

Chapter Three

Institutional Governance

- 3.1. The governance of institutions takes many different forms. These range from Caligula's arbitrary tyranny in ancient Rome to the most egalitarian consensus-based commune. For our purposes the two outlying cases which might define the range of options for governance of medium size institutions in the contemporary world may be characterised as follows.
- 3.2. Model A is of a wholly hierarchical structure in which power and authority resides ultimately at the top, and in which that authority is delegated downwards within strictly defined confines. With the power and authority go also lines of responsibility and accountability. Remits are clear and those in the managerial structures are held accountable for agreed or prescribed outcomes. Financial accountability and limits are normally part of the structure in question. This model is flexible to the extent that those in the upper levels of the hierarchy may vary very considerably the nature and volume of the decision making power which is delegated. However, in the ideal version of this model it is always clear where the buck stops and where ultimate power, and therefore responsibility, lies. This is its strength.
- 3.3. A second, Model B, at the opposite end of the spectrum, is that of a collegiate and collegial academic group in which the decision-making process involves all members, each of whom has in principle an equal voice, and, if necessary, an equal vote. The college may from time to time elect individual members to positions of responsibility and power. However, in this model the lines of responsibility and power run from the group to the elected individuals. In a fashion converse to Model A, powers are given on prescribed terms by the whole community, and usually for prescribed periods, to the individuals to exercise on behalf of, and as licensed by, that community.
- 3.4. These two somewhat idealised models indicate a spectrum of possible models for institutional governance in which the various ingredients are mixed. Each of these two models has the benefit of clarity, and the attempt to mix them can run the risk of unclear lines of power, resource, responsibility and accountability. Each model has a correlated pattern of management and administration.
- 3.5. The attraction of Model A is that it is capable of speedy decision-making and indicates clear responsibilities for action and implementation. The dangers of the model are also significant and relate to where the definition of the values of the institution lies, and to questions of loyalty, trust, and ownership of initiatives. In Model B, the situation is more or less reversed. The dangers lie in the possibility of chronic indecision where change is involved, and lack of clarity about the powers to act and implement in uncharted territory. The strengths are significant group ownership of initiatives which do finally have approval, and the likelihood that decisions and initiatives are grounded in a well developed, although perhaps tacit, set of group values.
- 3.6. It is my contention that neither of these extreme models is appropriate to a modern university which is heavily dependent on public sources of funding. Model B may still

be a fleeting gleam in the eye of some academic staff that ‘remember’ either the heady days and rhetoric of the 1960s, or an idealised picture of a small academic unit of Fellows who could meet regularly around either a committee room or dinner table. Neither ‘memory’ mirrors the reality of large contemporary universities, or even medium sized institutions, which carry significant teaching responsibilities as well as, in some cases, engagement with major research activities.

- 3.7. Some members of the academic community express concerns that the equivalence of Model A is being gradually introduced into university governance and management to the detriment of the academic enterprise. Two points must be noted. The first is that Model A is not the only alternative. The second is that the essential question to ask of any model of governance is whether it is fit for purpose. This question identifies the key principle which must be involved in discussions of models of governance (and, by implication, management). The pattern of appropriate governance (and management) depends upon the nature of the institution. Models appropriate to one type of institution are not necessarily transferable without revision to another.
- 3.8. Any discussion of the governance of a university must therefore begin with a review of the core activities of the university. These activities are at most two in number although the proportions of the mix will vary radically. They are the transfer of understanding and knowledge, which we traditionally call teaching or education and the extension of knowledge and understanding, which we traditionally call research. Any pattern of governance must be appropriate to fostering these two activities.
- 3.9. There are a number of other activities which are appropriate to universities even if they are not defining activities (i.e. they are not core businesses). They may arise, for example, from the nature of the funding sources of the institution. Thus a university which raises a very large part of its income from corporate or alumni sources is likely to engage in a series of activities to enhance that income. However, these must be structured and defined in relation to core activities – to fit its character as a university rather than being simply a trading partner or a mutual society of some kind.
- 3.10. The definition of appropriate secondary activities is a matter of evolution based on internal deliberation as well as external negotiation, and absolute rules here are not available. The need for internal as well as external deliberation helps define the fitness for purpose of any proposed model of governance. Thus a university in which alumni giving is an important source of funds may well see the need to ensure that alumni sensitivities will be given a relevant profile in both governance and management. In a different way, serious engagement with the corporate sector requires a flexibility and speed of response nearer normal corporate practice than traditional, academic committee-based decision-making. Equally, significant public resources will inevitably bring with them demands for accountability and recognition of public or community priorities. Each of these demands also generates its own constraints on the fitness for purpose of the governance and management structures of the university.
- 3.11. The balance that it achieves between the two core activities of a university makes clear what distinguishes a particular institution from any others. There are, however, further distinctions which define the character of successful universities. These include the values which inform the core activities, and which influence the conditions for

