

A study into the status of corporate governance practices of Universities in Australia

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Abstract

Australian universities have widely adopted corporate governance (CG) since the last three decades. Several reports, government regulations and laws supported their implementation. Private sector business models were adopted by these universities. Profit motive diluted the original goals of these universities. Universities became private corporates as funds were cut by the government leading them to be self-reliant. Universities turned to international students' market. This led to adoption of marketing principles like branding and promotions to obtain competitive advantage over Australian and international universities. International students became cash cows due to the revenue from them becoming a major source of income for universities. Everything looked nice with many Australian universities achieving top ranks in international ranking. As covid-19 struck, this business model broke down exposing the vulnerability of these universities to risks of various types. Evaluations on academic, research and teaching performances returned low scores and even financial performance suffered due to campus closures and students returning home during the covid-19 period. Universities tried cost cut measures mainly affecting the academic and research side.

Online courses with large class sizes increased the workload of teachers and disturbed their work-life balance. Academic staff and students were uncomfortable with new norms purely based on economics, as everything was measured on financial terms. Anxiety and fear of job loss forced silence on the part of academic staff. All these affected the quality of education in these universities.

Most reviewed papers argue for a review of what has been happening with CG in universities and a return to the original three goals of universities in Australia. However, such a return may not be favoured by the policy and decision makers.

Keywords: Corporate governance, Australian universities, education sector, review

Introduction

“Corporate Governance refers to the way in which companies are governed and to what purpose. It identifies who has power and accountability, and who makes decisions. It is, in essence, a toolkit that enables management and the board to deal more effectively with the challenges of running a company.” (CGI, 2022).

Corporate governance (CG) ensures businesses have appropriate decision-making processes and controls in companies to protect the interests of all stakeholders in a balanced way. The stakeholders include shareholders, employees, suppliers, customers, and the community. CG includes processes used by the company to achieve its objectives in the current regulatory, market and social environment. CG goal is the achievement of objectives to the satisfaction, confidence, and trust of the stakeholders.

Corporate governance in universities

The aims of universities are to create and disseminate of advanced knowledge and to produce human capital with knowledge and skills. Generated knowledge flows from universities for various uses and converge into universal knowledge to strengthen the development of countries. To fulfil these roles, universities need to practise CG. Unlike the case of companies, universities are distinct due to the importance of the faculty, administrative staff, and students in the decision-making processes. Therefore, universities need to ensure better governance through CG. The challenge is to design the correct CG model for universities. There are variations among universities their CG designs leading to differences in their achievements. These differences reflect in their global ranking also. CG is particularly important as there is increasing need for their self-financing, rendering them businesses. Thus, higher education can be considered as a business sector. Hence, all business principles, including CG apply to them (Bernasconi & Rodríguez-Ponce, 2018).

Australian universities

Australia has 43 universities with main campuses in each state and territory. Most universities operate from more than one campus located across multiple states and territories. These universities compete one another to enrol students from other countries as a major source of income in the context of reduced local funding for their educational and research activities. According to QS global ranking, University of Melbourne ranked 14th and University of Sydney and University of NSW ranked 19th in 2024, all improving their ranks from 2023. Only Australian National University slipped from 30th position in 2023 to 34th in 2024. However, QS ranking does not rank for CG.

Governance in Australian universities

According to UCC (2021), Australian universities have a chancellor at the top, aided by vice-chancellors, and governing bodies. Chancellors work with presidents upward and with vice-chancellors downward. Each of these relationships is like the Chair and CEO. The chancellor chairs the governing body (also called council, senate, or board of trustees). The chancellor must exhibit and encourage highest standards of ethical governance with integrity. Chancellors guide the governing body in the appointment of vice-chancellors. Chancellors usually come with long experience in senior positions in the government, military, or business organisations. So, they are expected to have adequate CG experience for use in the university. The UCC approved the Voluntary Australian Public Universities Vice-Chancellor and Senior Staff Remuneration Code in 2021. This voluntary code gives the government and society in general, the assurance of appropriate, transparent, and competitive remuneration for vice-chancellors and senior university staff.

The governing body may have 10 to 21 members consisting of government-nominees, outside experts, representatives of university faculty and students. The governing body is collectively responsible to oversee the university's strategic planning. It also oversees educational, financial, commercial, and legal accountabilities. It is responsible for the appointment of the vice-chancellor, guided by the chancellor and monitors his/her performance. The complexity of universities demand specialised and professional skills of high standards to guide them and to manage the huge financial demand. Often, training sessions are held for governing bodies to acquire skills required for their functions (UCC, 2021).

