



Back to school

Phillip Cenere reports on the latest lessons for university governance and discovers that a global outlook is dominating boardroom discussions.

We teach this stuff, so you think we would be good at it. But if recent headlines are any indication, that is not always the case. Last year saw several higher education institutions struggling with governance issues, embroiled in scandals, corruption probes and some very high-profile resignations and personality clashes. Add to the mix a federal parliament yo-yoing on student fees, deregulation and reforms, which according to Belinda Robinson GAICD, chief executive officer at Universities Australia, “will fundamentally alter the shape of Australian higher education,” and we had a very volatile year indeed. The year ahead looks just as turbulent.

There is no question that higher education worldwide is experiencing major changes, challenges and opportunities. Borders are shifting, funding models are being reinvented, and the missions of universities are being redefined. I have served in senior academic leadership roles for over a decade and have been privileged to help shape and manage some of those changes.

In 2013, I arranged a partnership between the Australian Institute of Company Directors and the Association for Tertiary Education Management to co-host a symposium on risk management for the tertiary education sector. We received such overwhelmingly positive feedback that the associations decided to make it an annual event. In November last year, the focus was expanded to include broader governance issues including leadership, change and international perspectives. Held in Melbourne and sponsored by National Australia

Bank, the event provided executive and non-executive directors of university boards with the opportunity to interactively share information and best practice guidance with experienced leaders in this field. Below are some of the key lessons from the day.

SILENCES AND NOISES

Steven Skala AO MAICD, vice chairman (Australia and New Zealand) of Deutsche Bank, said there is a serious divergence on the ongoing university debate about governance and that directors need to listen to the silences and noises.

“The debate is itself a signal,” said Skala. “Just as I like to listen to silences to try to ascertain what is being omitted from what is being said, I also like to listen to noises, not to work out which noise is correct, but to ascertain the fact of all the noise signals. To me the fact that there is so much noise about governance, signals that there is deep dissatisfaction or disagreement about the state of governance and leadership in the corporate, political and global sense.”

Skala defines corporate governance as the manner in which relationships of trust may be sustained with many parties. “Modern societies, and by extension modern corporations, require genuine trust in distant and mostly unseen others, upon whose actions they depend,” he said. “We seem steadily to be moving in the direction of mandating, specifying and regulating trust. It is now common for business people to talk about social responsibility and the importance of being good corporate citizens.” He said directors need to have a clear understanding of their constituents.



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“Who are you governing?” he asked. “Do you know who your stakeholders are and whether their view of themselves is the same as your view of them?”

Skala, who has advised the Australian Business Deans Council on threshold standards for finance qualifications, cited the debate surrounding the investment strategies of universities as evidence of the dissatisfaction and disagreement which exists around governance.

In October 2014, the council of the Australian National University (ANU) agreed to a proposal by vice-chancellor Professor Ian Young AO to commence divestment of stocks in seven companies following a review of ANU’s domestic equities as part of its socially responsible investment policy. Undertaken by research provider CAER, the review provided Environmental, Social and Governance (ESG) ratings on ANU-held domestic stocks. As a result of the ratings, the university divested \$16 million worth of shares in Iluka Resources, Independence Group, Newcrest Mining, Sandfire Resources, Oil Search, Santos and Sirius Resources. The decision

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was criticised by many business and political figures at the time, while some student groups said it did not go far enough.

Skala said institutional shareholders are starting to look towards longer-term sustainable ventures to meet their obligations to their constituency.

“In my view, the objective of the modern corporation is not to make a profit but to live profitably forever,” he said. “I consider that there are broader purposes for which corporations and shareholders aggregate capital than short-term profit making. In order to live forever, different considerations must be taken into account apart from the sheer notion of making a profit. Formation for survival for a long period of time implies a long-term strategy and also implies living within the community which affords you the opportunity to operate profitably.”

He said business leaders who once gave only lip-service to the feisty demands of activists now have developed an enlightened appreciation of the value of corporate reputation as a competitive advantage necessary for survival.

THE FISH ROTS FROM THE GUT

Robin Hughes AO, pro-chancellor of ANU, spoke on the role of university councils in governing change. She said universities, as a group, are one of the most enduring institutions in the world, with a history dating back a thousand years. “They’ve shown enormous capacity to adapt to changing circumstances and to persist through war and revolution and technological change and still come through and survive. By comparison, there are no corporations that I know of that can lay claim to such a long existence in such difficult periods. I think it’s an adaptability worth thinking about and governing bodies must have played some part in it.”

Hughes said that despite their remarkable achievements, the role of university councils is poorly understood. “A lot of people who join ANU’s council are amazed at the complexity and the breadth of the responsibilities that we actually face on council,” she said.

