

# chapter 3

## CHANGING PATTERNS OF GOVERNANCE IN HIGHER EDUCATION

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**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.

## 1. INTRODUCTION

Almost without exception, OECD governments have recently been reforming, reviewing or restructuring their higher education systems. Behind such reforms lie profound changes in the objectives of higher education and the challenges that it faces, and with it the character of its institutions and its clientele. It is now well understood that universities and other higher education institutions need to adapt to a more complex environment in which expectations of higher education have changed beyond recognition.<sup>1</sup>

What does this mean for the way in which higher education is run and governed? In the 20<sup>th</sup> century in most OECD countries, governments exercised considerable control and influence over the sector, to help pursue objectives such as economic growth and social equity. Today, on the one hand, governments have a greater interest than ever in ensuring that educational institutions help meet economic and social needs, given their importance in knowledge-oriented societies. On the other hand, they accept that central planning of knowledge creation, teaching and learning is often inefficient, and that a thriving society and economy require institutions to operate with a degree of independence, while market mechanisms are often more effective than administrators in regulating supply and demand for diverse forms of learning delivered to diverse client groups.

Thus the governance of higher education faces some difficult challenges. If higher education is indeed an important strategic lever for governments in seeking to pursue national objectives, can governments achieve those ends without compromising the independence of universities, or their dynamism in catering for new markets?

This chapter looks at how governments are addressing that question, and at how they are tackling a range of related issues around the governance of higher education institutions. It does so by looking at the degree to which such institutions are able to exercise autonomy and develop their own internal strengths, while still preserving a coherent higher education system overall. Specifically, this involves considering the changing levers of governance in relation to five aspects of the running of higher education:

- first, how much freedom institutions have to run their own affairs;
- second, the extent to which they rely on government funding or can draw on other sources;
- third, the changing ways in which the higher education system itself is subject to quality assurance and control;
- fourth, the strengthening of the governance of the institutions; and
- fifth, new roles for their leaders.

These themes are looked at in turn in Sections 2 to 6 below.

This discussion of “governance” thus encompasses analysis in the broadest terms of how higher education is governed. Governance comprises a complex web including the legislative framework, the characteristics of the institutions and how they relate to the whole system, how money is allocated to institutions and how they are accountable for the way it is spent, as well as less formal structures and relationships which steer and influence behaviour.

Among the many factors that today influence the approaches, old and new, towards higher education governance, a number are particularly important across the five elements discussed in this chapter:

- the debate over whether *markets* are efficient in allocating services such as education, and whether they lead to outcomes that serve the public interest;

1. As used in this chapter, “higher education” refers to universities and other tertiary institutions that award degrees and advanced research qualifications. Such programmes normally involve at least three years of full-time study and are designed to provide sufficient qualifications for entry to professions with high skill requirements and to research programmes. In some countries, universities and other higher education institutions also provide programmes that would be classified at a lower level than a degree. Some of the data presented in the chapter relate to tertiary education as a whole in the absence of internationally comparable data relating to higher education. The fact that the concept of higher education is not clear-cut is itself an indication of the complexity of the issues.

- the role of a revised approach to managing public bodies, often called *new public management*, which in other fields is widely credited with the promotion of greater efficiency and responsiveness. In universities, where the idea of “management”-led approaches is sometimes mistrusted, this notion has had difficulty finding widespread acceptance;
- the valuing by many higher education institutions of their *autonomy*. This is not “academic freedom” – although the two concepts are related – but the capability and right of an institution to determine its own course of action without undue interference from the State. Such autonomy is a relative concept, which exists to different degrees in different contexts, and this chapter explores what freedoms higher education institutions do have;
- the important *funding implications* of the huge expansion in enrolments that has turned higher education from an elite sector into one providing for a wide section of the population. Governments that have to fund this expansion and to account to their citizens for the taxes they impose on them are bound to hold institutions accountable for outcomes. Governance of higher education is intimately tied up with funding;
- the growing significance of *market regulation*, through standard-setting and performance monitoring, in higher education systems that are increasingly diverse and risk becoming excessively diffuse. Quality assurance agencies were almost unknown in higher education 20 years ago; now they are widespread; and
- the *international dimension*, which is also growing in importance. Between 1995 and 1999 the number of foreign students in tertiary education in OECD countries grew at almost twice the rate of domestic students (by 9% and 5% respectively – OECD, 2002). The international dimension has also grown through new forms of supply, such as e-learning across national borders and universities opening campuses in other countries. National policy makers now face a much more complex environment in regard to higher education – issues that are already central to national debates now need to be confronted in an inter-

national context. These issues have been discussed elsewhere (OECD, 2002) and are not dealt with directly here, but are an important part of the backdrop.