Universities are established according to the Acts of Parliament, prescribing its structure, function, and functioning. Various standards affecting corporations like accounting, audit, WHS, and HR regulations are also applicable to universities. Thus, CG is linked to university governance. Some federal legislations affecting universities are Tertiary Education Quality and Standards Agency Act (TEQSA) – the regulator that provides registration for all universities in Australia using a standards-based quality framework., The Higher Education Standards Framework sets the educational standards to comply with, the Higher Education Standards Panel (HESP), which is under TEQSA, advises and recommends to the Minister of Education on quality and standards of Australia’s higher education system, Education for Overseas Students Act (including the National Code) (ESOS) – prescribes the roles and responsibilities for all educational institutions wanting to admit international students, Australian Qualifications Framework (AQF) – the national policy to regulate qualifications for all sectors of Australian education and training, Commonwealth Register of Institutions and Courses for Overseas Students (CRICOS) – all courses offered to international students in Australia must pass detailed quality standards and be registered on the CRICOS register, and Higher Education Support Act – government financial support for Australian students. In addition, some voluntary codes have been prescribed by UCC itself in support of Universities Australia and various Ministerial Councils (UCC, 2021). They are listed below-

1. The Voluntary Code of Best Practice for the Governance of Australian Public Universities (amended May 2018)
2. The Model Code for the Protection of Freedom of Speech and Academic Freedom in Australian Higher Education Providers (amended July 2019)
3. The recommended draft Attestation Statement for University Annual Reports on Freedom of Speech and Academic Freedom
4. The Voluntary Australian Public Universities Vice-Chancellor and Senior Staff Remuneration Code (approved August 2021) (UCC, 2021).

Thus, clearly, many efforts have been made on ensuring quality of education and its administration in the Australian universities. An evaluation of these efforts will be helpful to address inadequacies in the implementation of the above strategies. This paper undertakes a systematic review of the literature published on this aspect. The review may lead to identifying factors of inadequacies in implementation, if any and research gaps to uncover areas for further progress.

Methodology

Since CG in Australia is being reviewed, this term was used to search for papers relevant to the topic. The identified papers were run through repeated screening and selection using PRISMA flow diagram. Finally, 11 papers were selected for this review. They are discussed in the following, Results section. It is followed by discussions on numerical trends of papers and converging points from the review. Identification of inadequacies and research gaps will follow. The final section concludes the paper, mentioning some limitations.

