

# *Management and Governance in Modern Research Universities*

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*Professor Gavin Brown*

*Chairman, Association of Pacific Rim Universities*

*Vice-Chancellor and Principal, The University of Sydney*

*for the*

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## **INTRODUCTION**

I would like to thank our hosts, National Taiwan University, for providing an excellent meeting place and a welcoming atmosphere for this year's meeting of the Senior Staff of the Association of Pacific Rim Universities. As Chair of that consortium I welcome the opportunity to address today's forum in which many other Taiwanese universities have joined us.

It will come as no surprise to you that I believe strongly in the value of international networks of universities. I do not see these as providing occasional opportunities for diplomatic encounters where we congratulate ourselves on furthering international understanding through elegant speeches. Rather I see a network like APRU as providing a linking infrastructure for benchmarking and sharing of best practice through joint projects with real outcomes.

Given that practical philosophy I must try to perform a juggling act. On the one hand I would like to discuss broad trends for several countries. On the other hand I want to base that discussion on hard facts and my detailed knowledge comes, of course, from Australian universities and, in particular, my own. Please bear with me, therefore, as I start with that concrete example.

## **AUSTRALIAN SCENE**

Using somewhat simplified numbers for the year 2005, The University of Sydney had an income of \$A one billion, 6,000 staff and 46,000 students. Of that income 18% was provided by the Australian government as operating grant under the Commonwealth Grant Scheme (CGS), the only uncontested income coming from government.

It is helpful to consider the overall income as falling in three equal parts: one third from student fees, one third from research and the remaining third coming from the operating grant already mentioned together with commercial activities and donations and bequests.

Let me break out each of these categories. Student fees from overseas students contribute \$140m, from HECS (Higher Education Contribution Scheme) payments \$120m and from direct payments from Australian students \$80m.

I need to explain that international students pay, in principle, the full cost of their course which varies from some \$12,000 per annum for Arts to some \$30,000 per annum for dentistry. Local students, in receipt of a government allocated place, pay roughly one third of the full costs again varying by discipline. They may pay either upfront with a discount or take a government loan which is recovered from subsequent earnings through the tax system. That scheme applies typically to undergraduate students. We are permitted to accept also Australian students who do not qualify for a government-subsidised place and to charge them full fees. The percentage of these full-fee paying undergraduates is capped at 20% in each program. In addition we charge full fees for postgraduate coursework for essentially all domestic students.

In summary one third of our budget comes from student fees. \$140m from international students and \$200m from Australian students.

Now let me turn to research income. We earned \$120m from competitive research grants sourced from government and dedicated to specific projects. We earned \$110m in block grants also sourced from government covering both research and research training and allocated on competitive performance. We earned a further \$100m from contract research and commercialisation. (It is interesting that \$30m of this came from overseas sources).

The remaining third of our income arises from \$180m operating grant, \$80m investment income, \$40m other commercial activities and \$30m from donations and bequests.

Although we are sector leaders in Australia for donations and bequests, the figure of 3% of budget is very low by North American standards.

I started this section by informing you that only 18% of our budget is guaranteed by government. The more detailed breakdown shows that we source about 42% of budget from government. The point is that the 24% gap is at risk. This also points to the fact that there is increasing differentiation in the Australian university sector. There are several universities which gain virtually nothing from competitive schemes and, as a result, their budget structure is profoundly different. In fact the pattern I have shown applies to Melbourne, Queensland and, to a lesser extent, UNSW, UWA, Adelaide, Monash. A sharp anomaly is ANU which receives very large amounts of uncontested government research funding – a fact which is reflected in international league tables.

These universities together with Sydney form the Group of Eight research intensive universities. To give an idea of the structural differences let me mention two other groupings. These are the Australian Technology Network comprising 5 universities such as RMIT and the Innovative Research Universities comprising 5 universities such as La Trobe. In the latest round of competitive Australian Research Council funding these ten universities achieved a combined total of project funding which was less than the University of Sydney alone.

Let me go back to our case study of a typical comprehensive research-intensive Australian university. The biggest budget headache is, in fact, research! The problem is

that competitive project grants do not carry institutional overheads. Thus the \$120m which appears in my budget is fully expended by the individual researchers and, indeed, requires institutional cross-subsidy from other sources. To some extent the competitive block grant of \$110m covers that, but remember that a large proportion covers research training where, again, we have no real manoeuvrability in expenditure. Moreover these block grants can only be expended on personnel and equipment, not on the research infrastructure, laboratories etc, which house the activities. All of this implies that, for a leading research university, research is a budgeted loss leader, essential to our prestige and mission but dependent on support from other sources.

In fact it is clear that we are heavily reliant on international student fees. Let me give more detail of our student profile. In the year in question, 2005, we had 31,000 undergraduates and 15,000 postgraduates (of whom 3,500 were research students). There were 9,000 overseas students within these totals, evenly distributed between undergraduate and postgraduate and comprising 19% of the overall total. Of our international students more than 3,000 (i.e. more than one third) came from mainland China. From a business perspective we must clearly try to broaden our risk portfolio.

