
UNIVERSITY GOVERNANCE OVERVIEW AND CRITICISM ON THE HUNGARIAN SITUATION

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Universities are basically centers of learning and teaching activities, but research activity has always been important. Recently, in our global work rapid changes of the environment have generated new challenges which require new managerial approaches. The number of students has increased enormously (massification) and large institutions of complex activities have emerged. The inner structure of a modern university has become similar to small towns, internally requiring and providing a similar range of services (inner complexity). At the same time, they are external suppliers of services to the environment, to their customers: a continuing flow of well-qualified, fresh graduates with up-to-date knowledge and skills; part-time and short course study opportunities to develop existing employees; consultancy services, research and development support to solve industrial and commercial problems and help expand business. The higher education institution has itself become a business. All these aspects require professional management, management development programs, and new forms of organisation: new ways to solve new problems (Shatock, 2006).

University governance is a relatively new paradigm, helping to solve institutional management and control problems in this new academic world. University governance is not only an academic study but a central question of practical importance to answer threatening environmental challenges, to maintain the integrity and effectiveness of universities. University governance is similar to corporate governance (same basic principle: division of power and responsibility) but the differences are essential, too. Corporate governance models cannot be copied directly: deeper understanding and proper adaptation are needed. First, I overview the basic scheme of corporate governance, and then discuss the differences and the main features of university governance. Finally, I observe the Hungarian situation, whether the present controlling model corresponds with the generally accepted university governance models.

Corporate governance: what could we learn?

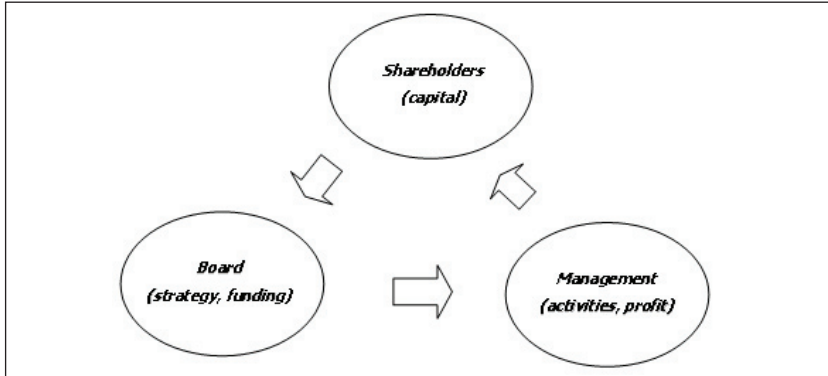
Corporation is a mechanism established to allow different parties to contribute to the operation of a firm with capital, expertise, and labor for their mutual benefit. The main structural elements of a corporate governance system are as follows:

- *Investors/shareholders*: they bring (and risk) money but they have no responsibility for everyday operations (limited involvement in activities).
- *Managers (executives)*: they run the company but have no responsibility for providing funds.
- *Board of directors*: it represents shareholders (or owners, investors) and protects their interest. It establishes main strategic directions, formulates basic corporate policies and ensures follow-up. It has the right and obligation to make or approve long run performance (strategic) decisions.

Corporations are fundamentally governed by a board of directors overseeing top management with the concurrence of the shareholder. The main task of the board is providing guidance to top management. The board's responsibilities are connected to the firm as a whole: setting vision, mission, strategy, hiring/firing CEO, top management, controlling, monitoring and supervising top management, reviewing/approving the use of funds, caring for shareholders' interests in accordance with the law. A judicious balance is required among the interests of diverse groups. The board has to direct the corporation, not to manage it!

In order to meet these responsibilities it is necessary at least to monitor and observe carefully developments inside and outside the corporation. Frequently the board organises special committees to help in its monitoring and controlling work. There are active and less active boards. A more active board evaluates and influences the firm: it examines proposals, analyses and evaluates decisions, actions, agrees or disagrees, specifies strategic options, gives advice, suggests other solutions, outlines alternatives, delineates mission etc.

