

# BEST PRACTICE GOVERNANCE FOR UNIVERSITY COUNCILS May 2023

## Background

This information is being provided to the University Chancellors Council as part of a submission on best practice governance for University Councils. It has been organised into the key areas which contribute to robust governance practices at Council level. Given governance is complex and multifaceted, this document presents a synthesis of advice in key areas, and is not intended to be a comprehensive analysis.

For the purpose of this document we define best practice as: *A well defined approach or procedures that are shown by research and experience to produce near-optimum results.* A specific outcome for best practice governance is high quality decision making.

## Context

Escalated governance expectations and changing practices, together with global impacts such as COVID-19, continue to increase the complexity and span of responsibility for Councils, as they do for commercial and government boards. The scale of universities, the number of staff whom they employ, their responsibility for the education of Australia's young people, the consequential research undertakings they house, and the importance to the economy of higher education as an export industry, all contribute to invested parties such as governments both state and Federal, regulators, parents, business, and philanthropists, having expectations that universities operate to the highest of standards of governance.

Further, today all sectors are exposed to greater volatility and uncertainty together with rapid change, and higher education is not immune. Universities are at a critical time in their evolution - some faced existential challenges through the covid pandemic, more generally the nature and style of education is changing rapidly as are the needs of key stakeholders such as staff, students and employers, and technology continues to have a significant impact. A robust governance model has a compelling impact on the long-term future of organisations and the level of assurance provided to stakeholders.

## Overview

Best practice Council governance brings an effective balance between compliance and performance factors, Council contribution, and critical cultural elements. The most effective Councils demonstrate a commitment to achievement of the University's purpose, characterised by clear intent, alignment on strategic direction, and a willingness to take considered risks, with high-quality interaction (including between the Chancellor and Vice Chancellor) exemplified by trust, respect, and open communication.

They think strategically about how the Council can add value, what would help the Vice Chancellor and the senior leaders within the University, and what will enhance assurance. Implicit in this way of thinking about the Council is a commitment to consistent reflection about what is most effective and what can be enhanced.

High functioning University Councils are future-focused and widely informed, with an acute awareness of the vulnerability of their sector to disintermediation from new competitors, disruption from new technology such as ChatGPT, and changing government policy, demographics and learning practices. They recognise the need to secure their future by bringing more focus to building resilience in their organisations. This will be embedded into their governance practices, and will assure their long-term sustainability, relevance, and impact.

High functioning Councils will apply a good balance between focus on the core purpose of education and research, and dealing with financial realities. They will enjoy a blend of academic and commercial skills on their Council together with a healthy culture, which assists them in managing what are at times conflicting objectives.

## Key Components of Best Practice Governance for University Councils

### 1. Strong governance framework

A strong and effective governance framework gives structure and detail on governance processes covering areas such as policies, operations including financial and risk management, and reporting, with clarity on roles and responsibilities across the Council, between the Council and the Vice Chancellor, and senior leaders. These will be well documented, consistently applied, updated as required to remain effective and contemporary, and sufficiently explicit to enable a common understanding.

The effective use of Council subcommittees is an important foundation of a governance framework. Committees can undertake much of the review work and make recommendations to their Council. They apply a level of detail that is important in understanding performance and operations in critical areas such as finance, people and culture, ESG, and major investments or projects in areas such as infrastructure or technology. They enable the full Council to bring a sufficiently strategic lens to the university's future and key imperatives.

## **2. Council culture**

The most effective Councils have strong, direct relationships with their university's Vice Chancellor and senior leaders such that there is a culture of transparency and openness. This facilitates each being comfortable to share their views respectfully and enables an understanding of each other's thinking on important matters.

This is a delicate line for Councils to walk. On the one hand exhibiting trust and respect is paramount for high performance Council culture and engagement. On the other, it is critical to bring the appropriate degree of professional scepticism to what is reported to the Council. Without this, no matter how high calibre the senior leaders may be, there is a risk of missing insight into critical performance areas.

