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University Governance in a market environment

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As someone who certainly has less practical experience of this morning's subject than anyone else in the room, I have decided that my only hope of surviving the next hour or two is to play to my one comparative advantage: that is, the role of a complete outsider.

With this in mind, I'd like to start by unpicking the notion that universities are – or indeed should be – operating today in a market environment. The system certainly does not look anything like a market as portrayed in any economic textbook I've ever seen.

I'll go on to suggest reasons why the governance question has become much more complex, and very much more important, than ever it was in the past. I'll conclude by highlighting some of the barriers that lie in the way of governance reform - barriers which are well within the powers of policymakers to surmount.

There's no doubt that it has become fashionable to think about universities in a market context. In its typically in-your-face way, the Economist magazine entitled its recent survey on higher education "*The Brains Business*," and the concluding essay in this section was headlined: "The best is yet to come: A more market-oriented system of higher education can do much better than the state dominated model."

This is a simplistic view. It's an odd kind of market where the number of customers and the price of services offered are subject to outside regulation, and where bankruptcy does not appear to be an option. And the market by itself cannot deliver key parts of the knowledge generation and distribution process.

In his book on the marketing of higher education - *Shakespeare, Einstein and the Bottom Line* - David Kirp concluded that "embedded in the very idea of the university... are values that the market does not honour: the belief in a community of scholars and not a confederacy of self-seekers; in the idea of openness and not ownership; in the professor as a pursuer of truth and not an

entrepreneur; in the student as an acolyte whose preferences are to be formed, not a consumer whose preferences are to be satisfied."

I am sure we will agree this morning that the market can make a contribution to turning universities into stronger, better places. But it does not provide many of the important answers, and it brings big risks.

The big new challenges for university governance are being driven by politics as much as they are by economics. They are the result of at least five broad trends.

The first is massification, which has meant that universities today touch far more lives than they ever did in the past, and have become much more visible as powerful regional and national institutions. This has been driven by perceived social as well as economic needs, and it has made universities much more difficult to manage.

The second is the growing political importance attached to rather vague ideas of the knowledge economy. The view is that to compete in a globalised world, countries need to move their products and services up the value chain, and to do that they must invest more in the intellectual capital of their citizens. Alison Wolf has forcefully skewered the idea that the way to national riches and happiness is to send more kids to college, but I'm afraid she's still something of a lone Wolf on this argument.

This view has led to much more emphasis being placed on the utilitarian – as opposed to intellectual – missions of the university.

The third big trend is competition. Universities are increasingly having to compete at a national and international level to attract and retain the best talent. They are also having to compete for research and infrastructure funding from the public purse, for partnership deals with business, and for private donations from alumni and philanthropists.

This poses big and risky questions about where a particular institution wants to position itself in the marketplace. For example, the University of Manchester is making a huge bet on its ability to rival the Golden Triangle - people like Jo Stiglitz do not come cheaply. And the appointments columns of the THES every week show how far some much more modest institutions

are stretching themselves financially in their efforts to claw their way up the Research Assessment tables.

The fourth trend is the encroachment on institutional autonomy. As Gordon Johnson wrote in the THES just this week, in the mid 20th century the university establishment consisted of independent charitable corporations run by separate scholarly communities who determined what and whom to teach, what research to explore and with whom to share the results.

Over subsequent decades, those freedoms have been eaten away by the nature and structure of public funding. And universities are also being expected to take on an explicitly social role, by seeking out less privileged students and by finding ways to cope with the inadequacies of our secondary education system.

In this context, a key governance issue today is about how individual institutions should manage their relationships with the public funders. This ranges all the way from simple questions, such as whether it is worthwhile taking the trouble to bid for a little pot of golden handshake money, all the way up to unmentionable subjects such as the pathway to privatisation.