successfully practising these activities. Equally however, there are other practices and values which are shared with a wide range of public and private sector institutions.

- 3.12. Thus, for example, all institutions whether in the public or private sector must value and practise probity. This probity extends to finances, contracts, written and verbal agreements and so on. Probity requires the degree of transparency and openness appropriate to one's business, clients and customers. The governance and management systems of universities must take account of the expectations and conventions which surround this for publicly funded institutions in the 21st century.
- 3.13. In addition, the governance and management of all successful businesses and corporations in the contemporary world require the capacity to plan and implement strategies and strategic alliances appropriate to core businesses. In the case of all but the very largest multinationals, and probably even there, this leads to the identification of business niches which determine investment in areas of strength. Universities must develop governance and management systems to promote this strategic flexibility and focus.
- 3.14. Other areas in which adequate governance and management processes in universities would find some congruence with the corporate world include the desirability of diversifying income sources, of satisfying customers, and of due attention to identifying and managing risks.
- 3.15. There are, however, a number of points of difference between universities and some other organisations which must also be reflected in their governance and management structures. It is important that these are recognised by the wider community and universities must engage the wider community in the discussion of these, particularly where they are publicly funded.
- 3.16. Thus, universities have a particular responsibility for deepening, understanding and applying educational processes to meet the standards of the best international benchmarks. This implies the need for internal as well as external quality assurance processes. The internal processes must be focused upon quality enhancement in education and learning. Universities traditionally have established an internal structure, the Senate, to ensure the means of fulfilling these responsibilities, with appropriate transparency. A Senate also has the ultimate responsibility for setting the 'output' standards of a university for its degree awards. In turn, this establishes the standards for credit accumulation for component courses. The means by which such standards are set and applied should also be appropriately transparent and explicit. In addition, setting entry standards, including language competence, must continue to be a focus of quality assurance processes.
- 3.17. Successful international universities have a particular responsibility to maintain the conditions under which the expansion of knowledge and understanding is fostered. This involves matching resources to ability and excellence, and the creation of the space appropriate to creativity and innovation. That is more easily said than done and has significant implications for governance and management. The fitness for purpose of a system of governance will be rigorously tested by the particular conditions of success in this core business, which distinguishes universities from many other organisations.

