views on the applicability of RCM to a publicly funded university, but there is agreement that it is adaptable to a public setting if the centralised units give up certain levels of control, and further, that RCM applies best when income sources are many and diversified. There appears to be less need for RCM with a sole-source revenue stream such as Government funding.

The University of Wisconsin-Madison

Governance

The University of Wisconsin-Madison (UWM) is part of a multi-campus system. The Madison campus receives its budget from the general administrator system of the University of Wisconsin. The Chancellor of the Madison campus is essentially the Chief Executive Officer of the campus, but he must work closely with, and report to, the President of the whole Wisconsin system.

Because UWM exists within a broader system of institutional governance, it is answerable to the University of Wisconsin's system administration and to an independent Board of Regents that acts under state mandate. As a consequence of that relationship, and with the experience of knowing what works well, and what does not, the university has adopted a variety of managerial processes that promote inclusive governance. It keeps internal and external constituencies well informed, and ensures that policies, procedures and proposals, before they are implemented, receive extensive comment and adhere to state laws and Regent mandates.

The members of the Board of Regents are the Superintendent of Public Instruction, the President (or by his/her designated member) of the Technical College Board system, 14 citizen members appointed for a staggered 7-year term, and a student. The latter must be enrolled at least half-time in an institution or centre within the University of Wisconsin system, be at least 18 years old, of good academic standing, and a resident of the State of Wisconsin for a 2-year term.

The overall objective of internal audit of UWM is to assist all members of management in the effective discharge of their responsibilities. The Internal Audit Department is directed by the Chancellor's Office, and focuses on accountability, compliance, and efficiency. Accountability ensures sound controls and management of internal resource allocation; compliance ensures all rules and regulations are followed; and efficiency provides

management and financial information to enable management to maximise its available resources.

The campus has historically been frustrated by its lack of autonomy from the University of Wisconsin System Office and the State. In 1999, however, UWM was successful at forging a private-public partnership to secure US\$40 million in additional discretionary funds from the state.

Institutional leadership

The Chancellor of UWM has four direct reports. Two of these are academic positions at the level of Vice-Chancellors: the Provost who serves as the Chief Academic Officer, and the Vice President for Research. There are also two non-academic positions: the Vice-Chancellor for Administration who oversees all non-academic operations, and the Vice-Chancellor for Legal Operations who serves as the UWM's general counsel. UWM is organised into 11 schools and colleges, each headed by a Dean.

The University Hospital

The hospital on campus recently shifted to public control. There is a semi-private board that governs the hospital outside of the UWM budget. Clinical income goes into a private foundation, which then redistributes the income to clinical faculty, based on the proportion of income they generated.

Medical school faculty and clinical faculty earn UWM salaries. The UWM is grappling with the question of how to incorporate clinical faculty into UWM governance. Currently, clinical faculty are not included in the Faculty Senate and are not subject to policies such as tenure review.

Committees

The UWM has over 100 committees. Each department has a curriculum committee and a promotion committee. Most schools and divisions also have curriculum and promotion committees to ensure standards across units. There are also three core faculty committees: the Faculty Senate which establishes policies; the University Committee which serves an important advisory role to the Chancellor; and the Committee of Faculty Roles and Responsibilities which hears tenure and termination appeals.

- *The Faculty Senate:* The Faculty Senate is a representative body, each Faculty providing one representative for each 10 Faculty members. Departments vote for representatives proportional to the number of departments in the Faculty. The Senate meets 7 times per year. It appears that the current model of the Faculty Senate is not effective. Senior staff do not like to serve, and as a result, younger staff are appointed to serve. The University also hesitates to use this body in an advisory fashion, because its proceedings are a matter of public record. The senior Administration prefers to use the University Committee that provides a more private forum for deliberation.
- *The University Committee:* The University Committee is an elected Faculty body that works closely with the chief administrative officers. It is defined in state Government statutes. The University Committee consists of 6 members, 2 of which are elected each

year. Members serve 3-year terms. Rules stipulate that there cannot be any more than one person from a given department or more than 3 from a given school or division. The Chancellor calls this group ‘his internal Board of Regents’, and they advise on decisions, budgets, and policy and serve as a conduit of information to schools and departments.