In the current climate, best practice Council culture also fosters and values independence of thought among their members, demonstrates the courage to take the difficult decisions, and brings energy and commitment to sustain change over the duration.

## **3. Strategy**

Councils make an important contribution on university strategy. Their skills and experience complements and extends that of the university's senior leadership, and enhances the rigour of critical thinking and business cases. There should be a shared and explicit understanding of the Council's role on strategy and clear delineation of it with the Vice Chancellor and senior leaders, and more broadly within the university.

Best practice indicates the Council, Vice Chancellor and senior leaders should collaboratively agree and design the university's purpose, principles and/or values. The Council should address the university's longer-term vision and strategic intent. Collectively these form a framework with defined parameters to give certainty and clarity for the development of strategy. Senior leaders should hold this responsibility and also consider the optimum operating model and culture. These artifacts provide the basis for a sound Decision Framework to facilitate the aligned and effective making of critical decisions at Council level and of decisions at all levels within the university.

To afford assurance, the best practice process in developing strategy is iterative, with multiple junctures for the Council to be informed and to rigorously test the validity and credibility of strategy and business cases or proposals put forward by senior leaders. Strategy should be measurable, achievable, and inspirational, with clear gateposts at key points of execution to enable the Council to undertake effective oversight.

## **4. Critical decisions**

Many universities are facing complex or difficult choices and decisions which will impact their trajectory, successful or otherwise, for the coming years. There should be a clear understanding on the level of decisions to be brought to and/or made by the Council. This ensures that critical and material decisions are subject to the appropriate scrutiny, process, and rigour, and have the appropriate skills and experience brought to considering them.

There needs to be shared agreement among Councillors, the Vice Chancellor and senior staff on explicit criteria for major decisions (see above). Providing clarity on risk settings to university leadership is an important element in this process. Without these building blocks, less robust decisions can be made with adverse financial, reputational, or student impact. In addition Councils can find it difficult to prioritise opportunities and allocate resources, or may revisit decisions multiple times entailing a lengthy process which consumes extensive leaders' time and contributes to missed or overlooked opportunities.

## **5. Oversight**

One of the most crucial roles of Councils is in supporting the effectiveness and accountability of their institutions' work and leadership. Best practice suggests that Councils should bring exacting and rigorous scrutiny to the performance of strategic initiatives, the achievement of objectives, and the execution of duties by staff.

They should consider educational and research outcomes, major investments, and operations including finances, risk and ESG, while balancing this with a focus on the longer-term future. Councils should also have insight into the university's culture, talent and capability, and its relationships with critical stakeholders such as staff, students, TEQSA, and industry. Highly effective Councils make their requirements and expectations explicit, and where required give definitive direction (rarely).

## 6. Chancellor

The Chancellor of the university has a key role in the quality of the Council's governance. Their words and actions need to signify the import of good governance. He or she should lead the Council meetings, manage the discussions, and determine, in collaboration with the Vice Chancellor and Company Secretary, the annual and individual meeting agendas.

The most effective Chancellors elicit the full breadth of views from the Council's members and conduct meetings which are purposeful with clear priorities, and run in such a way that explicit conclusions and decisions are effectively arrived at and recorded. The Chancellor's style is the key influence on the Council's culture and should foster an inclusive, safe environment where all are comfortable to contribute.

## 7. Council composition

Council composition forms an important element of best practice governance. The complexity of the environment within which universities operate necessitates high calibre skills among its Councillors of a greater breadth than in the past. To ensure the appropriate skills base, Councils require an instrumental role in selecting new members, and each appointment should be made with the utmost of attention to the university's current and future strategic needs. This should be informed by a considered Council Skills Matrix which aligns with the university's strategy.

Further, it is vital that Councillors have the capacity and a willingness to invest time in their role, particularly at the Chancellor and sub-committee Chair level. In some cases there may be a view that the Council and Chancellor have a more ceremonial role, as was the case in the past. This is detrimental to the success of the university and its needs in a highly complex and challenging environment where they must engage with governments, business and the wider community.