Figure 1. Corporate governance model



Source: edited by the Author

A less active board never initiates unless a crisis occurs. A CEO serves as Chairman of the Board: he/she nominates directors, keeps board members under control (“Mushroom treatment”: throw manure on them and keep them in the dark!) The following classification gives a clear picture of the degree of involvement in strategic management of the firm.

- PHANTOM: never knows what to do, if anything—any degree of involvement,
- RUBBER STAMP: permits officers to make all decisions, it votes as the officers recommend on action issues,
- MINIMAL REVIEW: formally reviews selected issues that officers bring to its attention,
- NOMINAL PARTICIPATION: involved to a minimal degree (review of selected key decisions, indicators or programs),
- ACTIVE PARTICIPATION: approves questions, makes final decisions on mission, strategy, policies, objectives, (active board committees, fiscal and management audits),
- CATALYST: leading role in establishing mission, objectives, strategy, policies, very active committees keep management alert, CEO must explain deviations, manager’s bonuses connected to financial performance.

The operation of the board is not always satisfactory. Problems occur with the knowledge of the board members, with their involvement and even enthusiasm. Problems may arise also because agents (top executives) are not willing to bear responsibility for their decisions unless they own a substantial number of stocks in the corporation. (Wheelen, 2004)

UNIVERSITY GOVERNANCE

As has been mentioned above, radical changes in the environment of universities have forced changes inside academic organisations, too. Massification of education, a decreasing willingness on the part of society to finance, decreasing financial governmental support and increasing institutional autonomy have forced universities to adapt new management forms of control. Most European states have joined the European Higher Education Area and—as a consequence—most universities have had to alter their educational systems (transform them from a dual structure to a linear one). As a result of the changing environment, strengthening market influence and demanding societal needs, increased autonomy and responsibility and more complex inner structures a new management paradigm is needed. New ideas and methods have become familiar to the academic world: the categories, rules, methods and phrases of change management, business process reengineering, leadership, professional managership, university strategic management and total quality management are an organic part of today's university management vocabulary. Nowadays we are in the middle of the “second revolution of the university”.¹

One of the most important developments is the appearance of the university governance paradigm, which originated from the corporate world. In this complex, changing and hostile environment only university governance could help universities to survive.

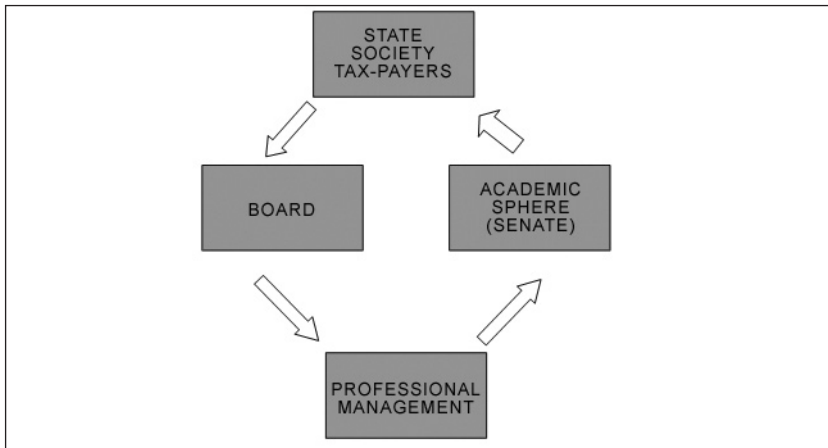
Governance and management in the university context is not parallel in corporate governance generally, for a university is not equal to a corporation! The academic sphere plays an essential role and in the life of a higher education institution it requires distinguished attention.

¹ The first revolutionary change happened in the early phase of the industrial revolution, when the medieval concept of a university was destroyed by the Humboldtian, Napoleonic and American university models (Mora, 2007)

- The identity of the owners, (the “shareholders”) is not as clear as with companies. Who are they? The Society, the government, the ministry of education, the taxpayers, the local community or somebody else? What is their interest? How can the agency and stewardship theory be applied in university governance?²
- Students and staff involved in teaching and research are there by choice and most of them work very hard.
- The university is special organisation: governance must operate at a great variety of levels in a university setting (university, faculty, department, councils and boards, meeting at many different levels).
- The university is a knowledge-based organisation with highly educated, independent-thinking individuals etc.