Role of the Provost and the Dean

The UWM operates under a ‘strong Provost’ and a ‘strong Dean’ model. This means that both the Provost and the Deans are given considerable autonomy in budgeting and staffing decisions. The UWM also operates a ‘weak Department Chair’ model in that the Executive Committee in each department makes tenure and budgeting decisions rather than the Chair. The strong Dean model is seen as a real advantage of the UWM. This model puts funding and policy decisions in the hands of people who understand their units, rather than creating an extensive administrative structure to oversee rules and compliance. Instead of imposing strict rules and audit structures, the UWM creates performance metrics against which Deans, Vice-Chancellors, and administrative directors are judged. Faculty have primary responsibility for personnel matters and for academic matters (definition of degrees and curricula), and consequently feel vested in the UWM.

Funding and budgeting

In the past decade the cost of running the UWM has risen more quickly than the rate of inflation. There has been a decrease in the proportion of the UWM’s budget that comes from state funds from 33.9% in 1989-90 to 27.2% in 1998-00. Funds from student tuition and fees have remained relatively constant, and there has been a significant increase in the role of private funding.

Nearly 60% of UWM’s annual budget is devoted to instruction and research. These costs include salaries, benefits, lab equipment, overhead receipts, and other expenses associated with core teaching and research. Of the University’s US\$1.275 billion budget in FY’98-99, 49.5% was devoted to salaries and wages, 14.4% to fringe benefits, 24.9% to operating expenses, 8.0% to capital, and 3.2% to scholarships.

Of the US\$60.9 million in Federal Indirect Cost Reimbursements (Government money to support research infrastructure at institutions conducting federally supported research), US\$37.6 million was directed to support base budgets of Information technology, Libraries, and Facilities.

The UWM received over US\$17 million in 1999 from royalties from patents and licenses. The UWM’s Research Foundation is 75 years old, making it the oldest in the country. The foundation has an endowment of over \$1 billion. UWM’s US\$17 million in patent and license income is distributed to faculty via the Research Committee. Faculty can submit proposals for funds as insurance for outstanding proposals, and UWM will fund the best projects that do not receive external funds. UWM also uses a portion of this income for faculty fellowships, and to provide stipends 10% greater than standard rates for top PhD candidates. A further use for these funds is to assist faculty in starting-up research funds by investing in equipment and research infrastructure.

The University of Melbourne

Governance

Australian higher education operates within a complex legislative and policy structure. Universities are constituted under State legislation and governed by State regulation, yet they receive almost all of their public funding from the Commonwealth Government. Higher education policy is therefore largely a Commonwealth responsibility, while State Governments retain significant regulatory control. The few institutions established under Commonwealth legislation have unique funding regimes, reflecting their specific roles, functions and perceived financial needs, whereas the Commonwealth Department of Education, Training and Youth Affairs (DETYA) views the State universities as components of a more or less homogenous higher education sector.

The University of Melbourne consists of a Council, the Professors, other members of the academic staff, members of faculties, graduates, diplomates, undergraduates and members of the general staff designated by Council. In 1998 a restructured Council of 21 members took responsibility for the conduct of the University's affairs. Prior to that, the University was governed by a larger Council of 39 members.

The Vice-Chancellor is seen as the Chief Executive Officer of the University. The Chancellor acts like a non-executive Chairman of the Board, which is there to provide strategic direction in conjunction with management, mainly via the Vice-Chancellor. Policy development and strategic direction is iterative. It tends to come from the management within the University through the Vice-Chancellor, engaging the hearts and minds of the Council, who in turn provide advice and direction.

The Council membership structure is the Chancellor, Vice-Chancellor and the President of the Academic Board (ex-officio members); one person appointed by the Minister for Education; 6 persons appointed by the Governor in Council; 6 persons appointed by the Council; 3 persons elected by and from the staff of the University (1 representing the professors, 1 representing the academic staff other than professors, and 1 representing general staff members); and 2 persons elected by and from the students enrolled at the University.

The graduates collectively comprise the Convocation, which may make submissions on University matters to the Council. Convocation elects a Standing Committee to advise Council. The Committee's power to approve or amend University legislation made by Council was removed with effect from 1998.

Academic administration of the University is conducted by the various faculties, the Melbourne Business School and the Victorian College of the Arts, and is supervised by the Academic Board.

Internal audit is responsible to Audit Committee of the Council, which reports to the Council through the Finance Committee. The Audit Committee advises the Finance Committee and Council on the policy direction and effectiveness of both internal and external audit investigations and reviews, and on the effectiveness and efficiency of internal systems of control. Internal audit is expected to perform a watchdog role but also work proactively with Finance to improve the processes and procedures within the Management environment. The focus for Internal Audit is clearly on the improvement side.