The structural budget constraints that I have described have a large influence on driving strategy. Let me illustrate this, together with the consequences of government policy, by comparing with 1997, my first full year as CEO. In that year operating grant was 40% of budget as opposed to the 18% with which you are now familiar. Student fees accounted for 20% of budget rather than 33% but the HECS amount from Australian government-subsidised students was 12% as it is now. In other words our private enterprise income from student fees moved from 8% of budget to 21% of budget. International student income moved from \$27m to \$140m.

In 1997 we had 26,000 undergraduates and 8,000 postgraduates. Now we have 31,000 and 15,000 respectively. However research student numbers have moved from 3,300 to 3,500 only. Staff numbers have moved from 5,200 to 6,000.

Apart from the risk elements of our business strategy to which I have already referred there is an obvious question which arises. Are we being driven (or allowing ourselves to drift) away from our core mission which is research and research-based teaching and learning? I do not believe that this is so and will provide some evidence shortly. Rather than de-emphasising the centrality of research we are focussing on all methods of income generation in order to maintain our research effort. I admit that there are many pitfalls. Unless we are acutely conscious of the danger we could be embracing a managerialist culture at the cost of traditional collegiality. We could become so obsessed with amassing resources to allow us to achieve our core aspirations that we forget the achievement of these aspirations as we go.

Now here is the evidence I promised. I am relying upon international ratings based on peer review of research standing provided by the Times Higher Education Supplement – QS World University Rankings 2006. There are, of course, reservations concerning any qualitative methodology and there is a time-lag inherent in the data, but I believe the results provide a useful impressionistic picture. Of the five areas considered Sydney ranks 5th in the world in Arts and Humanities, 19th in Social Sciences, 20th in Life Sciences, 25th in Engineering and IT and 35th in Natural Sciences.

If we consider all-round research universities, as defined by a top 40 placing in each discipline area, the list is reduced to 16 universities. (For example Yale drops out because of weak Engineering and IT and Cornell just misses out for Arts and Humanities.) Further consideration of the rankings over the five areas suggests that these sixteen fall naturally into three bands as follows:

Cambridge, Oxford, Berkeley, Harvard, Stanford.

MIT, Peking, Melbourne, Tokyo, NUS, ANU.

Toronto, Princeton, Sydney, Kyoto, UCLA

Observe that ten of the sixteen belong to APRU, two in band one, five in band two and three in band three.

If we decided to rank only on Arts and Humanities and Social Sciences then the average position of the Australian universities would move from 11th to 7th. That is consistent with my earlier analysis of our budget framework.

## **GOVERNANCE AND MANAGEMENT**

I am anxious, as I am sure you are, not to dwell upon the idiosyncrasies of the Australian system for too long. There are nevertheless some further comments which are necessary.

Almost all Australian universities are established under Acts of their State parliaments. Almost all their government funding comes from the Federal parliament. This has led to a situation in which the Federal government attaches rules to its allocation and these reach into wider areas of our activities. In order to gain the full 18% of operating grant we must demonstrate compliance with respect to specified industrial relations policies and to governance protocols regulating the composition and behaviour of our governing councils. (As Federal and State governments frequently come from opposite political parties that can create problems.) Moreover the operating grant takes the form of a contract in which we must admit a specified number of students in defined discipline areas with tight tolerance limits for over-enrolling and under-enrolling. Accordingly our overall operations are subject to detailed reporting requirements, within a comprehensive regulatory framework, to the Federal Government but our accounts must be audited by the State Government. In addition the State government legislates operational conditions on such matters as privacy, ombudsman, rules for commercial operations and imposes state taxes such as payroll tax.

The older universities, and that includes the major research universities, have a governance system which traces back to 19th century Britain. The governing councils are autonomous within the state act but have more of the flavour of a parliament than a company board. In our cases we have elected representatives of the undergraduate students, postgraduate students, academic staff, general staff, alumni and members appointed by the State education minister. This system has the advantage that it helps emphasise the ideals of collegiality but I believe it is not what one would design when starting with a clean slate today. The reality, of course, is that we do not have a zero

base and that any governance change must be acceptable to many constituencies, including both governments.

Fundamental to governance is the Academic Board. (In many universities this is called the Senate or Academic Senate but, in our case, the word 'Senate' describes the overarching governing body). This body is charged with the academic policy of the university, making rules concerning the award of qualifications, the course structure, the quality and consistency of academic programs, admission protocols, examination procedures and monitoring student progress. Traditionally it is the academic conscience of the university providing a forum for wide-ranging debate on academic matters.

Originally as a result of democratisation in the 60's and now as a pragmatic consequence of our size, not all full professors are members. In fact there are elected representatives of staff and students from various academic areas of the university together with ex-officio academic administrators.

