Corporate Governance & the Rise of Private HE

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Introduction

1. Extent of Private HE
2. Private v Public Forms
3. Medieval Collegial Model
4. Public Corporation Model (Anglo)
5. Private HE – the First Phase - NFP
6. Private HE – the Phoenix Rises
7. Dynamics of the Commercial Model
8. Corporate Group Model
9. Issues Arising from the Group Model
10. Conclusion
1. Extent of Private HE

- Private HE high in some countries (ISCED 5-6, 2008):
  - 79% in Japan
  - 73% in Brazil

- Established in others:
  - 26% in USA
  - 36% in Malaysia

- Below 10% in others:
  - Australia (4.7% in 2008, but up from 1.9% in 2006)
  - New Zealand
  - Denmark
  - Sweden
  - other European countries

- Growing in Australia (& soon UK?) from de-regulation
2. Public v Private Forms

• Stereotypical Public:
  • public corporation or body
  • owned & partly directed by a government
  • funded by government grants
  • NFP – no surplus can be distributed to corp members

• Stereotypical Private (Commercial):
  • incorporated as a company (limited by shares)
  • owned by private investors, not directed by gov’t
  • funded by fees
  • FP – distributions to shareholders (who seek ROI)
3. Medieval Collegial Model

- Companies of scholars form self-governing colleges
  - i.e. ‘dons’ rule, supported by college ‘servants’
- Given government recognition by royal or other charters
- May receive royal endowment but not recurrent grants
- Remnants of this model live on in ‘Oxbridge’ colleges
- But both Cambridge & Oxford have moved towards central managerial control, e.g. at Cambridge:
  - Vice-Chancellor designated as CEO - Manager
  - Council now governing body not ‘Regent House’
  - Council representative, 3 out of 23 external members
- Dons starting to lose out
4. Public Corporation Model (Anglo)

- NFP legal entity incorporated by charter or law – or trust
- Governing body of 15-30 members
  - representative of internal & external stakeholders
  - majority of external members, for public interest
- Governing body delegates day-to-day management to a VC or President and focuses on:
  - strategy & policy
  - budgets, accounts & big financial decisions
  - holding management accountable
- Needs a separate Academic Board or Committee to deal with curricula, T&L, as many members of the governing body now don’t understand these dark arts!
5. Private HE, the First Phase – NFP

- Bond University (1987)
  - spin-off from joint venture property development
  - created as a University by Queensland Act
  - NFP operating company limited by guarantee
  - 30 company members elect 10 members of Council
- University of Buckingham (1983)
  - constituted by royal charter as charitable trust
  - representative governing council
- These are **transitional** institutions:
  - NFP but (initially) no access to government grants
  - high ‘customer satisfaction’ ratings
  - QA & governance issues very similar to public unis
- De-regulation in 2000s opens way for private colleges
6. Private HE – the Phoenix Rises

- University of Phoenix (1976) pioneers FP university
- Focuses on new market segments (e.g. LSES, workers)
- Part of Apollo Group (formed to pursue new ventures e.g. BPP in UK & Western International U (online/business))
- Only 4/14 AG Board members have prior HE experience
- ‘Servants’ now rule dons!
- Common profile in recent market entrants (FP & NFP):
  - open admission – non-traditional students less well prepared for academic study
  - students need more support to succeed
  - higher attrition rates
  - lower progress & completion rates
7. Dynamics of the Commercial Model

- Board members from business world, seeking ROI
- Investing in quality must meet ROI test
- Seek productivity esp. through capital investments
- ‘Demand’ side’ pressure for quality can lead to *ascending* spiral of quality, driven by customer satisfaction
- Pressure to reduce costs can lead to *descending* spiral
- Danger of:
  - disconnect between business & academic lines
  - cultural divide
  - ‘supply side’ pressures for high-cost quality resisted
- Board needs some HE experience to understand educational dimension of ‘the business’
  - e.g. student attrition & progress issues
8. Corporate Group Model (Example)
(Extract from ACPE Performance Portfolio for 2011 AUQA Audit)
9. Issues Arising from the Group Model

- Fundamental issue to explore is: who is in charge?
  - private equity board/CEO? (no, = shareholders)
  - college group/divisional MD/group CEO?
  - college board/college CEO? (are the members of the college board managers or governors?)
- What decisions are taken at which level? (e.g. Strat Plan)
- What decisions have to be referred up for approval?
- What systems are group systems? (e.g. SMS, LMS)
  - how well & consistently applied at the local level?
- Do we need new audit/accreditation model:
  - audit group & group systems first
  - draw on this in considering individual colleges
- Colleges may be separate legal entities or business units
10. Conclusion

- **Don’t** evaluate corporate structure of commercial colleges against a NFP template
  - be open to variants that work in other sectors
  - they may work in HE – or not!

- **Do** explore whether the corporate structure of a particular college or group is favourable to the delivery of educational quality – or not!
For further information

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http://www.auqa.edu.au

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Thank you!