All these special features must be taken into account when creating and operating a university governance model. As the most important difference, the university governance model consists of four basic elements instead of three. (CUC, 2000)

Figure 2: Structure of university governance



Source: edited by the Author

² Managers of large, modern corporations are typically not the owners. Agency theory focuses on extrinsic rewards that serve lower-level needs (pay, security). Managers are “hired hands” who may very likely be more interested in their personal welfare than in that of shareholders. The agency problem arises when the objectives of the owners and agents conflict or it is difficult to verify what the agent is actually doing, or the owners and agents have different attitudes toward risk. Stewardship theory – in contrast to agency theory – suggests that executives tend to be more motivated to act in the best interest of the corporation than in their own self-interest – this theory focuses on the higher-order needs (achievement, self-actualisation). (Keasey, 1997), (Wheelen, 2004)

How does governance model in a university setting? There are similarities but there are different aspects and solutions, too. Governing bodies (boards) are

- responsible for a promising institutional strategic direction,
- determinations of the educational character and mission of the university and overseeing of its activities,
- selecting and appointment of executive officers,
- supervising and motivating university management
- the financial wellbeing of the university,
- the effective and efficient use of resources,
- the solvency of the university,
- the safeguarding of its assets, the well-being of staff, lecturers, researchers and students of the institution,
- appointment and employment conditions of staff,
- the consideration and approval of the annual estimates of income and expenditure prepared by the Rector,
- having an important role in relations with industry and commerce, reputation of the higher education institution,
- establishing and maintaining high standards of academic conduct and probity, in association with the Senate (Kwickers, 2005).

Members of the governing board, the structure of the board could be different country by country but generally they are composed of some typical characters:

- members appointed by the government from industry, commerce and professions, bringing financial management expertise into the organization and representing the demands of the society (usually they compose the majority of the board),
- student representatives (only a few),
- representatives of professors, the staff,
- the rector (sometimes only as a voting member).

The *executive power-structure* is similar to the line management of a company. The head of the executive organisation is the rector. Members of executive systems are secretary, vice-rectors, financial and other directors, deans and heads of departments. They are responsible for fulfilling strategic objectives and plans, budgets and so on.

The *appointed rector* should be recognised not only as an academic leader but also as the CEO of the university. The governing body should not simply provide a framework of authority for its rector but also hold him accountable for achieving objectives of the institution. The Rector is a formally designated CEO and made responsible for presenting proposals to the governing body (mission, educational character of the university, strategy, annual budget etc.) and implement approved strategic and tactical decisions (Bargh, 2000).

The *secretary* (or registrar) is the second key figure in the university governance system: he/she is the unitary head of the institution's administration, reporting to the Rector, with secretarial, managerial and advisory responsibilities. He/she is the steward and coordinator of the external and internal constitutional and business rules and procedures in terms of timing and content, recorder and provider of information and papers on items of business. The secretary is appointed by the board, provides information, advises the governing body in matters where potential or real conflict may occur between the board and the CEO. If there is a conflict of interests on any matters, it is the secretary's responsibility to draw it to the attention of the governing board.

The role of the *dean* has been changed in this system. Earlier, in the traditional university system, the part-time deans were elected for 2-3 years by faculty members: they represented the faculties' interest in the university council or senate. In the governance structure the dean is appointed by the rector as part of the line management with responsibilities to the rector, usually as a fixed-term full-time, publicly advertised appointment. He/she is the budget holder for the faculty and a member of the senior management team of the university.