Overall, the higher education reform agenda has involved governments in greater focus on strategy and priority setting and less involvement in the running of the system on a day-to-day basis. In some countries this has included the creation of agencies to monitor the quality of teaching and research, and the emergence of “intermediate” or “buffer” bodies to distribute public resources. Thus, the following analysis is as much about developing new policy approaches, led by concepts such as “strategic management”, “deregulation” and “accountability” as it is about influencing the behaviour of higher education institutions directly.

## 2. INSTITUTIONAL AUTONOMY

In general, universities in OECD countries enjoy considerable freedom to determine their own policies and priorities in a wide range of their activities. Table 3.1 illustrates, across eight areas, the extent of this autonomy in 14 OECD countries. In some aspects, autonomy is particularly widespread – for example, in most OECD countries institutions are responsible for setting academic structures and course content (column 4) and the employment of academic staff (column 5). On the other hand, central authorities commonly have control over certain other features of higher education, in particular, borrowing funds (column 2) or setting tuition fees (column 8), or indeed allowing fees in the first place.

Even within each of these categories of autonomy, considerable variation in practice exists. For example, the freedom to control student admissions can be conditional on meeting various criteria, ranging from the fulfilment of institutional tasks laid down in a budget document (*e.g.* in Sweden) to the admission of a contracted number of students across broad subject categories (*e.g.* in the United Kingdom). These nuances in autonomy are described for each country in the Appendix.

Overall, Table 3.1 shows that universities in three English-speaking countries (Australia, Ireland and

the United Kingdom) as well as those in Mexico, the Netherlands and Poland have high levels of autonomy over most areas of their operation. In Austria and the Nordic countries, their autonomy tends to be more constrained, especially in regard to borrowing funds and setting tuition fees. Among the countries listed in Table 3.1, the fewest areas of autonomy are reported in Korea and Japan, at least for their national (public) universities, and in Turkey. In these three countries public universities are essentially treated as part of government, and the State owns their assets and employs their staff. The basic structure of the universities'

management, including faculties, staff and student numbers, salaries and tuition fees, is determined by government legislative and budgetary instruments. The main exception, in Korea, is the recent devolution to national (public) universities of the power to set student admission quotas and tuition fees.

Table 3.1 provides a snapshot of the extent of university autonomy at the present time. The broad trend, though, has been for a reduction of direct state control of higher education in most OECD countries. If anything, the process has accelerated

Table 3.1 Extent of autonomy experienced by universities<sup>1</sup>

	Institutions are free to:							
	1	2	3	4	5	6	7	8
	Own their buildings and equipment	Borrow funds	Spend budgets to achieve their objectives	Set academic structure/course content	Employ and dismiss academic staff <sup>2</sup>	Set salaries <sup>2</sup>	Decide size of student enrolment <sup>3</sup>	Decide level of tuition fees
Mexico	●	▸	●	●	●	▸	●	●
Netherlands	●	●	●	▸	●	●	●	▸
Poland	●	●	●	●	●	▸	●	▸
Australia	●	▸	●	●	●	●	▸	▸
Ireland	●	▸	●	●	●	▸	●	▸
United Kingdom	●	▸	●	●	●	●	▸	▸
Denmark	▸	●	●	▸	●	▸	●	▸
Sweden	▸	▸	●	●	●	●	▸	
Norway	▸		●	●	●	▸	●	
Finland	▸		●	▸	●	●	▸	
Austria	▸		●	●	●	●		
Korea (national – public)			▸	▸		▸	●	
Turkey				▸	▸		▸	
Japan (national – public)				▸	▸			

*Legend:* Aspects in which institutions:

- have autonomy
- have autonomy in some respects (see the Appendix for details).