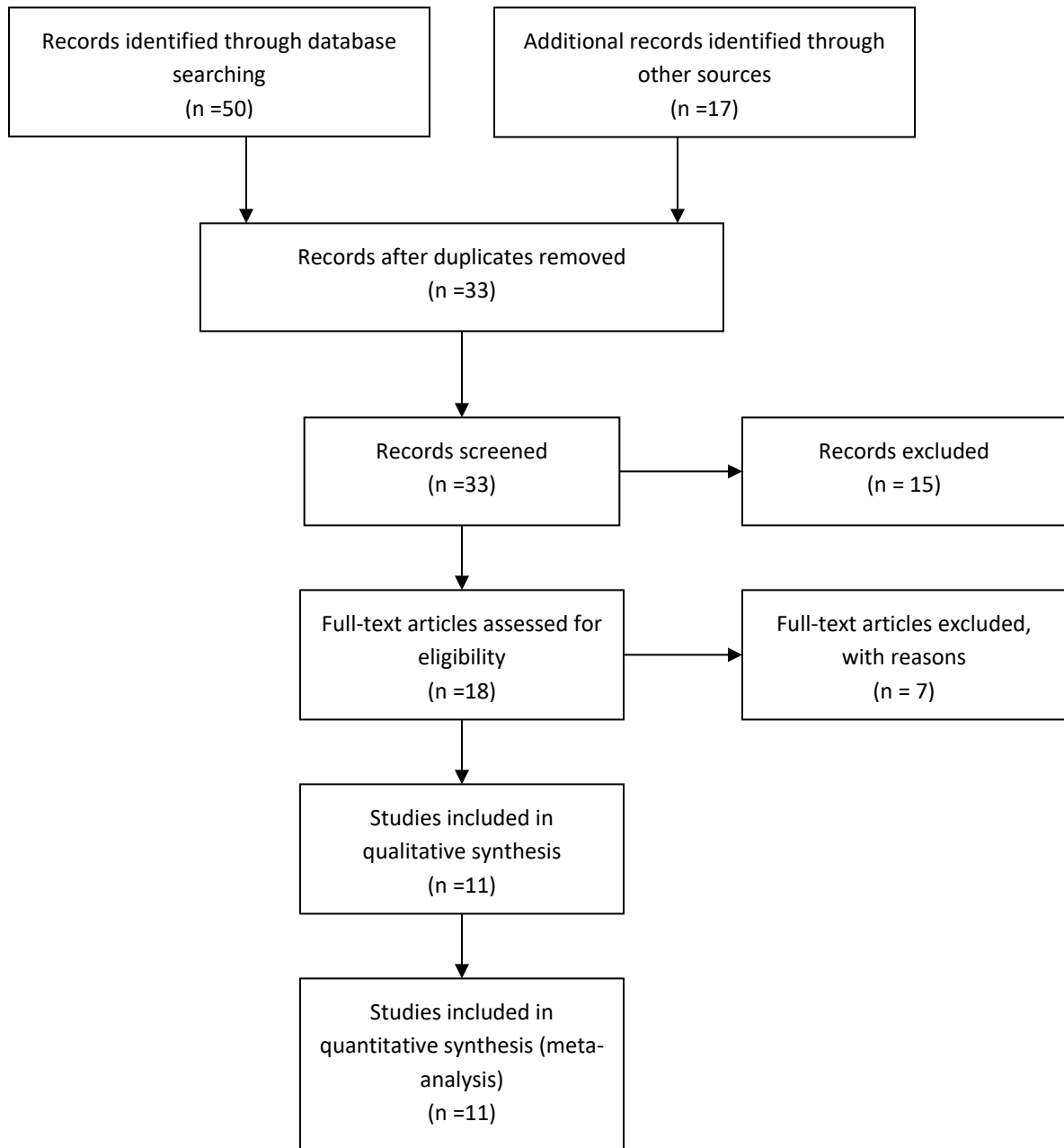


Figure 1: PRISMA flowchart

Results

Two decades of experiences with CG in Australian universities did not satisfy the UCC. Therefore, an alternate trusteeship model was suggested by UCC in 2003. The system was critically evaluated by Harman and Treadgold (2007).

De Silva and Armstrong (2012) aimed to describe the impact of the changes in government policy along with the introduction of Governance Protocols on the higher education sector and to answer the research question: do Australian Universities apply the best practice corporate governance measures? Secondary data from annual reports and web pages of 37 public universities were analysed using the assessment criteria derived from the National Governance Protocols. These universities were proved to use the universal best CG practices as independent corporations. Data for the study were compiled from annual reports and the Web pages of 37 publicly funded universities in Australia and Selected Higher Education Statistics Collection. The assessment criteria were derived from the National Governance Protocols. Findings revealed that Australian universities as independent corporations apply the universal best practice corporate governance indicators as governance measures. To measure the dependent variable, external corporate governance mechanism (the influence of the regulatory authority) was measured universities' compliance with 2003 National Governance Protocols. Internal corporate governance mechanism variables were board size, board independence, role of standing committees, and board processes indicated by transparency in reporting and board meetings. Board size was determined by counting the members of different types in the board. Board independence was measured by percentage of external members. A board committee index was calculated using presence or absence of audit committees, remuneration committees and nomination committees. Existence of an audit committee, external or internal chair, percentage of external members, and number of meetings held in the year for audit committee. The depth and extent of information disclosed in annual reports were used to estimate transparency index. The paper evaluated only the CG practices and outcomes were not evaluated. Universities of low global rankings would have also been among the 37 samples. The question arises how best CG practices did not lead to elevate the ranking of such universities.

Five mechanisms influencing university governance were listed by Swansson, Mow, and Bartos (2005): State regulation (SR), a government prescription model; Guidance by external stakeholders (ES) with advice from government, parliamentary, industry, union, and other bodies; Academic self-governance (ASG), the collegial peer-review based decision making of tradition; Managerial self-governance (MSG), the formal hierarchical organization of universities with Vice-Chancellors, Deputy Vice-Chancellors, Deans, etc.; and Competition (C), for scarce resources both within and between universities.