The *Department* is the basic academic unit of the university and it is of particularly importance in the determination of professional values and academic expertise. In the overall governance structure the heads of departments usually have a reporting responsibility to the dean. They are dependent on the dean for resources towards fulfilling strategic objectives, budget prescriptions and student number targets. Instead of holding permanent headships of department universities have adopted electoral procedures or processes whereby the rector (dean) consults the academic staff members of a department, identifying a person individual to serve for 3-5 years. An advisory departmental meeting is necessary to accept the candidate by the department staff. The term of appointment is made by the executive rector. Heads of department are under accountability and resource management pressure. As a result, the process

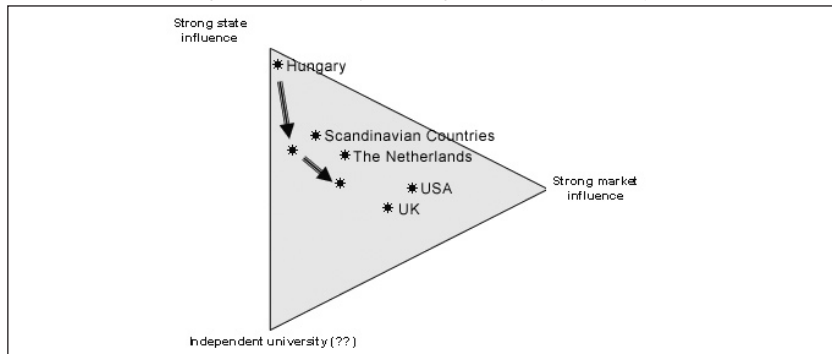
reduces the role of individual academics and professors who had previously enjoyed personal involvement, especially in large departments (Lorange, 2002).

In management and governance questions the *Senate* is restricted to advising the governing bodies on academic developments and resource needs directly or through the rector. Furthermore, the Senate plays an advisory role on matters which have been referred to them by governing bodies. The Senate is responsible for

- ongoing academic activities, including academic standards,
- consideration of the development of the activities of the university and resources needed to support them,
- provision of advice thereon to the rector and the board.

The US university governing model is differs considerably when compared with those of the Continent and the UK. The dominant American unicameral structure has traditionally followed the 17th century Swiss Calvinist governing structure generally consisting of external groups of lay trustees holding the status of corporations. The board chooses the President, and oversees his/her management activities. The president is without tenure (*“serving at the pleasure of the board”*), a complex academic committee structure exerting influence on board decisions. There are exceptions, too: at major private universities (Harvard, Cornell) the faculty is extremely strong (Kerr, 1989).

Figure 3: Forces influencing university autonomy



Source: edited by the Author

The *balance of university governance* structures has changed over the last century and will change in the future, too (Middlehurst, 2004). Changes in university autonomy have strongly influenced the structure. In the case of strong state influence

the decision-making authority is highly centralised: the ministry takes over not only strategic but usually operational decisions, too. Increasing market influence is a result of the government's withdrawal from full financing while at the same time giving more autonomy to the universities. Case in this scenario institutions enjoy a larger freedom, taking strategic decisions, but at the same time are forced to obtain missing funds from the markets (tuition fees, selling services, research to industry, commerce, local society etc.). In such a case a limitation of the executive officers' power is necessary. A supervising, restricting, approving (strategic decision maker) board is required to defend the interests of taxpayer, the society at large and other stakeholders to keep executive power within required limits.

The *Environment* is volatile, complex, increasingly demanding and pushes institutions toward more formal management systems. These new managerial routes can derive their effectiveness more from the executives (rector, senior managers, governing bodies) than from deliberating academic boards and bodies (senate, committees etc.). Individual members of staff would be probably much less closely connected with the governance process than in the past. Conversely, managing good governance in a university setting means ensuring that governance at all levels in the organisation works well, that all parts of the system (board, rector, deans, departments and senate) connect smoothly, efficiently and effectively, being able to create a robust, flexible organisational culture willing to make unpleasant but important decisions in good time.³

"Lay governors and a close lay involvement in the university governance bring enormous benefits to academic institutions. In addition to their professional expertise in finance, the management of physical resources, or in other technical areas, lay governors have the ability to take a long view because they are not encumbered with immediate institutional management concerns, they can act as the critical friend and as the referee over internal arguments, and they can offer a reading of the environment which may be broader, and less higher education centered, than that of an institution's senior manager. But what these contribution reflect is a need for a partnership between lay and academic governance, 'shared governance', rather than a dominant relationship

³ "Governing bodies, senates/academic boards and vice-chancellors in the first decade of the twenty-first century are probably working in a more strategically constrained climate than at any time in the last century. The combination of a formidable and externally imposed accountability regime and of a highly circumscribed strategic environment has meant that the governance at all levels has tended to become less about initiative and new development and much about process and compliance." (Shattock, 2006: 39.)

between governing bodies and their senates/academic boards. Governing bodies may have the final legal power of decision making but the most effective governing bodies exercise that power only in conjunction with the senior organs of academic governance” (Shattock, 2006: 57).