1. Data in Table 3.1 are based on responses to a 2003 survey of university governance by members of the OECD's Institutional Management in Higher Education (IMHE) programme. Participation in the survey was voluntary, responses were not received from institutions in all OECD countries, and the IMHE members do not necessarily represent the full range of higher education institutions in the countries concerned. Institutional responses were cross-checked for consistency against each other, and published sources and national experts were consulted in preparing the table. However, the table shows a simplified picture, and countries vary in many detailed respects, as described in the Appendix. Countries are ranked in order of the number of areas in which universities reported autonomy, and alphabetically where the number is the same.

2. "Employ and dismiss academic staff" (column 5) and "Set salaries" (column 6) include cases where any legal requirements for minimum qualifications and minimum salaries have to be met.

3. "Decide size of student enrolment" (column 7) includes cases where some departments or study fields have limits on the number of students able to enrol.

in recent years. Thus, Norway has considerably increased institutional freedom to introduce or remove courses and programmes which form the basis for various degrees (Norway, 2003). In Austria, the Universities Act 2002 has also drastically expanded institutional autonomy; universities are now free to decide on employment conditions, academic programmes, and resource allocation without government approval (Sporn, 2002), and from January 2004 to borrow funds. Recent moves towards greater institutional autonomy are seen even in those countries, such as Japan and Korea, where autonomy has hitherto been relatively restricted. The Japanese government has recently changed the legal status of national universities into public corporations (see Box 3.1), in many aspects influenced by the British reform in 1988 that transformed the ownership of polytechnics from local authorities to higher education corporations. In Korea, “the special act on national university management”, which aims at substantially increasing the autonomy of national universities, is currently the subject of legislation.

Despite the broad trends in official policy and government legislation to give greater autonomy to higher education institutions, these changes have often been accompanied by new mechanisms for monitoring and controlling performance,

quality and funding. Thus it is simplistic to see higher education reform as always leading towards greater institutional autonomy; rather, it has often substituted one form of influence and control by government for another. In particular:

- Governments have sometimes introduced new funding mechanisms based in large part on university performance on pre-determined indicators. Such changes, and their potential consequences, are discussed in Section 3 below.
- Greater operational autonomy has generally been closely connected with strengthened external assessment of the performance of universities. This has particularly been so in European countries like the Netherlands and Denmark, as well as in Japan and Korea, where state control has generally been strongest. Governments have generally required universities to accept some form of external quality assessment as a prior condition to relinquishing direct state control (Brennan and Shah, 2000). These issues are taken up in Section 4.

In these ways, the price for universities of being given freedom to hire their staff, run their administration, structure their programmes and manage their budgets can be a stricter system requiring

### Box 3.1 National universities incorporation plan in Japan

In 2002, a study team of experts and representatives from national universities set up by the Ministry of Education, Culture, Sports, Science and Technology published a plan to separate the national universities from the government and give them juridical status. Each national university will be transformed into a “National University Corporation” with the authority to own land and buildings and to hire staff. However, it is also proposed that these Corporations remain basically “national” in the sense that the State will remain responsible for their functions, and provide funds to support their administration. Since the proposed reform is intended to enhance autonomy, it also includes changes in internal decision-making authority. It is proposed that the ultimate responsibility will rest with the university president, who will control internal appointments. The Minister will appoint as president the candidate named by a selection committee with both internal and external members. Since the university’s employees would no longer be the subject of the National Public Service Law, more flexible forms of employment, salary structure and working hours will be possible. National universities will also be able to set up and abolish departments and other academic units without needing statutory approval. This plan will be implemented from April 2004, following enactment of the National University Corporation Law in July 2003.

them to account for their outputs or outcomes, as well as new controls on inputs through task-oriented contracts or indicator-oriented resource distribution. The justification for some form of continuing government intervention usually involves arguments that: (i) higher education produces wider social and economic benefits than those captured directly by the individuals involved, and that therefore without government subsidy there would be under-investment in higher education; (ii) equity considerations necessitate steps to ensure that low-income students are not disadvantaged; and (iii) students, employers and the wider society need to have confidence in the quality of higher education qualifications (McDaniel, 1997).

These arguments do not mean that governments should decide everything about higher education. In most countries there is a mix of government influence and institutional freedom, with governments generally involved in ensuring various aspects of fiscal accountability, accountability for the quality of teaching and research, institutional responsiveness, and protecting the interests of vulnerable groups. The ongoing challenge is in getting the balance right by ensuring that governments focus on only a limited number of specific policy goals where the public interest considerations in higher education are clear-cut.

