

**SUMMARY**

Around the world higher education is under pressure to change. It is growing fast and its contribution to economic success is seen as vital. The universities and other institutions are expected to create knowledge; to improve equity; and to respond to student needs – and to do so more efficiently. They are increasingly competing for students, research funds and academic staff – both with the private sector and internationally. In this more complex environment direct management by governments is no longer appropriate. How can the governance of higher education institutions assure their independence and dynamism while promoting key economic and social objectives?

New approaches to governance in OECD countries combine the authority of the State and the power of markets in new ways. Institutions are gaining greater freedom to run their own affairs. Public funds are allocated in “lump-sum” form, and funding from students and business is increasingly encouraged. In exchange for autonomy, governments seek to hold institutions to account, linking funding to performance and publicly assessing quality.

Higher education institutions are having to work hard to meet funding and regulatory criteria and at the same time to strengthen their market position. There is an emphasis on institutional strategy, and a shift in power away from individual departments. External members sit on governing bodies formerly dominated by academic interests. Senior managers are selected for their leadership skills as well as for their academic prowess.

Such changes can create tensions. Higher education institutions need to develop a creative balance between academic mission and executive capacity; and between financial viability and traditional values. Governments have to balance the encouragement of excellence with the promotion of equity. In the knowledge economy the stakes are high.