The Council appoints six members to the Audit Committee, at least three of who are members of Council. All six members must be external members and not academics employed by the university. In making these appointments Council must ensure that at least one member is a member of the Finance Committee, and that any non-Council members are selected for their expertise in auditing.

Funding and budgeting

The Planning and Budget Committee represented by the Vice-Chancellor, Deputy Vice-Chancellors and every Dean, all have an input into dividing up the total resources available. If any additional resources come in they have a say in how it is allocated.

More and more of the funding is moving to 'one line budget' with the Planning and Budget committee allocating dollars to each faculty. In general there is no dictation as to how to spend but guidelines are provided. Deans have considerable discretion and effectively all decisions lie out in the operating areas. For instance the board that manages tenders does not try to second guess the Dean's decisions, but to test their practical probability.

Most Deans have a faculty budget officer and most reasonably large departments have a Department Business Manager whose role is a mix of finance and direct administrative support to the department head. The University is focused on increasing their expertise in preparing adequate business plans, relating the plans to the corporate goals and objectives and the budget. The University's central finances are contributing towards this training.

The Heads of Departments can authorise expenditure up to Aus\$50,000 and they make their own HR and operating decisions. Responsibility is devolved down to Heads of Departments in terms of day-to-day operations. The Departments are provided with monthly reports. However, the University feels limited by the style of reporting, which is still oriented towards the Government, compared to the needs of the department. The university would prefer more a more commercial style of reporting to reflect the more competitive environment.

Incentives are used to guide the University in the direction that it wishes to go, and to assist with the achievement of operating and strategic goals, although the dollars involved are not great. Targets are set for each faculty to ensure they meet the DETYA profile for the number of new students to be taken in, DETYA subsidised students, and fee-paying students. If the faculty fails to meet targets on DETYA students there is a financial penalty. However, if the faculty exceed targets for fee-paying students they receive an incentive. Similarly, if they achieve outstanding research and PhD results they are provided with incentives.

Incentives are provided for changing the profile of a faculty. For example, if a faculty can get a Nobel Laureate on staff for 2 months per year for 3 years they get an extra Aus\$100,000. Medicine currently has 2 of these. The belief is that high calibre people rub off onto other staff and students.

Finance committee gets a report each month and is the first to ask questions if things go 'off the rails'. If funds decrease and the faculties cannot get into new income streams they are supported as long as they can produce a business plan illustrating how they will get out of trouble.

In the light of shrinking Government funding, the University is looking to other forms of raising revenue in order to provide a resource base to enable Melbourne University to be internationally competitive at the highest level. This has involved an entrepreneurial approach in recent years. The challenge to generate income outside of Government funding is a vital part of Melbourne's Strategic Plan. There is fierce competition for fee-paying students.

The University of Warwick

Governance

The external, lay dominated Council is the supreme governing body, providing the senior management team (SMT) with delegated executive authority. The Senate is the academic body which acts as a 'long-stop' or 'red light' if anything looks seriously wrong in academic matters. Otherwise the SMT acts in a full executive capacity.

The key principle that Warwick operates is that senior managers manage the University, with the Senate and Council acting more like groups of shareholders (and not like boards of directors) who keep watch, but are not actively involved in any detail. Warwick has operated in this way since the early 1980s and expects to continue to do so.

Warwick believes in strong, clear, visionary leadership; active generation of external non-Government income; freedom to earn and spend as the University thinks fit; and senior managers managing executively, with only limited involvement of collegiate type arrangements (such as Senate).

The Council has 25 lay members, 17 academics and 2 student members. The Council is a self-perpetuating body but soundings are taken about potential new candidates. Warwick (along with other similar universities in the UK) has recently taken steps to advertise for Council vacancies in the newspapers. The Council votes on new members. The Chairman and Treasurer of the Council are both senior businessmen.

The Finance Committee of Council has delegated authority from Council and ensures the financial health and financial wisdom of major decisions of the University. It also approves the overall annual budget and monitors financial performance.

Senate has 47 members. Both the Senate and the Finance Committee of Council have a Strategy Committee that thinks longer term. The other two key committees/groups are the Earned Income Group, chaired by the Registrar, which drives the income generation and is concerned with ensuring maximum effective income for the University, and the Estimates and Grants (EAG) group which is concerned with the academic side and the allocation of resources to the spending departments. The net income generators in the university accept the need for profit sharing/taxation to subsidise the net cost centres.

