

Part 3 The Situation in Hong Kong

As indicated above, the Sutherland Report, issued by the UGC in 2002, recommended that each university should review its existing governance and management structures and assure itself that they were fit for purpose. This has been undertaken by all the universities. However, much has happened in the world of higher education – not least in Hong Kong – during the intervening 13 years. Since the UGC has an obligation to satisfy itself as to the effectiveness of the governance of the institutions it funds, it is timely to look again at international best practice. It is an opportunity to reflect on the balance that has been achieved between autonomy on the one hand, and accountability on the other, and to explore how institutional autonomy can sit, and go hand in hand with, efficient governance.

It needs to be stated at the outset, however, that whilst formal structures of governance are essential, good governance really lies in the efficient implementation of these practices. There are softer, less tangible, issues which deliver good governance and which are not written down in formal codes of practice. These include the mutual respect and trust which must exist between the governing body and the senior management of the university and, in particular, between the chair of the governing body and the chief executive officer of the university. This cannot be taken for granted simply by writing a code of best practice. In private sector commercial organisations tensions can exist between the executive and non-executive members of a board. This tension, however, should be creative. If this is so, then the organisation as a whole flourishes. The same is also true of universities. Here is the Chancellor of the Australian National University, the Honourable Gareth Evans, reflecting on precisely this issue in a university context:

“The natural instinct of chief executives, in a university context as everywhere else, is to think to oneself: how can an infrequently meeting governing board of part-timers, however extensive might be their expertise and experience in particular areas, know as much about anything to do with this organisation, and what’s good for it, as I know about everything? ”

And with universities now being the hugely complex billion dollar-plus operations they are, it's natural for even the most sensitive modern vice-chancellor to feel deep down inside, whatever he or she reveals more publicly, that the fusty old university senate and council structures...are not really where the action is, and a formality to be endured rather than a really vital component in policymaking and delivery.

But of course complete freedom of managerial action, with only purely formal oversight by the formal governing body, is not the way the world works these days for most vice-chancellors or any other chief executives, and nor should it be... The trick is to know where and how to draw the relevant lines, to make sure not only that relationships between governance bodies and managements don't end in tears, but that the most productive possible synergy is achieved between them.”
(Evans, 2011)

In other words, for a modern system of university governance to work effectively, vice-chancellors must feel that members of governing body add value to the strategic decision making of the university; and conversely governing bodies must feel they are provided with the requisite and timely information to discharge their duties properly. One might take it for granted that governing bodies are entrusted with public funds and therefore have a particular duty to fulfil the high standards of corporate governance at all times. In addition they need to ensure that they are discharging their duties with due regard for the proper conduct of public business: namely, selflessness, integrity, objectivity, accountability, openness, honesty, and leadership. Often this is reflected in the various procedural matters which are adopted by governing bodies in relation to how meetings are organised and managed. However, it is the implementation of these principles of proper conduct which are decisive. And here, based upon international best practice, it is possible to identify a number of themes which are worthy of renewed consideration.

1. Recruitment, Induction and Professional Development

Most members of governing bodies, apart from the obvious exception of student representatives, will have undertaken their university education at least 20 or 30 years ago. Universities have changed so remarkably over this period that the renewal of their acquaintance with the world of higher education can be quite bewildering. Without some formal induction and informal briefing it is difficult for members of governing bodies who have experience outside the world of higher education to understand many of the key issues on which they are asked to deliberate. Even the acronyms are completely unfamiliar to them. One might suggest that there is now an urgent need in Hong Kong for a consistent and comprehensive programme of induction for all members of council as is common in many other countries. This needs to be supported by additional opportunities during the tenure of their office to undertake further professional development. It is not only the internal workings of the university with which members of council need to become familiar; it is also important they understand the policy context in which the university operates and, increasingly, the global international pressures to which all universities are increasingly subjected. It might be argued that in a relatively small system with only eight UGC-funded institutions such induction is overly burdensome. In fact, quite the contrary is the case. There is always the risk in university higher education sectors with a small number of institutions for them to become unduly inward looking. An important aspect of the induction and professional development of council members is to give them a sense of what is happening in the wider world from where they may continue to draw on best practice internationally.