Observing the unceasing increase in commercial values within public universities, Carnegie and Tuck (2010) argued for a holistic, mission-related integrated governance approach for the Australian public university sector. The proposal was termed 'ABC of University Governance'. It consists of an integrated stress on the three key components of governance: academic governance, business governance and corporate governance. These three components are related with scholarship, performance and conformance respectively. Academic governance was placed first in the ABC of university governance to restress the crucial role and importance of scholarship not to be diluted any time with commercial interests.

Noting that Australian and New Zealand accounting academics failed to respond to the major governance and reporting failures before those of major firms like Enron and WorldCom, Parker (2005) investigated the obvious and latent drivers of this inaction. Secondary data analysis and interviews with senior accounting faculty in both countries were done. The basic cause identified was the corporatisation and commercialisation of universities and related governance processes. Thus, university governance and business corporate failures were connected in this paper.

A report by Swansson and Blackman (2009) traced some developments leading to CG of Australian universities. A set of National Governance Protocols were established for universities in Australia in 2004 (DEST 2004) as there were some significant collapses damaging reputations and causing losses of millions of dollars leading some universities and the firms controlled by them to imminent bankruptcy. In February 2008, the Australian government separated the National Governance Protocols from funding requirements, thus making these protocols voluntary and the existing 3-year review of the protocols unnecessary. Even then, some important governance issues persisted over the entire Australian higher education sector. The governing bodies lacked abilities to manage their organisational and financial risks leading to operational ineffectiveness. These issues were due to their lacking in skills and capacities, and focus on manage their organisational and financial risks, corporate and strategic issues and structures that obstructs management and deter institutions from being aware of their costs or to minimize them. These issues prompted the states to distance themselves from financial losses of universities. The authors aimed to determine how knowledge is created, shared, and transferred within university structures to identify possible weaknesses in this process leading to governance failures. Data were collected using five observations (40 hours) and five interviews with members of governing bodies. The findings showed that issues related to knowledge development and transfer, both in terms of how it is done and who drives it are important for effective development of governance both within universities and other organisations.

In a discussion paper, Lucas (2021) noted some issues related to CG in Australian universities. Funding cuts and regressive changes led to the corporatisation of Australian public universities. This was done to transform these universities to become entrepreneurial. Vice-chancellors became CEOs in the new dispensations. Governing bodies became boards of directors. This metamorphosis succeeded in promoting these universities into brands marketed to attract international students. However, staff and students were not supported with a good academic environment. The need to change this exploitative culture became evident when these universities had to close during the pandemic, resulting in big revenue losses. The universities had been silent over government's efforts to reshape higher education, commercialisation of research and further fund cuts. Universities failed to use the operating surpluses from huge international revenue to expand and develop academic workforces, lowering staff-student ratios, enhancing support for teaching and learning. The excess funds were diverted for creation of attractive infrastructure for market promotion as a world class institution, mostly in science and technology. The working conditions of academic and professionals continued to deteriorate. These trends affected the quality of education. There were high levels of casualisation of employees, wage theft and less time for student-teacher interactions as workloads increased. Online mode was used for attracting more offshore students. Pseudo consultations, new bureaucratic procedures and online administration were introduced for passive employee compliance. Hiring freezes, refusal to spend on critical resources and tasks, and enforcement of annual staff assessments, led to an atmosphere of fear and anxiety, as different metrics were applied for assessments. Previously subsidised student and staff services were priced now. Even

if expertise was available inside, they were outsourced. Digital learning online delivery and new revenue streams increased casualisation of teaching. Faculty were now required to teach large online classes with less time to prepare and deliver. Lectures, tutorials and seminars were moved online. All these were done out of necessity during covid-19, but now continued forever. These negative issues were never captured in the commoditisation of higher education. Stress on cost recovery, efficiency dividends, performance metrics converted staff and students into revenue generators. So, they are surpluses to the requirements for improved global rankings. Position in international league tables, performance monitoring and research excellence awards became means to brand marketing. Some universities failed to reserve funds for crisis exposing them to financial vulnerability. Some others, despite adequate reserves, cut staff levels, degree programmes and courses offered. Thus, there is now a governance crisis among Australian universities. Legislative support from the governments in the last three decades has led to the current secretive, punitive, and authoritarian management culture of universities. Business and industry provided the CG models for the legislative changes. Traditional elected staff and students in governing bodies are now replaced with selection and appointment supported by executives. Hence, no critical review of operations happens aided also by inadequate information provided by executives to the governing bodies. Chancellors, vice-chancellors, and other key persons have no university experience to understand what is required. Some states even removed the need for academic experience. The remunerations of these top people are not subject to performance. Unlike corporates, universities are not answerable to the public and are limited to financial matters only. But auditor-generals do not scrutinise university accounts properly to point out maladministration or corruption. University autonomy and their restricted external accountability have also helped to the current deterioration of these institutions. Management regards academics as obstacles and do not contribute to anything. There is no learning from mistakes. Critical thinking, teaching and research are not considered valid when reflexive decisions are made. Academics who dare to speak out are punished with litigations and termination threats. Flawed legislations contributed a lot to these problems.

