

# Corporate Governance Reform in Australian Universities: the Case of RMIT

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## Abstract

Corporate governance is the system by which organisations are directed and controlled. Typical objectives are clear rights and responsibilities among different participants, transparency, accountability and probity. Business corporations in all countries are addressing these issues as a matter of good practice and because of some famous scandals.

Now universities face greater requirements for good corporate governance, particularly with respect to the way that governing councils do their business and the roles of owners, governing councils, management, staff, students and clients. In Australia most universities also have commercial subsidiary companies, so good governance practices apply to how the university oversees and directs them as well.

RMIT is a large university with strong values of engagement with the community and industry, including internationally, with a high commitment to Vietnam. RMIT has 11 subsidiaries and ownership interests in another 34 organisations. In recent years RMIT has become a leader in establishing good governance practice, with clear plans, policies, charters, statements of values, codes of conduct, reporting arrangements and quality assurance.

Vietnam is a different society and has different government from Australia, and its universities are also different, so the corporate governance of universities will be different too. However there are some universal principles of good university governance and these will be discussed in their context.

## Introduction

The aim of this paper is to review recent trends in university governance in Australia, including RMIT, to encourage discussion about similar issues and trends in Vietnam. The paper touches on the principles of corporate governance, roles and responsibilities of different stakeholders in universities, risk management and auditing, academic governance, subsidiary companies and ethics and probity.

Corporate governance is the system by which organisations are directed and controlled. Good corporate governance has become a major public issue in many countries because of the collapse of some large corporations (eg Enron and WorldCom in USA, HIH in Australia) and scandals and large losses within some surviving companies (eg National Australia Bank in Australia) have implications for all types of organisations, whether public corporations, private companies, state-owned enterprises, government agencies or non-governmental organisations. Universities are not exempt from this public interest, and in many countries there have been far-reaching reviews of university governance. University governance has become a hot topic and RMIT has been prominent both in bringing public scrutiny onto its operations and problems, and in forging new solutions for good governance.

Most of Australia's 38 publicly funded universities were created by State parliaments, and State governments have a strong interest in oversight of the governance of universities, including board composition, financial management and the formation of subsidiary companies. Review of universities in the state of Victoria, including of RMIT, are therefore echoed elsewhere in Australia. Some universities, mainly in Victoria, are also institutes for technical and further education (TAFE), much like some universities in Vietnam, so governance oversight of the 'dual-sector' universities such as RMIT covers vocational education and training programs as well. To the extent that universities have subsidiary companies (for example RMIT controls 11 entities), governance reforms in the corporate sector also apply.

On top of that, the federal government, the main purchaser of higher education places from university providers, has instituted governance protocols as conditions of funding to limit the sizes of governing bodies and to seek to ensure adequate management of risk among controlled entities in undertaken. Through all these approaches to reform in university governance there are some recurring themes and common principles.

## University governance principles and values

Just as corporate governance systems vary around the world, so do university governance systems. However, some common principles apply. Typical objectives are clear rights and responsibilities among different participants, transparency, accountability and probity. As pointed out by RMIT's Vice-Chancellor in her work on the topic, trust is an a critical element of good governance that has failed on too many occasions recently. Such issues extend to cover societal trust and the vital contributions that universities can make, at their best, to building social capital as well as knowledge.

University leaders elsewhere sometimes say that different principles apply to universities because they have multiple objectives including a commitment to scholarship, and because they have a wide range of stakeholders such as their owners (governments and/or shareholders), students, clients, staff and the communities in which they are embedded. However, as universities establish corporate entities such as RMIT Vietnam Holdings Pty Ltd more like the commercial sector, and as commercial and industrial corporations move to triple-bottom-line thinking (eg reporting in terms of financial, social and environmental criteria, sometimes with a 'plus-one' for governance) more like universities, the differences are narrowing. Even the collegiality that has marked universities since their early days is being replicated on the campuses of many services and technology companies in particular. In short, the principles of university governance are not intrinsically different from the corporate sector, and around the world reforms in governance have convergent themes.