Where universities have substantial investments or operations in specialist markets such as those outside Australia, Councillors are required with experience in those markets such that they can bring insight into the related strategy, operations, cultural sensitivities, opportunities, risks and red flags.

Some hold a view that Councils should be representative of their most important stakeholder communities such as overseas students. While [this is the ideal scenario and] it is important to have insight into the needs and views of such stakeholder groups, many Councils are not able to adequately address their skills needs and simultaneously achieve a breadth of stakeholder representation on their Councils.

This is due to both constraints on the total number of skills-based appointments, and there may not be individuals from the representative community who also possess the critical skills required on the Council, or those who do may be already highly sought after and fully committed.

Ideally Council members are not appointed as representatives but bring to the table a particular knowledge of a stakeholder group as part of a wider skillset that can address all the areas for decision at Council level.

It is thus our view that priority should be given to skills-based Council appointments. If need be, insight into particular stakeholder groups can be accessed by other means such as advisory bodies. This necessitates a formal consulting and reporting process to Councils to ensure these voices are sufficiently incorporated into Council strategic deliberations and decisions.

It materially enhances a Council's effectiveness when all new Council members are required to do a high-quality governance course (for example with AICD) prior to joining the Council.

### *Skills and attributes*

As well as skills which support the fiduciary responsibilities of Councils (finance, risk, legal), in order to set parameters and test strategy put forward by the senior leaders, strategic development and operations experience for large entities is important in Councils' skills mix, as is insight into the higher education realm, including teaching learning, and research. Strategic foresight for the higher education sector, both in terms of Council or sub-committee skill sets, and expert briefings to the Council, further assists with effective planning for the longer-term.

All highly effective Councillors possess sound judgement borne of a wealth of experience, and strong critical and analytical thinking skills.

With technology and infrastructure being such large strategic and financial investment areas for universities, these are vital skills to have among its Councillors. Strong people and culture, organisational design and transformation, and project governance skills are integral to the successful functioning of large contemporary entities, and thus to the skills mix of Councils. Where constraints on skills-based appointments exist, the utilisation of sub-committee members with expert specialist skills will assist in addressing the breadth of skills requirements for the Council.

In the Interests of diverse thinking, including an individual who's inherent thinking style differs from others on the Council (for example someone who has the appropriate skills and different cultural or life experience) is valuable. The mix of thinking styles among Councillors needs to also reflect an appropriate balance of strategic thinkers versus more process- and detail-oriented individuals.

There are a range of personal attributes that are highly valuable in high-performance Councils. Councils entail making substantive decisions as a collective, so the ability to work with others collaboratively and constructively to bring about impact and achieve results is critical. Further characteristics which sustain an effective Council dynamic and relationship with management include commitment to the highest standards of ethics, accountability, emotional intelligence, trust, respect, constructive questioning and listening, and intellectual humility.

Regular Councillor renewal minimises any risk of group think and enhances the Council's contemporary knowledge and experience.

#### *Succession planning*

It is an important Council role to develop succession plans for itself, the Chancellor, the Chairs of the sub-committees, and the Vice Chancellor. Best practice is for Councils to also provide oversight into the processes for managing the Vice Chancellor's direct reports and any other mission-critical roles (recruitment, succession planning, development etc). Council succession should be led by the appropriate sub-committee, the Chair of which should be other than the Chancellor.

### **8. Challenge and enquiry**

Providing meaningful challenge to university leadership is good practice and an integral component in the work of high-performance Councils.

It tests Executives' thinking on critical areas such as strategy, enables better decisions and higher quality investments, provides assurance on performance, improves outcomes, and acts as a protective mechanism against potential issues and risks.

For many Councils and boards this is not an area of excellence, but one that their senior leaders seek to be strengthened. The most effective Councils foster constructive challenge and debate.

#### **A culture of 'open dissent' \***

Effective challenge necessitates a level of comfort with the open sharing of views and concerns, and with differing and dissenting views (when expressed constructively).