The recruitment of members of governing bodies is unusual in an international context, with the exception of the role played by state legislators and governors in American public universities. In the other comparative countries, governing bodies are responsible for their own recruitment against a clearly laid out set of terms and conditions which determine the length of service, possibilities for renewal etc. Best practice also indicates that recruitment is often undertaken against a skills template where the governing body itself seeks to ensure, on a flexible basis, that the mix of skills and experience on the governing body is one which

is appropriate to the affairs of the university. This helps to ensure not only a balance of skills and experience, but also that external stakeholder representation on the council is balanced and appropriate. These provisions, with or without the formal approval of the Education Bureau (EDB), would go a long way to support and sustain the autonomy of the university as an institution, and would assist in retaining a healthy arm's length relationship between the world of higher education and the world of political affairs.

2. Fiduciary Responsibilities

Where large sums of public money are being invested in higher education it is clear that governing bodies have a responsibility to ensure that public funds (in this case channelled by the UGC) are used in accordance with the purposes for which they have been granted. In practice this is more complex than may first appear. It is an issue which goes to the heart of the balance which needs to be secured between institutional autonomy on the one hand and public accountability on the other. In some countries the allocation of funds forms the basis of a written contract, particularly in smaller nations where there is only a limited number of institutions to deal with e.g. Denmark, Finland, and the Netherlands. While a contractual relationship provides the level of clarity for both parties, the transactional costs of operating this system are in practice very high. It is not uncommon to find that extensive and sometimes difficult negotiations between individual universities and the responsible government department can drag on – to the mutual frustration of both parties. These negotiations also provide an opportunity, not always resisted, to intervene in the detailed operation of individual universities. A contractual relationship is not one, therefore, which encourages agility and nimbleness in the university sector.

Equally and oppositely a system of allocation akin to “take the money and run” is not acceptable in the modern world. Large and increasing sums of taxpayers’ money are spent on higher education and there is a perfectly legitimate desire for this money to be seen to be publicly accountable. In countries where a UGC-like body exists (principally the constituent countries of the UK and Ireland) a balance has been struck in which the funds are allocated against a financial memorandum, written to a standard template between the individual university and the funding body. This memorandum sets out the responsibilities of both parties and in particular, the responsibilities of the governing bodies to ensure that funds have been used properly. An annual report is usually required, signed both by the vice-chancellor and the chair of the governing body, which provides the requisite assurance. This assurance, in turn, flows from the proper functioning of the council’s own audit committee (informed both by internal and external auditors) through which the council can satisfy itself of the solvency of the institution and the safeguarding of its assets.

At present there is no formal financial memorandum or similar document between the Hong Kong UGC and the funded institutions. This is not to say that there is no formal public accountability for the expenditure of funds, but the ability of the UGC to steer the system towards the pursuit of system-wide policy goals is limited in the absence of such a document with the institutions. While institutional autonomy must be respected and protected, it is also the case that the individual interests of eight institutions do not

necessarily and always add up to a public interest for the sector as a whole. Mutual trust and respect needs to exist not only between councils and the senior management of universities, but between both of these and the government and wider public. This balance needs to be constantly scrutinised and reviewed in a fast-changing higher education world where relatively autonomous universities can compete effectively in the global market place.

3. Strategic Planning

It is the senior management of the university which is unambiguously responsible for efficient and effective operation of the university. To that extent the council will always rely on the executive head of the institution to be responsible for the operation and management of the university and to offer guidance to the governing body on issues coming before it. However, the governing body plays a key role in the strategic development of the institution and this is where the background and experience of members of council who come from outside the university sector is particularly valuable. Governing bodies need to own the university's strategic plan and its consequent priorities. If the governing body feels no sense of ownership then there will immediately be a breakdown in trust and respect between the governing body and the senior management. It is not so much the production of a document entitled "Strategic Plan" which is important here. Rather it is the process which leads up to the production of this plan and which monitors performance against it. This is an irreducible responsibility for the council. Governing bodies therefore need to be deeply involved in the development and approval of the university's strategic plan and in particular to ensure that the plan is not merely a long list of current activities, but rather sets out clear priorities over an appropriate period which guide the allocation of resources and operational decision making of the university's affairs. It is therefore a document which should influence and guide all of the key decisions faced by the council over the period of the plan.