These principles and values are being expressed as standards and guidelines. The Australian corporate governance standards seek to establish foundations for management and oversight, structure the board or council to have it actively add value, promote ethical decision-making, keep integrity in financial reporting and disclosure, respect the rights of shareholders and recognise the legitimate interests of stakeholders, recognise and manage risk, encourage performance and remunerate fairly and responsibly. The underlying ethical principles are listed as accountability, transparency and openness, fairness and balance, honesty, dignity, legal compliance, goodwill, ethical resolution of conflicts among these principles, and expression of principles and values as benchmarks, codes of conduct, training and regular reporting.

RMIT's values are set out in its strategic plan to be embraced by staff and students. They are client focus, quality processes, practicality and relevance, global imagination, cultural diversity,

fairness to all, innovation and enterprise, environmental care, learning and personal growth, ethical behaviour and responsibility, and technological / professional orientation.

## Clear roles and responsibilities

In Australia most universities have one governing body or Council, responsible for oversight of management as well as academic affairs. The universities accredit their own higher education award programs, under State and national regulations and quality assurance frameworks. By contrast, TAFE institutes are required to fit into State and national accreditation systems, and thus have less institutional autonomy including in corporate governance. Dual-sector universities like RMIT therefore have the added complexity of complying with both systems. RMIT's Council is composed of 22 State government and Council nominees from outside the university, academic leaders including the Vice-Chancellor/ President *ex officio*, and elected staff and students. It is therefore broadly representative, with a majority of external, non-executive members.

The roles of governing bodies of universities are set out in government legislation or corporate constitutions, and are now augmented by charters and codes of conduct drafted in recent years. The RMIT Council charter for example sets out its intent and scope, the responsibilities of Council including non-delegation of its primary responsibilities, Councillor responsibilities and rights, the Chancellor's responsibilities as typically part-time chair of the governing Council, and Council Committee Chair responsibilities. Among universities there is reasonable agreement about the respective roles of governing body and management, but considerable variation in practice. As representatives of the owner of a university in Vietnam, members of the Board of Management of RMIT International University Vietnam have to comply with different Vietnam and Australian requirements.

The number of laws that affect Council members' responsibilities are many, and in some cases there are large penalties for misconduct or negligence, so considerable effort goes into ensuring there is an appropriate mix of qualifications, skills and experience on governing bodies, providing adequate training and professional development, and having clear policies and procedures in place for handling cases of conflict of interest. An example of the latter might be when a company where a non-executive member of Council might work is tendering for a contract at the university.

The same or similar codes of conduct apply to the various committees of Council. In RMIT's case these are Finance and Major Initiatives, Audit and Risk Management, Nominations and Corporate Governance, Planning Quality and Performance, and Remuneration. These committees have their own charters. Beside them are university policies which are adopted by Council and which with procedures govern the day-to-day activities of the university.

### **Audit, risk management and quality assurance**

Many recent corporate failures have been associated with poor arrangements for recognising and managing risk and undertaking effective internal audit into management and not just finance. In particular, some arrangements have failed to uncover, report and remedy poor performance, greedy remuneration, excessively risky behaviour, fraud and corruption. Business management bookshelves and magazines are full of cautionary case studies from around the world including in development assistance programs.

The RMIT Council now has an advanced practice in this area. Each year it formulates and adopts a risk management strategy with members of Council and management. Risk treatment strategies are then implemented by management and reported to the Audit and Risk Management Committee of Council. This strategy is closely linked to RMIT's internal and external quality assurance framework (mainly State government for the TAFE sector and federal government for the higher education sector) and the audit and review activities of the State parliament's Auditor-General. It drives an active internal audit program, through which the RMIT Director of Internal Audit and Risk Management reports directly to the above Committee with management comments included. Universities have found that a fearless and independent audit program is an essential part of university governance. It is supported by clear complaints and discipline procedures, and strong protection under external legislation for 'whistleblowers.'

