Corporate Governance in the Higher Education Sector: Optimizing the contributions of University Councils to Universities in Papua New Guinea

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Introduction

2012 – External Quality Audits using 13 standards

6 universities were audited by panel members from Australia, New Zealand and Papua New Guinea:

- University of Papua New Guinea (UPNG)
- University of Technology (UOT)
- University of Goroka (UOG)
- University of Natural Resources & Environment (UNRE)
- Divine Word University (DWU)
- Pacific Adventist University (PAU)

Problem Statement

- "How do university council members adequately represent the interest of the owners resulting in overall improved university performance outcomes?"

- Agency theory – principal-agent relationships is used to explain interfacing between University owners, Council/ Boards, Management, and Students/communities

- Corporate governance:

  – the "system by which companies are directed and controlled" (Cadbury Report 1992)

  – at organisational level, refers to the "structures and processes concerned with ensuring the overall direction, control and accountability of an organisation" (Cornforth & Chambers 2010: 99)

  – is concerned with ensuring that Board Directors perform the functions of:

  i. Fiduciary and statutory responsibility
  ii. Strategic value adding responsibility
  iii. Risk management responsibility

Corporate Governance?

Research Method

- 6 data points - the 6 audited university reports

- Within-case and cross-case analyses on the data points shored up interesting results using 2 of the 13 standards relating to Governance

  i. Honesty & Integrity; and

  ii. Governance

- Data was analysed against agency theory—principal-agent problem

Theory & International Board Practices

- Applying agency theory to University Council-Management practices in PNG universities – a lack of control by owners of universities especially in state universities to ensure agents are fulfilling their objectives.

- International board practices show ongoing struggles of principals to control management. Both the European Commission and US Congress continue to find serious deficiencies (e.g. financial institutions) in the way boards developed strategy, oversaw risk management, structured pay for executives, managed succession planning, and monitored CEO performance or KRAs

- Wong (2011:2; *McKinsey Quarterly*) found that "without the right human dynamics—a collaborative CEO and directors who think like owners and guard their authority—there will be little constructive challenge between independent directors and management, no matter how good a board's processes are".

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Theory & International Board Practices

- Wong recommends that:
  - Directors think and act like owners and take responsibility for outcomes
  - CEOs to have collaborative mind-sets so as to share the right type of information with the board and receive feedback.
  - Boards to guard their authority and independence rather than submit to the power of an increasingly successful CEO
- Wong notes that without the right mind-sets and human dynamics between directors and management, boards will not be able to fulfill their potential; best practices are not enough

University Governance Practice

- Modernisation of university governance has been driven by government rather than by the institutions themselves due to:
  - pressures for increased access
  - quality of university degrees
  - listing on regional qualification frameworks
  - international mobility within APEC 21 economies, and
  - demands for increased financial accountability

- Stuart (2014; *Company Director,*) in his article, "Shaking the tree of knowledge", shows how governments are leveraging limited resources to obtain better results from universities--university boards have to strive for better results by improving strategies, processes and structures

University Governance Practice

- Key drivers for governance reforms in PNG:
  - Prolonged university unrest at University of Goroka, University of PNG, University of Technology, and University of Natural Resources and Environment
  - Closures of 2 academic semesters at UPNG and one semester each at UoT and UoG
  - Failure of PNG universities to obtain program accreditation for their academic programs
  - Failure to list on regional and global qualifications frameworks (cross-credit issues)

Analysis of Significant Policy Change

Corporate governance reform has resulted in the following:

1.   Higher Education (General Provisions) Act 2014

— despite continuous ministerial changes since 2012 and anchoring of this reform on the Western Pacific University Bill (now Act) led to the passage of the Higher Education Act on a vote of 77-0 in parliament

— also ushered in on the back of the University of Technology Council-Management unrest spanning 2012-2014

— NEC Decision 123/12, OHE was directed to immediately review the Higher Education Act (1983) with consequential amendments of respective university Acts to address serious governance issues raised in two influential reports on the University of Technology—Kapi Mediation Team Final Report (2012) and Sevua Investigation Report (2013)

Analysis of Significant Policy Change

— establishment of a new Department of Higher Education, Research, Science & Technology (DHERST);

— brought about a robust quality assurance system;

— provided clarity to the leading role of the DHERST;

— established a structured process for Ministerial intervention;

— placed greater financial accountability of public HEIs;

— compliance to the National Higher & Technical Education Plan

— saw the reduction of political involvement in university councils by eliminating parliament nominees (half plus 1) opting for Cabinet appointments of Chancellors and Pro-chancellors, and endorsement of Vice Chancellors.

— reduces council membership ranging from up to 35 to a maximum of 13 persons with a majority as independent directors.

Analysis of Significant Policy Change

2. University Quality Audit Within & Cross-case Findings

   — 33% average score partially meeting standards, well below 50%

   — None of the universities fully met any of the 13 standards

   — On the measures of 'leadership integrity' and 'governance' all universities ranked moderately and needed to improve on board performance and skills mix at council level

   — Results underscored the need for Council induction through PNG ID & AICD Directors training

   — Shortages of human and financial resources was also a contributing factor for the poor outcome.

Analysis of Significant Policy Change

3. Governance Manual

The Higher Education Act 2014 has necessitated the need for a robust Governance Manual for the higher education sector

The manual contains clear regulations on:
- appointment process of Council members and vice chancellors;
- reduces council sizes;
- specifies skills-mix for councils;
- prevents DHERST personnel from council membership;
- restricts term of office to three-three year terms for council members and two-three year terms for chairpersons;
- directs for independent board performance evaluation;
- specifies strategic committees on finance, audit & risk, remuneration & nominations, and student committees;
- directs for properly constituted academic boards with clear terms of reference and separation of corporate and academic governance responsibilities; and
- directs for risk management strategies

Policy Implications

- Problem of principal-agent

- PNG universities have not met the standards of the Pacific Qualification & Registers Framework nor that of ASEAN

- However, important signs of recovery are on the horizon with an emphasis on the need to improve corporate governance practices

- Consultations on the revised Governance manual and consequential amendments with universities

- A new cadre of university administrators is being trained to modernise university corporate governance practices

- Capacity building initiative for PNG academics

- Salary review for academics

Conclusion

- Universities in PNG have been self accrediting since 1965 when the UPNG was established. Over the years GoPNG lost sight of Council performance; therefore the current push to modernise university governance has been driven mainly by government rather than universities themselves