All the evidence drawn from international comparisons demonstrate that this is a key area for the proper functioning of governing bodies. In some respects it also protects the senior management from the inappropriate extension of the governing body's authority into the operational management of the institution. A strategic plan which clearly sets out priorities and measurable goals is one which can be regularly monitored by the governing body provided, of course, that it agrees the key performance indicators and timely and appropriate information is provided on performance against them.

The current situation in Hong Kong is that certain elements of strategic planning have arguably become somewhat fragmented. The process of considering triennial Academic Development Proposals (ADPs) currently provides an opportunity for a dialogue between the UGC and the institutions over their medium to long-term strategic plans. How far strategic planning, as a process, is used as a tool for both management and governing bodies seems to be variable. In part this is because there are aspects of strategic planning which are addressed somewhat separately – most obviously the allocation of student numbers by the Hong Kong Government across the sector as a whole and the Research

Assessment Exercise (RAE). Moreover, beyond the world of the UGC, there are the wider unpredictabilities of the emerging global higher education market which create new uncertainties and risks. In this context it is particularly important that institutions have a clear sense of their priorities and achievable goals. In this context effective strategic planning is essential for a well-managed, as well as a well-governed, modern university.

4. Risk Management

If fiduciary responsibilities and the ownership of the strategic plan are two irreducible responsibilities of a governing body, then the oversight of risk management is a third. University managements are expected to identify and actively manage risks, having particular regard at governing body level to risks that could threaten the existence of the institution. In the past this was probably confined predominately to financial risks. Hence, an important responsibility was – and remains – the approval of annual budgets by the governing body.

However, in today's world, the risks which threaten the existence of an institution are not merely financial. Increasingly they are also reputational, underlined and exacerbated by the growing importance of international league tables which are given increasing (and sometimes exaggerated) importance by external stakeholders, whether governments, industrial partners, external funders, alumni or future students. Whether the risks are financial or reputational the external environment is increasingly uncertain and the threat – or possibility – that some action or event which will adversely or beneficially affect an organisation's ability to achieve its objectives is ever-present. It is not the responsibility of governing bodies to manage these risks, but rather to assure themselves that these risks are being effectively managed.

It is here in the assessment of risk that the induction and professional development of members of council is particularly important. At the very least, an understanding of the financial data in a large and complex organisation such as the modern university, can be daunting for those who are not familiar with modern accounting practice. Equally and oppositely, those who are conversant with how to deconstruct balance sheets and financial statements, can find the world of managing reputational risks to be quite bewildering, unless they are familiar with the higher education policy context, both nationally and internationally. These days reputational risk involves such diverse issues as research performance, teaching quality assessment, the evaluation of the student experience, the nature of transactions with external stakeholders and sometimes significant, and wholly commercial, new ventures. Nearly all of these are issues which are quite technical and difficult to evaluate. At least in detail, they will run well beyond the experience of most members of council – including those who may have attended the institution quite some time ago. Fortunately it is not appropriate that all council members understand the detailed technicalities of all of these issues. However, in both their induction, and in their continued professional development, they need to be able to familiarise themselves with the broad principles involved and to obtain sufficient information and knowledge to make a balanced judgement on the performance of the university. It is in the area of risk management that

the role of the governing body as “critical friend” is most vital.

5. Scheme of Delegation

If all of the above seems daunting, then there is a necessity to remind ourselves that in practice many of the activities of the governing body are delegated to specialists committees which report to the meetings of the full council. It is on many of these committees that the oversight of management is in practice most effective. Therefore and so the composition and the duties of these committees need to be clearly set out under a scheme of delegation. It is also a reminder that collectively university governance is more than just the meetings of the full council. In practice many of these committees deal with key areas of risk (e.g. human resources, health and safety, estate management, audit, etc.). They, too, have an effective role in monitoring effectiveness and performance, often disaggregating the high level key performance indicators adopted by the council in order to undertake this task. It is important to emphasise that there is no common template which can be adopted uniformly by all institutions. It is very much a matter for councils to determine what is appropriate for their own institution establishing a system of delegated authority to council committees with appropriate reporting lines. However, it is important that all councils review from time to time how far their own schemes of delegation are fit for purpose.