- 3.18. The key ingredients are individual ability, institutional excellence and adequate resource. Systems of governance and management which are fit for purpose will have to find means of balancing all three of these. They go to the heart of much academic aspiration, and the distinctiveness of universities that seek international recognition.
- 3.19. Individual ability has to do with the recruitment and retention of high quality staff. Clearly remuneration is one element of this and best international practice accepts the need for differential salaries and rewards. I have already suggested that, in order for institutions to compete at international level, they must have the freedom and flexibility to determine the appropriate terms and conditions of service that enable them to recruit and retain staff of the highest standing. A linkage to civil service pay and conditions is an impediment to international competitiveness, and delinking will give institutions the freedom to devise their own remuneration packages. But this also places a firm responsibility on the governing body and the heads of institutions to ensure fair and acceptable means of making such salary differentiations, when the system operates with a high level of deregulation.
- 3.20. Recruiting and retaining high quality staff, however, is a much more subtle matter than simply financial reward. This is where one sees the limitations of the fitness for purpose of Model A in universities. The creative extension of the boundaries of knowledge and understanding cannot simply be a delegated series of objectives and responsibilities. The individual and the group who are likely in some way to engage successfully in such work require degrees of freedom of thought and enquiry to follow the argument wherever it goes, whatever the corporate priorities handed down may be. The conditions for inventing the worldwide web, or discovering penicillin, or finding a key lost manuscript, or connecting philosophical ideas for the first time, are not simply a matter of objectives identified and responsibilities and power devolved in a strictly hierarchical system.
- 3.21. The essence of the creativity and the inventiveness of research is that some of the most interesting outcomes are a result of encountering the unexpected. A major consequence, and possibly intention, of Model A is the elimination of the unexpected. By contrast, systems of governance and management in universities must take account of the unexpected for two reasons. The first is that the unexpected is sometimes more important than the wholly predictable. The second is that the working conditions which attract the most creative academics, and which are necessary for their retention, require a degree of autonomy and trust which cannot be contained in a purely hierarchical model.
- 3.22. Do we revert then, by default, to a strong version of Model B? Certainly not, and that for reasons which have to do also with the patterns of activity which characterise much modern research. Much research is resource intensive in a varying combination of three elements. One is time. A second is significant cash investment and a third is space which is also not a free good. These require approaches to governance and management that go beyond collegial decision-making.
- 3.23. Not all forms of research are equally demanding, but all certainly require time. This is true for the historian as much as for the physicist. Time is expensive whether as factored into the normal teaching year or into sabbatical programmes. Cash investment in certain forms of research, e.g. particle physics or astronomy, are so great that the necessary

infrastructure is a matter of international investment by collaborating governments. The need for relative levels of investment apply to most forms of research in science, engineering and medicine, and increasingly often for projects in the social sciences and humanities. Here it is not enough simply to talk of the autonomy of the researcher, because that autonomy has to be earned. Apart from normal forms of accountability where large sums of public and private money are involved, the huge costs of international levels of research in many important areas require setting priorities and making difficult choices. In some research contexts equivalent issues arise in relation to the provision of serviced space.

- 3.24. In all such matters the institution will bear final responsibility for the investment strategy. The role of the individual researcher is absolutely crucial, but is not uniquely decisive. Within funds available institutions must set priorities and take difficult decisions of affordability. Academic freedom still exists for individuals, but it is a negotiated freedom that cannot ignore other factors, including public accountability. University management has to be sensitive to the needs of the individual scholars as well as what the public expects. Model B is not fit for this purpose, and to that extent would be a hindrance to realising the core activity of research for a major university seeking to be internationally competitive.
- 3.25. My contention is that because of their inherent limitations neither of the two extreme and idealised models of governance and management is appropriate for a university dealing with the realities of the 21st century. But equally, as a matter of fact, it must be recognised that in statutory terms the governance of universities is an internal matter for the university's own governing body. In those circumstances, my key recommendation for this chapter has to be one of self-examination.

Recommendation 6:

That the governing body of each university carry out a review of the fitness for purpose of its governance and management structures. Such an exercise will necessarily include a review of the relevant Ordinances and, where appropriate, proposals for legislative changes should be made.

- 3.26. To help give scope to such a review, I will comment on some of the features of good governance and management below. I also attach, at *Appendix D*, a note of a number of international examples of structures of governance and management, and I draw from those examples some trends which the university's governing bodies can consider.
- 3.27. One further issue which has been suggested and might be usefully included in the internal review is the fitness for purpose of any mechanisms to settle internal university disputes or to review administrative decisions. A possibility being considered elsewhere is the appointment of an Ombudsman for the sector. In the UK there are two current proposals for a university Ombudsman under discussion. In Hong Kong, the remit of the Office of the Ombudsman could be extended to cover the UGC sector.
- 3.28. Although each institution will conduct its own internal review, it is inevitable that, when an amended Ordinance is submitted for consideration by the legislature, there will be

various levels of opportunity for public scrutiny of any new structures or patterns of university governance and management.