UNIVERSITY GOVERNANCE IN HUNGARY

After signing the Bologna Declaration in 1999, the active reform process began only in autumn, 2002. The main issues of Hungarian higher education reforms at that time were as follows.

- Transformation of the old dual HE educational system into a linear, three-tiered model (Bachelor-Master-Ph.D. levels).
- Establishing individual responsibility instead of “organised anarchy”.
- Separation of management and academic questions, authority, responsibilities.
- Assurance that strategic decision-making should be taken in the interest of society and the institution.

After studying American and Western European (Scandinavian, British, Dutch, and Austrian etc.) models and practices—a new controlling paradigm—the university governance model was chosen to serve the painful structuring transformational process separating strategic decision-making process and the handling of academic affairs.

- The main governing body, the board should play an active, catalysing role. It consists of external laymen only, representing different stakeholders from the society and the university. According to the draft, the members of the board must take full financial personal responsibility for their wrong decisions (including personal property and assets). No students and inner professors are allowed to be members of the board.
- The Senate would deal only with academic issues. In strategic questions (like alteration of educational structure, investments, other financial problems, etc.) they would play an advisory role.
- Students receive a decreasing role in strategic issues but an increasing one in student matters.
- Top managers (rector, deans etc.) would not be elected but after taking into account recommendations of the searching committee and faculty opinions would be appointed by the board. Acceptance of the nominees by the senate

is a critical issue, of course. They would be appointed for longer periods with a requirement not to take on other academic obligations (full time appointment).

- The rector would be a non-voting member of the board with an obligation to initiate and prepare strategic and financial decisions. His main task would be to put through decisions taken by the board. He/she would have full responsibility for his/her activity.
- The concept is intended to change the inner structure of the faculties replacing the Humboldtian chair-system with a modern department-based system. In the department the educational decisions and responsibility are separated from research responsibilities. Similarly, the organisation and management of different kinds of programmes is separated from normal educational and research activities, taking clear responsibility for the action and results.

The reform concept of 2003 became a political question: a battlefield for the governing parties and the opposition. The political fight against the modernisation process of the Hungarian higher education was supported by the *ab ovo* conservative professors and faculty staff. The reform process became a failure. When in 2005 the Act was approved by the Hungarian Parliament, it was a deformed conception.

- Instead of the board an Economic Advisory Council was established without any strategic decision-making authority. Its activity was confined only to advising, monitoring and evaluating the budget and strategy of the university.
- The Economic Advisory Council consists of 7-9 members, (appointed for five years), including 2-3 persons delegated by the minister of education, 2-3 faculty is delegated by the Senate, a student, the rector and the financial director (members of government and politicians are excluded).
- The chair of the Economic Advisory Council is the rector.

The Senate continued to be the highest decision-making body with full authority. The rector is still elected (and not appointed by the board), he/she is a part time officer, able to work as an acting professor or a researcher. The Economic Advisory Council is far from a real, powerful board. It is not a decision-making body. Distribution of power in this system does not exist (the chair of the council is the elected, not appointed rector). The Senate makes decisions in all important university matters, including vital financial and strategic questions.

CONCLUSIONS

The present Hungarian university management structure has a long way to go before it becomes a generally-accepted university governance system. It is a surviving example of the Humboldtian controlling-management system. The election of a part-time chief executive officer is an outdated solution in the present situation. It originated from the praxis of the medieval universities, who borrowed this election model from the medieval cloisters and abbeys. By the way, the church itself has abandoned this outdated election method: today the election of clergy-officers happens in a different way!

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