The Higher Education Funding Council of England (HEFCE) requires internal audit to be carried out and sets out a Code of Practice. In Warwick, internal audit is a service to management and evaluates the effectiveness of systems and procedures within the University. It reports to the Finance Officer who has the overall responsibility for the financial Government of the University.

Leadership

Warwick's view is that leadership is central to its success. It considers that it is leadership which has got it to where it is, and not any particular governance arrangements, structures or processes: a university will only become world class if it has clear, strong, visionary leadership. Everything else is secondary. Consequently, succession planning is taken very seriously. The Vice-Chancellors have been the main leaders at Warwick, all appointed by the Council, all from outside Warwick, and one from outside the UK; all have been esteemed individuals, well-known in their own right before appointment. The previous Registrar (one person held the post for 25 years) has also been a key leader; he was appointed, in effect, by the Vice-Chancellor (through the legal organ of the Council).

There are close relationships within SMT and within the wider senior team. There is also a close link between Vice-Chancellor and Chairman of Council (up to ½ day per week involvement by Chairman). 3 or 4 other lay members of Council make significant contributions. By contrast, the full Council itself is almost a rubber stamp.

Funding and budgeting

The national funding mechanism (currently) takes no account of an individual institution's mission (nor of its costs, on the whole) but the formula weights the funding by type of student and by course of study. However, the Funding Council does require that all institutions produce a strategic plan and an annual operating statement, which is, at least partly, a mechanism to prevent institutional mission drift. The teaching funds and block grant funds for research are allocated (to all English universities) through a series of formulae determined by the Funding Council. The final result is that each university receives a single block of funds, which it is entirely free to spend as it wishes, no matter how it was calculated. But each university is aware of the formulae and how they work and so knows which of its main activities run at a profit and which at a loss.

A key performance objective is to reduce the University's dependence on Government funding. After leadership, Warwick considers this to be the other major factor behind its success. Hence the central funding philosophy is to generate an ever-increasing proportion of total funds from non-Government sources. There is no Government clawback from – or even involvement in – such funds; they are entirely the responsibility of the University.

Warwick considers that it is critical for it to be totally free to generate its own income, without compromising its teaching and research mission, and that it should be able to retain all such income and be able to spend it in an unconstrained way as the university thinks fit. In the future, it believes UK universities may need to try to copy the US, and attempt to raise significant funds from donations (currently this is very limited in UK). This might lead to the need for a President/Provost split of roles, as in US. In the UK these roles are still combined in the Vice-Chancellor.

Warwick has very strong links with industry; the relationships are business ones and are on a commercial basis. These have been extremely effective in increasing non-Government income.

Undergraduates are charged a flat rate fee of £1,050 pa. For all other students (postgraduate and all non UK/EU), a market operates on fees; Warwick sets its own fee levels – which vary by subject, level, mode etc – and retains 100% of the income.

For research, some public funding comes as a block grant, the size of which is determined by a combination of the volume and quality of research as judged by the Funding Council. All other research funds (both public and private) are obtained competitively on a project basis. Contract negotiation is common, and decisions are taken on whether to undertake a project, how much overheads should be charged, etc. on balancing the arguments between the prestige of the project, and financial considerations. Other funds are raised from borrowing on the market, and a small amount from donations.

The role of Warwick's Council on funding, is to approve the strategic plan and the annual plans and budget; they also (nominally) approve the internal funding mechanisms, approve financial strategies, monitor investments, cash flows, projected deficits/surpluses, etc. In Warwick the internal resource allocation is direct to the (29) departments from the EAG group; this is done, mainly, by means of Warwick's own formula, but takes account of any departmental plans that require an increase (or reduction) in funds compared with the formula's estimates.

The funds available for allocation to departments are top sliced to pay for the central Administration activities; a formula is applied to the remainder to calculate the departmental allocations. Once a department receives its allocation, the funds are treated as a single block with no restrictions as to how they are spent. Thus a departmental budget will not have 'components' externally determined, it is for the department to determine its own split into components. The one exception is the filling of a new or vacant post within a department needs to have approval from the centre – even if the department can afford the post from within its budget.

Measures to check value for money, outcomes etc are all wrapped up in the planning cycle; each department reports on its previous achievements and outcomes, and then seeks to justify its bid for resources. Warwick faces a perpetual value for money squeeze in that the unit of resource for teaching has been steadily reduced by the Funding Council over the last 15 years.