- 3.29. The internal review I am recommending is essentially an exercise to find the right balance between the strengths of the traditional governance of a self-managing community of scholars operating in comparative isolation, with the governance demands of large public corporations. The tensions the governing bodies need to reconcile are summed up in the words *autonomy* and *accountability*. Their challenge is to find a middle path between the two extremes of Models A and B of governance, and to strike the balance for their institutions between academic freedom and being responsive to the public good – this is what I mean by negotiated freedom.
- 3.30. To find this balance there are seven features that characterise university governance in Hong Kong and elsewhere that are worth considering. I will not pass judgement on these features because they are neither black nor white. Their colour can change with the circumstances of the institution, its culture, and its stage of development. But I propose these features as a backdrop for the review of governance I have recommended.
- 3.31. The first feature is that typically 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.
- 3.32. A 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.
- 3.33. 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.
- 3.34. 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.
- 3.35. 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.
- 3.36. 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 so prevalent in the universities.
- 3.37. Finally, in the universities there is a deliberate *conjunction and intersection of academic and business management*. In practice these roles have different emphases, and the different skills they employ cannot be assumed by academic training alone.

- 3.38. Each of these features has its strengths, but may also have some inherent weaknesses. To help the universities governing bodies weigh these up I will set out what I believe any adequate model of governance will include, and on some of them provide some more depth. In my view a governing body will:
- determine the mission and core values of the university;
 - set strategic directions reflecting these values, to carry out the mission;
 - influence the institution's organisational philosophy and framework;
 - help management to deliver strategies;
 - agree with management appropriate resourcing policies;
 - oversee senior appointments and performance;
 - ensure leadership succession;
 - agree with the Head of Institution appropriate levels of delegated powers;
 - report on performance, quality assurance and value for money to stakeholders;
 - ensure appropriate lines of accountability and transparency of process; and
 - in all of the above, have regard to values, autonomy and international reputation.
- 3.39. It will be important for members of the governing body to distinguish between governance which is their central responsibility, and management which is the responsibility of the Head of Institution and the senior team. It will therefore be for the Head of Institution to make recommendations upon the appointment of, and delegation of powers and responsibilities to, senior academic leaders. International practice suggests that procedures should be devised for appointing rather than electing Deans and related senior budget holders, and that accountability and management lines should run to individuals rather than committees. In other words, responsibility should rest with an individual to avoid management by committee. Committees have a variety of important roles ranging from the very special position of Senates as the guardians of academic standards and academic probity, to committees which are advisory, but the first question which a committee should ask is, 'Am I necessary, and if so why?' Equally that should be asked by others of the various committees on a reasonably regular basis. So, a review of governance and management structures will also require a review of the underpinning committee structure.
- 3.40. I do not underestimate the scope and scale of the review I am recommending, but I have no doubt that for Hong Kong to compete at an international level, its universities will need to develop a strong model of management that is fit for purpose in the 21st century (see Chapter One above). Given the UGC's role in strategic planning (as proposed in Chapter Two above), it has a duty to assist the institutions in carrying out such reviews. One possibility is for the UGC to conduct periodic institutional audits that cover five areas: teaching and learning, research, community service, governance, and management. The institutional audit could subsume the current exercises of Teaching and Learning Quality Process Reviews (TLQPR), Research Assessment Exercise (RAE) and Management Reviews. It will also provide incentives for institutions to carry out their internal review.
- 3.41. The proposal for the UGC to undertake audits of institutional governance and management does not preclude institutions from establishing audit committees of their own, as widely practised in overseas universities and in the private sector. The purpose of an audit committee, directly responsible to the governing body, is to monitor the performance of management in providing value for money and in carrying out executive decisions that are in keeping with the strategic directions set by the governing body. An

effective audit committee encourages self-discipline which in turn enables more efficient delegation of powers. It is normal for the audit committee to appoint external auditors who will monitor the proper management of financial processes.

- 3.42. The implementation of Recommendation 6, supplemented by the establishment of audit committees and institutional audits by the UGC will, in my view, make university governance and management fit for purpose in the 21st century. It will also provide the right conditions for Recommendation 1 to be effectively executed.