### **Academic governance**

Academic governance is a vital part of university life. Universities in some countries separate management oversight from academic governance and have different governing bodies. Australian universities typically adopt a unicameral system, but with separate lines of reporting from management and from the Academic Board. RMIT also has a Board of Technical Studies for the TAFE sector which meets together with the Academic Board so as to promote cross-sector integration. Their charters include the promotion of collegiality and scholarship and the protection of academic standards for education, training and research programs. For example

these bodies recommend approval of new or revised award programs. They do not control the resources of the university. To ensure consistent advice there is consultation and cross-representation with management, but even then sometimes Council might receive differing advice from management and academic governance.

Below the Academic Board and Board of Technical Studies there are local academic fora. As RMIT dissolves the boundaries between the disciplines and between the university and the communities in which it operates, a layer of management in the previous faculties has been removed and three new Portfolio Boards have been established in the main academic clusters of the university: Business, Science Engineering and Technology, and Design and Social Context. This will simplify both academic governance and administration, enrich academic life across wider discipline spans and enable students, staff and to a lesser extent industry representatives to take an active part in university affairs.

### **Subsidiary companies**

All public universities in Australia have established controlled entities (subsidiary companies and unincorporated bodies) for particular purposes, to focus on undertaking commercial activities, to put financial or reputational risk at arms length from the academic enterprise, to establish operations overseas or to keep a particular focus on a certain area of business. These can include large unincorporated student-managed service businesses.

The governance of these entities has come under close scrutiny as some entities have failed or been involved in controversy. RMIT has been in the forefront of reform in this area by establishing common rules and criteria governing the establishment of such entities, composition of the boards to give an appropriate mix of skills and experience, a chair independent of entity or university management, common regular reporting requirements, and consistent risk management and internal audit arrangements. Over the medium term, strategic alignment of the business plans of the university and its subsidiaries is essential. An example is the manner in which RMIT Vietnam Holdings Pty Ltd, an Australian subsidiary, holds RMIT interest in RMIT International University Vietnam in part to provide security for loans from the International Finance Corporation and the Asian Development Bank. The board of directors of the Australian company and the board of management of the Vietnam university are meeting in Ho Chi Minh City this week.

As well as the controlled entities, most universities have shares in other companies or take part in joint ventures. RMIT takes part in another 34 such entities, depending on how precisely they are defined. Part of the good governance of any university is the proper oversight of these relationships, some of which bring risk without reward, and influence on the governance of such enterprises as needed.

## Probity

Compliance with the many laws governing universities – over 100 – and honest behaviour based upon agreed values go hand in hand. Much of the focus of corporate and university governance has been on transparency, ensuring that all information is open to interested parties (except, as outlined in the Australian governance standard, where intellectual property might be exploited to the detriment of the legal owners, where information is of a personal nature and not relevant to the organisation, or where disclosure is not in the national interest). To accomplish this clear codes of conduct for Councillors, staff and students are established, clear protocols for Council access to university information, protections to staff or students who make public information about wrongdoing ('whistleblowers') and the government-mandate Freedom of Information legislation whereby members of the public have access to most information.

Ethical behaviour underpins university governance, through which RMIT seeks to become more efficient and effective through the encouragement of values-based behaviour rather than blind rules-based behaviour. This task is critical to the leadership of RMIT as a culture of ethical behaviour and legal compliance among staff, students and clients depends to a large degree on Council and management 'walking the talk' as role models.

Clear procedures for complaints, conflict resolution and, where necessary, disciplinary action are linked to the requirement for probity. These procedures are at the heart of the quality assurance system. There are complex external legal safeguards and procedures for equal opportunity, affirmative action, non-discrimination and other requirements. With its origin as the Working Men's College RMIT has strong values of equity and fairness which are important elements of probity in university governance.

