Part 1 Introduction

Higher education is a key driver of the modern knowledge economy. Universities produce a high proportion of new knowledge through their research function, but, equally importantly, they provide the high level of skills which can make use of this new knowledge through the education of their students. In the 21st century, therefore, universities play a central role in economic and social development. No longer, as in previous centuries, can they be regarded as remote ivory towers distanced from the everyday world of the new globalised economy. On the contrary, the contemporary university must engage with this world and therefore must interact with a much wider variety of legitimate stakeholders than was the case only a generation ago.

All of this means that universities have grown in complexity as well as in scale. This has created new challenges both for the internal management of universities, but also for the way in which they manage their interactions with the wider society. For these, if for no other reasons, it is appropriate that from time to time the system of governance in higher education is reviewed and, if necessary, refreshed as being fit for purpose.

The Sutherland Report, issued by the Hong Kong University Grants Committee (UGC) in 2002, undertook such a task and by 2009 all UGC-funded institutions had completed their internal reviews of governance and management structures and conformed to the major recommendations of the Sutherland Report. Now, 13 years later, such is the fast changing world of higher education that it is important and timely that a further review should be undertaken. This Report begins by setting out the key issues which universities must consider when determining any changes to their system of governance, including a number of operational issues aimed at improving the effectiveness of existing arrangements. Bearing in mind the lengthy traditions of university governance in Hong Kong, it is not the purpose of the Report to create some abstract "ideal type" of governance, but rather to analyse and recommend improvements in the existing systems of governance in the eight UGC-funded institutions. The terms of reference of this study required a focus on nine main areas, summarised as follows:

i)   The appropriate level and extent of the involvement of the councils in key decision-making processes;

ii)   The oversight of self-financing, commercial and outreach activities;

iii)   The role of the councils in sustaining the academic integrity of teaching and research, including the freedoms of inquiry and expressions;

iv)   The identification of council members with appropriate skills and experience;

v)   The relationship between the council and the executive, including the reporting lines of committees;

vi)   The role of councils in performance measurement;

vii)   The ways in which the effectiveness of governance can be reviewed;

viii)   Improvements in accountability and transparency;

ix)   The induction and support of council members.

This Report then goes on to provide some brief comparative information on the situation in other countries where the university sector is not too dissimilar to that which exists in Hong Kong. Most importantly, it identifies a number of themes which formed the basis of meetings with key stakeholders, both within and beyond the higher education sector in Hong Kong. These meetings were structured around a common agenda, but without some of the inherent inflexibilities of a more structured and formal survey questionnaire. The responses are summarised in Part 4 of this Report. These also form the basis of a series of recommendations contained in Part 4, together with a further recommendation in the concluding Part 6. All the recommendations are listed in Appendix 1. Part 5 of this Report discusses the importance, desirability and nature of a code of practice on governance. In many respects the earlier parts of this Report are relevant to such a code. Finally, it should be noted that the term "universities" is used in this Report to apply to all eight UGC-funded institutions, even though, at the time of writing, only seven of them have university title.

Why is Governance important?

Definitions of governance abound. For the purposes of this Report, governance means not so much what organisations do, but how they do it. So governance is about how an organisation structures its decision-making to achieve its goals, but also how it relates to key external stakeholders who have a legitimate interest in its affairs. Typically definitions of governance put an emphasis on efficiency as a key element. Here, corporate governance deals with how organisations are structured and managed in such a way as to lead to effective performance in achieving desired outcomes and the satisfaction of stakeholders (Edwards, 2001). A useful definition is that of the Australian National Audit Office (ANAO) which defines good corporate governance as the processes and structures which will:

> "… facilitate decision-making and appropriate delegation of accountability and responsibility within and outside an organisation. This should ensure that the varying interests of stakeholders are appropriately balanced; that decisions are made in a rational, informed and transparent fashion; and that those decisions contribute to the overall efficiency and effectiveness of the organisation". (ANAO, 1999, p.2)

A concern about governance has also been heightened in the private corporate world following a number of high-profile governance scandals around the world (for example, Enron, Parmalat, Vivendi, etc.). Many countries have passed new corporate governance legislation in order to protect the interests of shareholders and the wider public – and in some cases these have laid down quite specific rules about the conduct of corporate affairs. Inevitably this has been taken as a point of departure in some countries for the examination of governance in the higher education sector – most notably, the publication in 1985 of the Jarratt Report in the United Kingdom (UK) for the then Committee of Vice-Chancellors and Principals, followed by the various reports of the Nolan Committee on Conduct in Public

Affairs and culminating in the recommendations of the Dearing Committee in 1997. The common thread running through both the private and the public sectors has been the need to demonstrate robust systems of corporate governance which can sustain public confidence in the proper conduct of decision-making and in the allocation of both public and private resource. All of this has been played out against the growing competitive pressures resulting from internationalisation and globalisation. These have been expressed in a colourful manner by David Leslie as follows:

> "In short, a lot of change is under way: competitive, market-driven, soul-selling, and profiteering changes to institutions desperate to survive and advance themselves in a world where guarantees are gone and big bets are being laid down. The message … is that the train has left the station on a very fast trip, but the condition of the tracks and the destination remain uncertain". (Leslie, 2004)

In other words, institutional and reputational risks are actually increasing in an increasingly competitive environment. This demands not only that universities are effectively managed, but also that the level of managerial oversight by governing bodies is also becoming more complicated and multi-faceted.

Effective governance therefore provides both internal and external stakeholders with confidence in the ways in which universities are managed. Ultimately this is a matter of trust. Where large and increasing amounts of public funding are being invested in higher education, then the wider public needs to feel confident that these scarce resources are being invested appropriately and effectively. So accountability is inextricably linked to university autonomy. Hong Kong universities rightly pride themselves on their academic autonomy. Effective governance supports and sustains this autonomy; poor governance undermines it. Poor governance – and not only poor management – engenders demands for further regulation which ultimately can undermine, or even eliminate, university autonomy. As Jenny Stewart has observed:

> "Academics may deride and resist the power of 'management'. But the way forward lies in defining that power and in holding individuals accountable for the exercise of it. Neither Councils at the top, or Faculty Boards and departments at the bottom can perform this role unless much of what is now secret, or at least implicit, is made clear to all". (Stewart, 1997, p.41)

Therefore, good governance is not a threat to the collegial traditions of autonomous universities. Instead it helps to guarantee the autonomy of universities by sustaining and nourishing public confidence in them. A crisis in one university impacts on public confidence across all universities within a particular country. As public investment in higher education continues to rise then it is essential that public confidence is maintained via some simple principles of good conduct, transparency and communication.