In many universities, including Sydney, the Chair is elected by the Board but in some the vice-chancellor, as CEO, performs this role. In many Australian universities the governing body delegates all, or most, academic decisions to the Board but, in Sydney, all decisions of the Board take the form of recommendations to the governing body. The elected Chair is, however, ex-officio, a member of the governing body.

So far I have tried to focus on governance as opposed to management but, of course, the interplay of the two is crucial. Our major academic divisions are Faculties, such as Law, Medicine, Science, Engineering, and these are managed by Deans. Deans are professional managers, appointed not elected, and are required to exercise academic leadership over research, teaching and community outreach deploying substantially devolved budgets. They report through a Provost. The leaders of two other central portfolios, the Deputy Vice-Chancellor (International) and the Deputy Vice-Chancellor (Research) report to me but form part of the 'wing' of management led by the Provost. The other wing is led by the Chief Operations Officer (COO) (who is also a Deputy Vice-Chancellor) and includes the Deputy Vice-Chancellor (Community), the Chief Financial Officer and the General Counsel. The COO has oversight of human resources, properties and campus services and IT, each of which has a director.

All of these are fixed term career management appointments although the incumbents are encouraged and supported to engage in academic scholarship and research. We do not have the British custom of professors serving a tour of duty with university-wide coordinating responsibility followed by an expected return to their professorship.

The goal of this model is to provide efficient but effective support services to the Faculties, discouraging local duplication but not initiative, and to ensure that the Deans contribute to institutional policy and planning as well as drive their own academic areas.

## **INTERNATIONAL COMPARISONS**

It probably helps to understand what I have described to think of a British style of management and governance morphing into an American one. On the other hand note that the only two British universities in the list of 16 which I gave earlier have relatively

weak university structures coordinating autonomous colleges. In similar fashion Harvard's 'every tub on its bottom' philosophy persists and does not suggest a university where strong central management is a defining feature.

There are no continental European universities in my little list. Although Germany defined in the 19th century what became the modern research university it is only now that necessary reforms are taking place. In my view the German system has suffered from bureaucratic control, professors as civil servants, open access and no fees, elected transient rectors and research separated out to independent institutes.

There were echoes of this in Asia where governments in Taiwan, Korea, Thailand and Japan have recently move in various ways to give more responsibility to universities to determine their own destinies. Where previously Government reached at a detailed level into the workings of the university concerning, for example, course offerings and staff appointments but especially in regard to external financial transactions, there are various forms of deregulation being implemented. On a recent visit to Japan I learned of some particularly radical changes. Although the ministry retains a role in the selection of the university president, that officer then has sweeping powers and frightening responsibility. It was put to me that the governing board, at least in some cases, was effectively an advisory board put in place by the president himself.

This would find no favour with Michael Shattock, long-time registrar of the University of Warwick and now visiting professor at the Institute of Education, University of London, who has recently written a book on "Managing Good Governance in Higher Education". He analyses several breakdowns of governance in UK universities, in many cases involving a rogue CEO not subject to appropriate constraints and out of touch with the academic community. He strongly advocates that academic staff and students should have a powerful (not merely token) role in the management of the academic enterprise. Interestingly he believes that it is characteristic of the great US public universities that underneath the formal governing board there is "a complex academic committee structure (and sometimes a formal senate) exerting huge influence on what the board decides." He states further that "more surprisingly the faculty in major private research intensive universities are even more influential."

The US research universities are certainly as complex as they are effective and I like Charles Clotfelter's comment: "Featuring the size of a small city, the complexity of a major conglomerate, the technical sophistication of the space program, the quaintness of a medieval monastery, and the political intrigue of a Trollope novel, the modern research university in this country is a peculiar institution indeed."

Nevertheless, according to Shattock, the academics remain hugely influential and, in an odd remark elsewhere in his book, he describes a South African university structural innovation, influenced by the Australian rhetoric of managerialism, which failed.

Perhaps we should have another simplified image: Australian universities hurtling headlong down an instrumental managerialist track, overtaking the more reflective US, and closely followed by our Asian neighbours!

How do we find a balance in university management and governance? Is the US research university model, wunderkind of the 20th century, showing signs of age? What can we learn from China where there is rapid development and expansion, where the

highly successful Peking University is supported by its university company, the Peking University Founders Group, which had revenue of 24.5 billion yuan in 2005? Does the close relationship between the Singaporean government and its National University, with outstandingly successful outcomes over the last decade, give a signpost for other governments? Why do Australian universities appear to punch above their weight?

One of the considerable advantages of our APRU consortium is that we can address such questions, not only through dialogue but also through the practical medium of joint projects. We are competitors in a global economy but we have much to gain from cooperative benchmarking and cooperative activities.

I look forward to learning more from today's interactions. Thank you for your attention.