It is important for a council to make regular site visits to various parts of their university, she added. Referring to Bob Garratt’s bestselling book *The Fish Rots from the Head*, Hughes said in her experience this is not always the case. “A fish actually rots from the guts,” she said. “If there’s something wrong with your gut and your head knows about it, you have a reasonably good chance, with the right doctors, of fixing it. So the governing body is the place to go.”

“Vice chancellors or others within the

university who want to hide developing problems because they’re afraid of drawing attention are making a terrible mistake. They are depriving themselves of a valuable asset that is there at the council table, absolutely dedicated to helping. Frankness and transparency at that top table is crucial to the health of an organisation.”

Hughes also said councils should be the guardians at the gate protecting the academic freedom of staff to teach and research openly.

EYES ON, HANDS OFF

Jacqueline Hey GAICD, a non-executive director of Melbourne Business School, QANTAS, Bendigo Bank, SBS and Cricket Australia, said the best boards are silent boards.

“The vice chancellor as CEO should run the organisation and they should do so publicly, they should do so internally, and they should do so on a day-to-day basis,” said Hey. “The board members and the chair are there to provide oversight and governance and to protect shareholder interests, but not to run the organisation on a day-to-day basis. I think if the two ever get messed up then it becomes quite difficult. A board’s role is being ‘eyes on, hands off.’”

Hey said unlike many commercial boards, which tend to be skills-based, many universities have representative boards, where identified constituencies control a specified number of board seats. This can lead to directors representing only the interests of their electors (such as academic staff, general staff, undergraduate and postgraduate students) rather than the organisation as a whole.

“The people that should be on the board are those governing the board for the institution’s best benefits. If a student can come on the board and do that then great, because they have got both the relevance and the output to do it. But if a student comes on the board and then only looks at a single dimension (i.e. from a student) and ignores the financial and audit issues, then I don’t think it’s good.”

She said the size of university boards (sometimes referred to as councils or senates) is also a concern.

Take the University of Western Australia as an example. Its senate, the university’s governing body empowered with the authority to make statutes, regulations and by-laws, consists of 21 members:

- Four appointed by the governor.
- Four elected by convocation.
- Three elected by, and from, the academic staff of the university.
- One elected by, and from, the general staff of

the university.

- One elected by, and from, the membership of the academic board.
- Two elected by, and from, enrolled students of the university.
- One elected by, and from, the Postgraduate Students' Association.
- Three co-opted members.
- The Chancellor-ex officio.
- The Vice-Chancellor-ex officio.

"I find the size of university and school boards to be too large," she said. "Having 18 people around the table, and then you have management as well, it's huge. And if everyone really wanted to have their say, we'd be there for seven days. I really think a size of around nine to 11 would be more effective."

CULTURE OF SHARING

Dr Annie Koh, vice president for business development and external relations and a professor of finance at Singapore Management University (SMU), provided audiences with an international perspective on governing universities. She said that universities build

excellence through academic entrepreneurship and need to encourage competition plus cooperation, particularly with industry partners.

She said one such example is SMU's International Trading Concentration (ITC) which aims to equip undergraduates studying finance for careers with companies operating in the trading value chain (such as shipping, logistics, trade finance and maritime services). Companies including Shell International, globalORE and Concord Energy donate AUD \$27,000 per year with a three year commitment in return for a 250 per cent tax credit.

"Your government has to encourage giving," said Koh. "It's a multi-stakeholder approach. You cannot be a strategic asset of the country and be linked to industry if you do not have people from industry who are in the university and teaching."

Koh said universities are under immense pressure to align their research to industry and government agendas so they can secure additional funding. In SMU's case, they are focusing on user-inspired, needs-driven research (such as on the topic of ageing) and with the possibility of interdisciplinary studies in order to

access social science funding.

SMU has 205 partnership agreements with institutions in other countries focused on student and staff exchanges. "Why is this important?" said Koh. "Because the world of tomorrow requires students to have a global mindset. For world peace." SMU's target for its global exchange program is to have 100 per cent of its 7,500 students studying overseas for a semester.

SMU also has a small academic consulting unit that works with partners in South East Asia to help with management education. "You can actually be global without having a physical presence in other countries," she said. "When you are dealing with off-shore stakeholders you are dealing with multiple players, so there's no 'one size fits all.' My advice is to take small steps, working with programs, working with research centers and go asset-light."

"Asian countries treasure relationships and it takes a longer time, maybe five years before you see a real partnership, ten years before you have a presence," said Koh. "Trust building takes time." ①




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