Results obtained by Lokuwaduge and Armstrong (2015) using a case study approach of secondary data from annual reports of all 37 Australian public universities did not show any relationship between CG and performance. Agency theory, stewardship theory and stakeholder theory were used to explain the results. There was 92% compliance with the National Governance protocols. Universities preferred large council sizes, with most of them being external and thus, independent. Committees of these universities had a satisfactory record of meetings. A regulatory index, consisting of the list of compliance with governance protocols, was not correlated with variables used for research performance, teaching performance. Regulatory authority was positively correlated with internal governance mechanisms. Larger boards were better for financial and teaching performances. Council committees did not influence the performance, thus rejecting agency theory. A small significantly positive relationship between committee meetings, research performance and teaching performance, but not with financial performance, was obtained. Thus, the monitoring aspect of agency theory or the accountability to stakeholders' requirement in stakeholder theory were not supported. Council independence influenced only current ratio (financial performance), and research performance, but not other performance variables. A high staff to student negatively influenced research publications per academic, research degree completion per academic, and progression rate as a teaching performance measure. But there was positive relationship for high staff to student ratio with the asset turnover ratio as a financial performance measure. Thus, cost

efficiency measures lead to high staff to student ratios leading to decline in teaching and research performances. These results imply that different policies are required to improve different performance variables. Funding system should incorporate accountability from the university. Use of interpretative statistical analysis for small samples, possible endogeneity, possible influence of university-related variables and limited information from cross-sectional data were identified as the limitations.

Relevance of Corporate Social Responsibility (CSR) disclosures by universities reflect their commitments to the community visible and indicates any need to improve its management and communication with stakeholders.

Recent literature

The literature reviewed above covered the findings till 2015. Now new literature of 2020 are examined to identify any different trend in the findings on the topic. The three papers available were related to the impact of covid pandemic on the failure of the business model of Australian universities.

A large-scale survey was conducted by McGaughey, Watermeyer, Shankar, Suri, and Knight (2022) on 370 Australian academic staff to investigate their experiences and predictions of the impact of covid pandemic on their wellbeing. Self-determination theory was applied to explain the results. Autonomy, competence, and relatedness of participants suffered due to covid. Work-related stress, digital fatigue, negative work-life balance were expressed. Significant anxiety over potential longer-term changes to academia because of the pandemic was expressed by the participants. They were frustrated with Australia's neoliberal policy architecture and the myopic quasi-market reform, relying on international students as the main revenue source jeopardising institutional solvency, especially during the pandemic. Government's apathy towards sustaining university workforce was obvious. The resilience of participants was revealed by their identification of some silver linings like online learning contributing to greater use of technology by both faculty and students with increase in blended and hybrid methods of learning.

Using linear regression model on the data published by the Australian government, Thatcher, et al. (2020) showed that both policy makers and decision makers in the universities should consider economic diversification to reduce vulnerability to financial risks during crises like covid pandemic. The scope of this study was limited to covid effect only.

Using a literature review, Parker (2020) showed that Australian universities aggressively pursued an accounting-based private sector business model. Their revenue generating reliance on international student revenues was affected by the COVID-19 crisis. However, university managements are sticking to their commercialised university identity, with the leading role played by the accounting structures. A reversal of this relationship is required for which fundamental change need to be implemented in their governance. The main issue is whether universities should continue as export industry supporting the national economy or as knowledge, educational and social resource for their national and regional communities. The need for further research on strategic reactions of universities to crisis situations and their national and social impacts has been stressed.

Some trends of the selected papers

Year of publication

The frequency distribution of the 11 reviewed papers according to their years of publication is given in Fig 1.