The fifth big trend is about the globalisation of higher education, by way of the mass movement of students across borders. Its universities are already Australia's second biggest earner of foreign revenues. In his Pre-Budget Report last week, Chancellor Gordon Brown repeated his view that higher education was turning into a crucial source of export revenues, and put up some money to help British institutions to promote themselves abroad. The question we have to ask is whether the governance system of British universities in its current shape is capable of handling the risks that would go with large-scale international expansion.

All these trends have introduced new tensions into the governance of our universities. They remain not-for-profit and nominally private institutions. But they receive large sums of money for which they have to be publicly accountable. Higher education is a public good, but it also brings private benefits – graduates can expect to receive higher incomes than non-graduates.

In a chronically underfunded system, big and very important decisions have to be made about the proportion of full paying foreign undergraduates and

postgraduates that would make sense for a particular university. Partnerships with business and with other institutions involve new kinds of reputational and financial risk. A complex network of stakeholders has to be taken into account.

Above all, there's the tension between collegiality and accountability. Between consultation and consensus, and decisiveness and speed of delivery; between endless committees and overmighty executives. Communities of scholars do not get out of bed in the morning for the same reason as partners in Goldman Sachs. So the question is about how far you can bring management disciplines onto the campus without destroying something precious.

Let me suggest just a few of the strategic questions that are testing university governance today.

What's the business case for setting up a campus in China or Singapore? Will it strengthen the brand and bring in more private revenue and if so, at what risk? What's the case for recruiting more students from outside the European Union?

And what's been the experience elsewhere? Australia, for example, has attracted huge numbers of Chinese students, but its financial structures could start to look shaky once China has raised the standards of its domestic institutions. Still in Australia, I think it is fair to say that Monash made a strategic error in opening a campus in South Africa,

Closer to home, what role should our universities be playing in economic regeneration? I'm a big fan of the various Science City projects that are now under way across England, all of them with research universities at their centre. York's version already has some very impressive achievements under its belt: Newcastle has just acquired a big piece of real estate in the city centre with the help of the local authority and the RDA for its Science City project.

But on what basis should universities decide to allocate resources to broad regeneration projects, and what are the metrics for judging success?

Risk management is recurring theme, and not one that would have been high on the governance agenda ten years ago.

What's the prime role of the technology transfer office? Is it to distribute intellectual property, or to maximise revenues? Jennifer Washburn, in *Universities Inc.* – her entertaining book about what she calls the corporate corruption of higher education in the US – has some gratifyingly horrible stories about what can go wrong if the profit motive gets too much emphasis.

For example, there's the story of the luckless Petr Taborsky, a student at the University of South Florida, who wound up on the chain gang of a maximum security state prison after colliding with his university over the rights to a discovery he made while he was an undergraduate.

Increasingly one is hearing the view – and not just from the left – that the pendulum has swung too far in the U.S. since the passage of the Bayh Dole Act in the early 1980s to the point where universities have increasingly come to resemble commercial enterprises and professors, business people.

Washburn cites a report by the National Institutes of Health in 1998 which concluded: "It hardly seems consistent with the purposes of Bayh-Dole to impose proprietary restrictions on research tools that would be widely utilised if freely disseminated. Technology transfer need not be a revenue source to be successful."

She also has grisly stories to tell about the potential for conflicts of interest in business university relationships, and the shortcomings of all kinds of institutions – all the way up to the National Institutes of Health – in this respect.

There are potential risks in the UK, too. I have the impression that a number of our universities have shied away from setting rigorous rules for such conflicts, partly because I suspect the idea somehow seems unBritish. When I was researching my review on business-university collaboration, I was told by more than one institution that since academics were so poorly paid by the university it wasn't sensible to inquire too closely into other possible sources of income.

That way trouble lies. The UK is by no means immune to such conflicts of interest, as the Select Committee of the House of Commons concluded in its report earlier this year on "The influence of the Pharmaceutical Industry". In

some areas, it noted, "company influence is excessive and contrary to the public good." This is an important governance issue.