Ethical behaviour cannot be taken for granted, and to be effective the university has to be proactive. A significant commitment to training, staff development and communication is needed. Busy people sometimes feel they do not have the resources to comply with all the requirements set by law, by university regulations and, in Australia, by common law, the uncoded law

established by practice and precedent. Moreover compliance requirements cause some people ruefully to feel that the core business of the university is reporting not education! One unit of solid values-based behaviour saves a hundred units of blind rules-based behaviour, one instance of trust a hundred instances of reluctant compliance.

## University governance in Vietnam

This review has touched briefly on some of the main issues confronting Australian universities in general and RMIT in particular. Discussion about them may be of interest to colleagues in Vietnam as this country rapidly develops its university sector. Of course the history, society, culture, economies and governments of the two countries differ markedly, and so do the universities. Vietnam has a long tradition of higher education – some say the earliest university in the world – and a high reverence for learning, scholarship and education. During the ten years I have been coming to and from Vietnam, there are some interesting issues to raise for discussion.

- The evolving relationship between the universities and the Ministry of Education and Training is central to the evolution of university governance in Vietnam. With recent consideration of greater devolution of academic accreditation and institutional autonomy to the universities, professoriate assessment and quality assurance, there is an interesting discussion already under way. As leading universities in Vietnam such as the two national universities internationalise and take advantage of new patterns of global partnerships and new resources for capacity building, an appropriate governance structure for greater autonomy will be needed.
- The evolution of university structure in the merged universities in Vietnam continue to present governance opportunities and challenges. The respective roles and responsibilities of constituent colleges and headquarters as university-wide systems are implemented will present opportunities for efficiencies but the pull of large campus developments will be a university planning and management challenge. The task ahead for expansion of Vietnam's university sector is awesome and building up capacity for university planning and management could be a high priority ahead. Universities in Australia underwent a round of mergers and expansion to mass higher education provision but with static public purchase of university services and some deregulation of fee-raising there is a shift towards a more private model of provision, with significant costs and benefits.
- As Vietnam's universities expand directly to provide fee-paying programs, or enter into partnerships with other providers, appropriate governance structure will need to evolve, whether



through the growth of subsidiaries, public private partnerships or private spin-offs. This is a challenge for national authorities too as they seek to regulate and assure quality under many private college and university ventures. RMIT Vietnam is very conscious of its privileged position as a direct foreign provider and we are determined to make this pilot project a success that can be emulated.

- Quality assurance has been a major issue in Australia, most recently through the role of the Australian Universities Quality Agency about which this university has heard directly from its Chairman Professor David Beanland. RMIT has stayed committed to certification at the ISO 9001 2000 standard including through its academic programs and systems, a challenge for us over the years. The growth of universities in Vietnam has been remarkable in recent years and the development of institutional quality assurance and systems within universities, including those leading to self-accreditation in due course, is essential. Good university governance and robust quality assurance also go hand in hand.
- Community and regional engagement and the role of stakeholders is an important issue and not an easy one for governance when resources are so stretched in Vietnam's higher education sector. During the course of working with Vietnam's regional public universities (Hue, Danang, Cantho, Thai Nguyen) jointly to provide a network of new learning resource centres it became clear that though the host universities would be happy to open the doors of the centres to local and regional communities, and widen the scope of stakeholder participation in university governance as a result, in reality the role of those other than university staff and students had to be a lower priority because the facilities would be swamped. It is to be hoped that in the future of university governance ahead there might be opportunities for the many partner and client communities to take a larger role on campus and in advising or even being part of university governance by being strongly represented on the board of management.

## Conclusion

Collaboration between Vietnam and Australian universities is growing through direct links and through a widespread pattern of involvement of Australian experts and institutional partners in national higher education capacity building – eg through advice and training associated with the World Bank higher education loan programs. It is to be hoped a robust exchange around university governance can benefit institutions and national policy-makers in both countries. I look forward to discussion towards that aim.