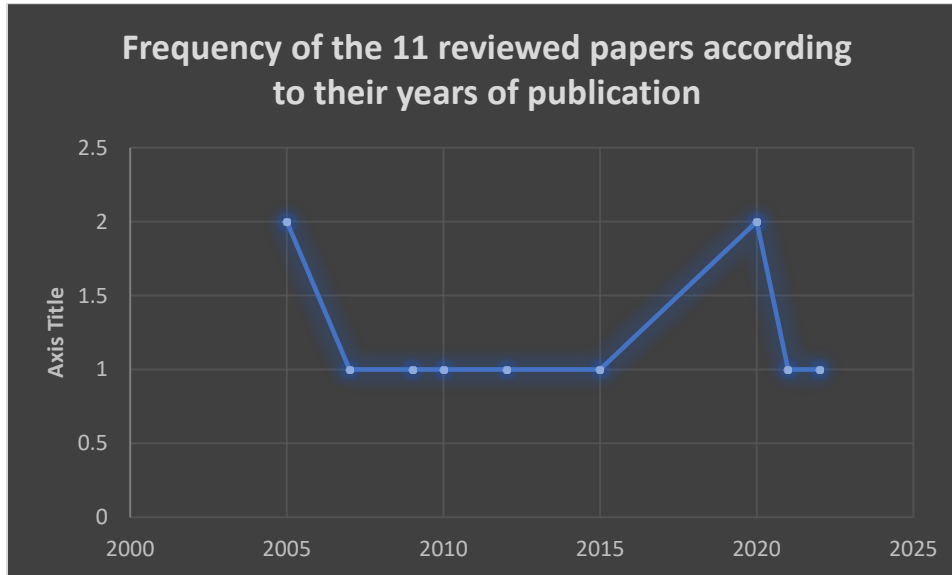


Figure 1 Frequency of the 11 reviewed papers according to their years of publication.

There were two papers each in 2005 and 2020. One each of the rest of the papers were distributed over the other years. No paper could be selected earlier than 2005, 2006-2008, 2011, and 2013-2014. The papers of 2020 and beyond were selected deliberately to examine recent trends and all of them were covid-related. No single journal dominated in publishing these papers.

Aim

Frequency of the 11 reviewed papers according to their aims are shown in Fig 2. Two papers aimed to investigate the topic. Aims of one each of others were distributed variously.

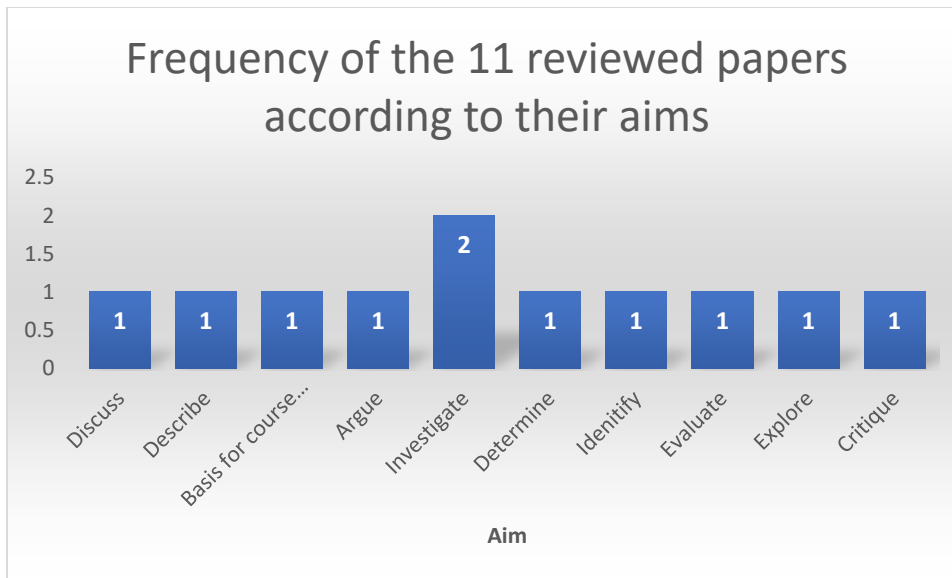


Figure 2 Frequencies of the 11 reviewed papers according to their aims.

Method

Frequencies of the 11 selected papers according to the method of study are given in Fig 3.