Participants in discussions will ideally feel open to having their logic, ideas and assumptions tested, with accountability and disclosure valued equally with courtesy.

\* According to data compiled by Kathleen Eisenhardt and L.J. Bourgeois, the highest-performing organisations have Councils or boards that regard dissent as an obligation and treat no subject as undiscussable.

### **9. Commitment to continuous improvement**

Regular reflection by Councils using post-meeting debriefs together with more comprehensive reviews, both internal and external, to consider their effectiveness, contribution and potential enhancements, represents best practice and has a substantial impact on the calibre of the Council. It is essential that this is done in conjunction with the learnings from review and reflection being incorporated into practice.

### **10. Reporting to the Council**

The quality of information provided to Councils has a material impact on the quality of their deliberations and decisions. Best practice Council papers use a standard template for all papers with no more than 2 cover pages (Executive Summary, purpose of paper, action asked of Council, etc.) and 5-7 pages of supporting material. Papers should focus on strategic imperatives and critical performance areas, provide insights and highlight trends, address material changes or unexpected results, and include appropriate points of reference i.e., relevance to strategic objectives/targets/budgets; progress, forecasts, timelines; history, comparison, context, etc.

### Achieving the right level of detail in reporting

It is a perennial challenge to agree on the appropriate level of detail in Council papers. Overly detailed papers make it difficult for Councillors to maintain an objective, strategic perspective and focus on the critical matters.

The 'acid test' for reporting is to ask, does the information focus on **outcomes** rather than **activities** and **process**, deliver **insights** rather than data, and provide the Council with a **true sense of performance, key risks and opportunities** across the various functions and objectives of the university?

### 11. Meetings and agenda design

Highly effective Councils use their time purposely and efficiently on their most material and critical matters. They adopt in-camera sessions to discuss key concerns and identify priorities for focus and allocation of time during their coming meeting. They ensure sufficient time is expended on emerging strategic issues, longer term trends, future scenarios, and leading performance indicators as well as past performance. Best practice suggests scheduling key matters at the beginning of meetings to leverage Councillors' critical thinking while they are at their most alert.

#### OTHER

Best practice, robust, governance at Council level can only be achieved in tandem with a university-wide, appropriately integrated, governance and management model with suitable structure and expertise. Without this, the ability of the Council to add value and the ability of the university to adapt and thrive in contemporary environments is constrained.

The historical model which issued from Cambridge or Oxford Universities is no longer practical for contemporary institutions. Academics who manage universities are rarely well versed in corporate governance and management practices. Specialist professional expertise to complement that of academics achieves the best outcomes for universities.

One of the tangible benefits of an integrated governance model where academics and professional management work together is that critical decisions are more holistic, informed and considered. For example, academic decisions can be made with known financial implications, and financial decisions can be made with known academic impacts.

### Best Practice University Council Governance in Brief

- **Clarity on Council Role and Purpose** - alignment among Council members and senior leaders on the Council's core purpose, role, and priorities.
- **Clarity on Strategy** - a clear vision, strategic aims and parameters, decision-making criteria, and timelines.
- **Clarity on Execution** - stage gates for strategic objectives and projects, clear and specific KPIs and accountabilities.
- **Sufficient Time Allocated** - time for the strategic discussions and consideration at Council which are essential to design the right strategy and make the right choices.
- **The Right Council Culture** - a culture where there is comfort with differing or dissenting views to enable the effectiveness of difficult or complex discussions and choices.
- **The Right Relationships** - sound, effective, and purposeful relationships with key stakeholders based on mutual accord, trust, and respect.
- **The Right Decisions** - robust data to inform decisions, robust testing from the Council, and consistent application of the risk appetite in line with the Council's Risk Appetite Statement.
- **Powerful Oversight by the Council** - regular monitoring of progress, recalibration as required, supported by good reporting, with explicit detail on the Council's expectations, clear feedback, and at times definitive direction, to ensure the success of key strategic initiatives.

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