

**Corporate
Governance &
the Rise of
Private HE**

5 April 2011

**Dr Michael Tomlinson
ACIS
Audit Director
AUQA**



Australian Universities Quality Agency

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

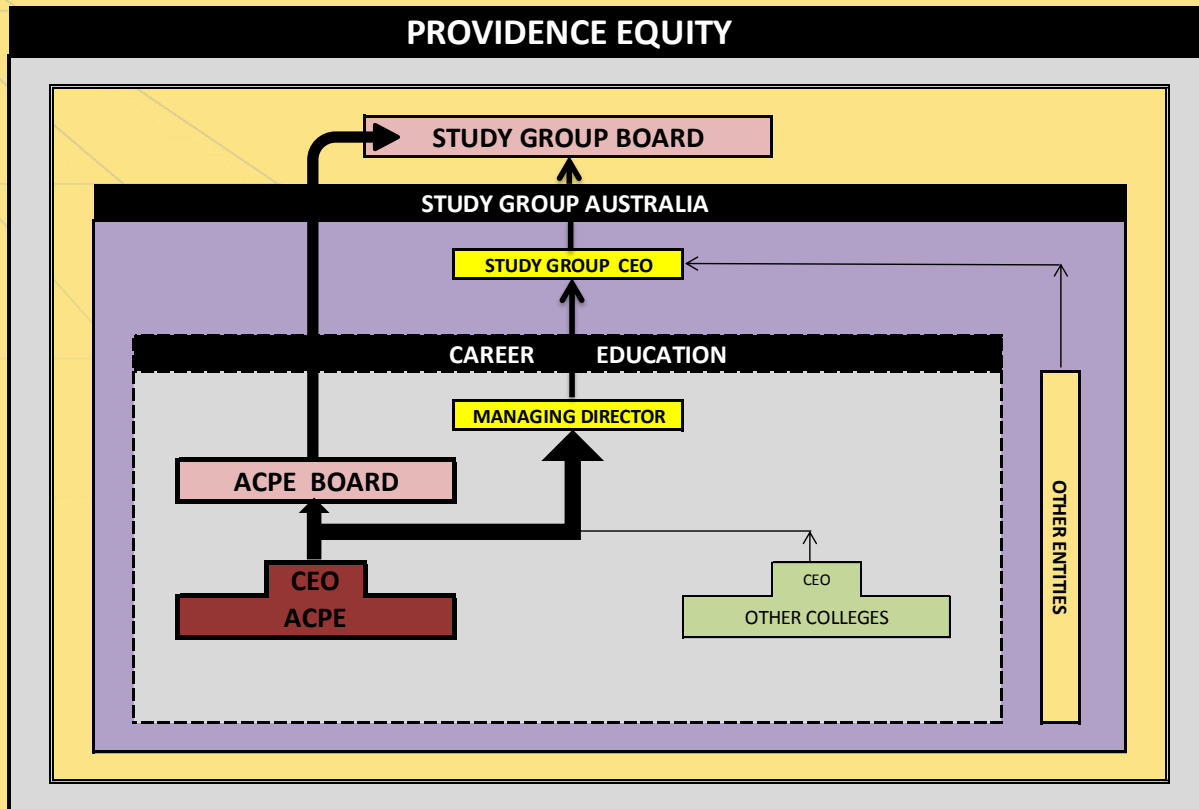
- University of Phoenix (1976) pioneers FP university
- Focuses on new market segments (e.g. LSES, workers)
- Part of Apollo Group (formed to pursue new ventures e.g. BPP in UK & Western International U (online/business))
- Only 4/14 AG Board members have prior HE experience
- ‘Servants’ now rule dons!
- 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

AUQA

<http://www.auqa.edu.au>

GPDB

<http://www.auqa.com.au/gp/search/index.php>



A white rectangular sticky note is pinned to a yellow background. The note is slightly wrinkled and has a purple pushpin at the top left corner. The text "Thank you!" is written in a bold, dark blue font in the center of the note. The background is a solid yellow color with some faint, thin lines on the left side.

Thank you!