In broad terms, the governance of British universities stacks up reasonably well by international standards. I'm just completing a pamphlet on university reform in the European Union, which concludes that outside the Nordic countries and the Netherlands, governance is a huge problem – probably bigger even than the financial pressures, since nobody is going to give universities more money unless they can demonstrate an ability to spend it sensibly. Germany is beginning to face the challenge, at a national and state level, but so far as I can tell France and Italy are a long way away from change.

Of course everyone says that the US has got everything right when it comes to higher education, but this is not the case. In their interesting recent book on the future of the public university in America, James Duderstadt and Farris Womack say that:

"There is little doubt that the deteriorating quality of governing boards, the confusion concerning their roles, and the increasingly political nature of their activities has damaged many public universities and threaten others."

Staying with this political theme, I liked the crack by New College's Alan Ryan, when he explained why a successful sports programme is a vital ingredient in a vital ingredient of managing the overall budget of a US university.

"You don't expect the local politician to feel good about your philosophy department," he wrote. "But if you want a good philosophy department, you want the politicians to feel good about your football team."

But this does not mean that the governance of British universities as a whole is where it needs to be to meet the challenges I've been describing. There has been a drift towards change in the last decade or two, most noticeably after the Dearing report in 1997. But there's not been a real shift in quality or focus.

Perhaps that's not surprising, since the change in the role of universities in this country – although cumulatively enormous – has taken years to work through. There hasn't been a single shock – or the kind of dramas that have

prompted a much more active discussion about the role of governance in the corporate sectors. That's not because universities have been better run than companies: rather it's that until recently they have been operating pretty much in a risk free environment.

So reforms in governance have lagged some way behind the changing roles of universities themselves.

So what are the main barriers to the introduction of good governance in the UK in today's environment?

I'd like to suggest three.

The first is the Privy Council. As an outsider, I can't begin to understand why academics are not all up in arms about a process that may conceivably have made sense when universities educated less than 5 per cent of young people and had seen no reason to change their way for decades, but which is now a dead hand on the process of change. Time and again I've come across sensible proposals which have been held back for months or years by this bureaucracy. No doubt there has to be some kind of process for approving constitutional changes – but the Privy Council? I just don't get it.

The second and third barriers lie at the level of individual institutions. The fact is that some seem to find it just a lot easier to modernise their practices than others. Just glancing at the THES over the past couple of weeks, I see that on the one hand City University has quietly introduced what look like radical changes to its governance processes, whereas leaders of Nottingham Trent, Liverpool John Moores and the University of Wales Institute have all run into no confidence votes in response to proposed changes.

In the meantime, Oxford is going through all kinds of excitements in its efforts to introduce reforms. And we should be hearing this morning whether Cambridge has succeeded in modernising its IP regime. This is not strictly a governance matter, but the credibility of Cambridge's leadership will take a knock if it falls at this particular fence.

This diversity of experience is an important reason for thinking that the big questions about governance should be tackled from the bottom up, rather than through any top down intervention. Different institutions have very different capacities to change. There need to be, and are, some generally

agreed principles and goals of university governance. But it's going to have to be up to individual institutions to decide how best to get from here to there. I don't think we are talking about wholesale structural reform: the challenge is for individual institutions to bring their communities along the path of needed change.

The third barrier lies in the quality and calibre of university governing bodies. To face the challenges that lie ahead, particularly that of risk assessment, they are going to have to commit more time, more energy and more relevant skills than in the past. They are going to have to be more accountable for their decisions: perhaps, like corporate boards, they should have some measure of liability. If so, it seems to me they are also going to have to be rewarded in some more tangible way than a large dinner and a glass of port.

We used to think we knew what universities were for. Broadly speaking, they had a shared set of values and objectives, and they worked on common agendas.

In today's much more complex and competitive environment, with new pressures coming from the market, from politicians and from social change, it must be up to each university to decide on where it fits into the higher education ecosystem. And it's the job of each university's governing body to agree on the mission, and to hold those responsible for executing it to account.