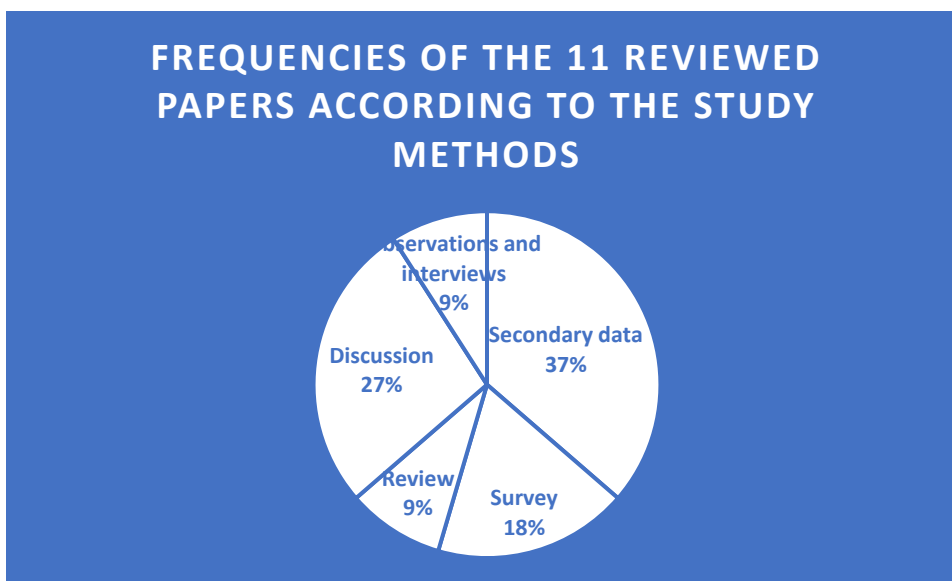


Figure 3 Frequencies of the 11 reviewed papers according to their study methods.

Four papers used secondary data, three papers discussed the topic, and two papers surveyed university staff. One each of the remaining papers used review of literature and observations with interviews.

Limitations

Limitations were identified in six papers either by their authors or by the reviewer. For three papers, limitations could not be identified as only abstracts were seen. For one paper, no limitation was mentioned and could not be identified also.

Conclusions

Initially, CG was thought to be essential for Australian universities to fulfil their goals of creation and dissemination of knowledge and create human capital with competencies required for national development. Various reports endorsed this idea. The state and national governments enacted laws, regulations, and guidelines for universities to implement CG. At first, some benefits were obtained. As funds to the universities were cut, they had to be self-reliant. Universities branded themselves attractively to commoditise and market themselves to international students. Soon, revenue from international students became major source of income. At this stage, the state and national governments supported universities to adopt private corporate business models. Adoption of these models transformed Australian universities into commercial enterprises of millions of dollars with profit motive. Once profit became the motive, financial and accounting interests took over and the academic aspects, the primary aim of these universities, were sidelined. An already existing digital learning now became a marketing tool to attract offshore students in addition to those who come to Australia for studies. With covid pandemic compelling campus closures, online was the only mode possible. Foreign students had to be sent away. These developments negatively affected the financials of these universities. To recover, harsh practices like job cuts, monetisation of once-free services, cutting low enrolment courses and programmes and withdrawal of funds from even some essential needs were implemented.

Almost all papers reviewed emphasised on the failure of universities to provide positive work environment for faculty leading to deterioration of educational quality. Both teachers and learners developed anxiety and fear of hitherto unheard-of norms of performance. Online course offers led to increased class sizes and led to heavy workload to teachers and disturbed their work-life balance. Some inadequacies of financial performance and vulnerability to risks were also noted, indicating that even the financial justification for the flawed CG practices were invalid.

Based on these observations, the papers suggested a thorough review of the impact of CG implementation on all aspects and a return to the original goal of knowledge creation, dissemination, and creation of competent human capital for national development. This view directly challenges the foreign cash-cow based economy of the Australian universities.

The last para above also indicates the gaps in research on this topic and thus, scope for future research. Scenario analysis or simulations can be used for testing what will happen by changing each element of CG for the academic goals of universities. The best scenario can be tested and adopted for wider implementation across Australian universities.

Limitations of this review

The direct route of searching Google Scholar was found convenient instead of using databases. But only 11 papers could be selected in this manner. However, considering the desirable length of the article, good discussion on each paper led to identification of several issues on the CG practices in Australian universities.

Considering that only 11 papers were selected, assessment of quality of papers was not done. Had it been done, most papers would have been low quality for various reasons.

Meta-analysis of variables from the papers could have been very useful. However, use of different variables in different papers made this task difficult.

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