Imperial College of Science, Technology and Medicine (IC)

Governance

An external, lay dominated Council is the supreme governing body. Originally very large, it was driven by a smaller governing body Executive Committee. In 1998, a new Charter was granted that sought to reflect both the mergers with medical schools, and to revamp the Council and Senate along the lines of the recommendations of the Dearing Report.

There is a clear, delegated authority to management for all executive matters (including finance), thereby allowing management to manage. The Council is responsible for the College's strategy – though in fact it debates and approves it rather than derives it. It also has a direct responsibility for audit matters (which are not just financial, but also management audits that seek to hold the executive to account) and for health and safety. The overall principle for the governance structure is to ensure propriety and adequate accountability.

The Council has 32 members. 12 are academics from IC, the rest are not IC academics (at one time, there was a lay Vice-Chancellor from another university as member), although there was a list of ‘constituencies’ that nominate members. Imperial College has tried to reduce this, and, under the new Charter, it is no longer true for the Council but remains true for the Court. There is a committee of Council concerned with financial strategy; while valuable it limits itself to high level issues. Council also has an Estates Committee.

There were two main senior managerial committees. One was on College policy, chaired by the Rector and the other consisted of the Administration team, chaired by the College Secretary. These two committees have now been replaced by a combined academic and administrative Executive Committee, chaired by the Rector. It meets informally every week, and once a month the meeting is formal.

Other senior management meetings are called by the Rector on an ad-hoc basis, often as frequently as once a week. In addition there are large (informal) meetings about 4-6 times a year, chaired by the Rector with the heads of administrative divisions, senior officers (Pro Rectors, College tutors, Deans and Principals) and all the heads of academic departments – a total of about 45. Twice a year this meeting is held as a residential weekend, to discuss and broadly agree future policy ideas for the College, while also taking the temperature about present and future concerns. The meetings help to secure ‘buy-in’ by the senior staff to new ideas and directions before they are formally presented.

The Rector is appointed by the Council as a result of a competitive search process which is world-wide. The Pro Rectors and the heads of department are all appointed by the Rector. Before making a head of department appointment, the Rector seeks confidential views about possible candidates, but then makes his decision. Pro Rectors are almost always appointed from inside Imperial College. Heads of department are often appointed from outside Imperial College.

The Rector plays a very visible leadership role, especially externally, almost like that of a President of a US university. The Deputy Rector operates a little like a US Provost, through close liaison with all the academic departments and heads of administrative divisions.

The College has total freedom to determine its own objectives. It does this by means of an iterative process upwards and downwards inside the College with the result that the final objectives are owned by the institution with all staff strongly engaged in actively pursuing them. There is no outside agency (e.g. Government) seeking to influence what Imperial College does: it is its own master and views this as a sine-qua-non to be a world-class university.

The other critical governance factor is the ability of the College to respond and change quickly (without any outside constraints e.g. from Government) so that they can adapt to changes in their markets, and follow new opportunities. This is assisted by a project management structure to deal with many strategic changes that have to be implemented. While not strictly a governance issue, Imperial College thinks a major contributing factor to its global reputation is its never-ending search for quality and excellence in every aspect of what it does. Imperial College consciously and explicitly pursues excellence, even to the extent of deciding not to do something rather than do it less than excellently; this penetrates everything the College does.

As with Warwick, the governing body must ensure that funds from HEFCE are used only for the purposes for which they have been given, and that there are appropriate financial and management controls for funds.

The Audit Committee acts on behalf of the governing body, and regularly reviews the effectiveness of the internal controls in the College and its subsidiaries. The governing body is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the College. The Audit Committee and the governing body approve strong internal controls and procedures for resource management for diverse academic departments.

Funding and budgeting

Imperial College aims to continuously reduce its proportion of Government funds, and to diversify its funding sources. It currently has six main sources (Government is one of the six) and it actively pursues all six.

Internal resource allocation is broadly as for Warwick, except that departments are allowed to make new (or replacement) appointments without reference to the centre, as long as they can afford them from within their budget. Budgets are allocated direct to departments and each Department can then spend its received block as it thinks fit. Departmental units are also the planning units for the College.

Imperial considers the critical success factors for future funding are to maintain and enhance its *diversity* of funding sources, to obtain full freedom to charge market prices for what it provides (currently true in most areas except for mainstream UK undergraduates) and to build up significant endowment funds (a real challenge for UK universities compared with the US).