### 3. FUNDING

The way in which university funding is allocated has undergone extensive change in most OECD countries. Most governments now allocate funds to universities on a lump-sum or block grant basis, rather than by detailed itemisation of budgets. There have also been clear moves toward introducing or increasing tuition fees, output-oriented budget allocation, and performance contracting systems. These changes have paralleled the other aspects of more autonomous, but more accountable, university governance described in the previous section.

The funding changes also need to be seen against the rapid expansion of student enrolments. Between 1995 and 2001 tertiary enrolments grew by at least 25% in half of the OECD countries with available data, and by substantially more in five countries: the Czech Republic (54%); Greece (61%);

Hungary (94%); Korea (54%) and Poland (134%) (OECD, 2003a). Total funding has risen from both public and private (household) sources to fund the growth in tertiary enrolments.

However, the rates of growth of public and private funding have tended to differ, which has resulted in a shift in the share of total tertiary funding coming from public and private sources. In countries as diverse as Australia, Portugal and Sweden private expenditure grew much more rapidly than public expenditure between 1995 and 2000, which resulted in declines in the share of expenditure on tertiary institutions coming from public sources: from 65% to 51% in Australia; from 97 to 93% in Portugal; and from 94 to 88% in Sweden. On the other hand, public funding grew more rapidly than private expenditure in some countries, which meant that the share of public expenditure on tertiary education institutions actually increased over this period, for example in the Czech Republic (to 86%), and in Ireland (to 79%) (OECD, 2003a).

One factor in the rising share of private expenditure in some countries can be the growing importance of private tertiary institutions that charge fees. Another factor, as discussed below, is increased or newly imposed fees or charges in institutions that previously were largely publicly funded. This is particularly evident in the higher education component of tertiary education. As well, the basis by which public funds are allocated to higher education has changed in many countries. The net result is that higher education institutions now face a more varied and perhaps less predictable funding environment.

The switch from *itemised to lump-sum or block grant budgets* has been commonplace in OECD countries (*e.g.* Austria, the Czech Republic, Ireland, Sweden and Finland). This represents a fundamental change in governance from specification by a ministry about how money is spent to allowing institutions to decide, within the regulations for public sector finance. In such countries, the majority of recurrent spending for teaching activities, support services and administration is now provided in the form of block grants; however, there are generally separate allocations for research, capital expenditure or specific projects and development (Eurydice, 2000). As noted above, Japan

and Korea – which still retain the system of itemised funding through negotiation with the appropriate ministry – are currently implementing reforms to introduce block grants.

By contrast, *funding for research* has tended to become more rather than less specified, with governments aiming to increase the proportion of earmarked funds, whether from governments and funding agencies or from other private sources, at the expense of lump-sum research budgets. The trend towards funding for specified research activities is not new in the United States, where earmarked research is well-established, but it is new in much of Europe. Countries such as the Netherlands, the United Kingdom and the Czech Republic have moved particularly strongly towards earmarking of research funding (Braun and Merrien, 1999). The *specification* of a research grant for a particular purpose can be distinguished from another trend, namely towards the *assessment of entitlement* to research funding based on specified performance criteria. For example, the United Kingdom has developed a very detailed and extensive competitive research funding tool (see Box 3.2).

In the case of block grants for recurrent funding, there has also been a trend towards governments using *formula funding* based on services provided and performance levels. Some recent examples of such changes are summarised in Table 3.2. These formulae are often based on student numbers, and hence in some respects on performance in attracting clients. However, there are also efforts towards linking funding to outputs and outcomes. A number of European countries (Finland, the Netherlands, Norway, Sweden, and the United Kingdom) have incorporated outputs in their funding formulae, by taking account not just of enrolments but of student completion rates. For example, the United Kingdom government specifies target student numbers based on previous levels and current government priorities, and penalises institutions that do not meet them. There has also been a move towards linking funding to medium-term objectives negotiated between government and universities. Such “performance contracting”, pioneered by France in 1988, followed by Finland and Switzerland in the late 1990s, and Austria in 2002, is illustrated through the Finnish example in Box 3.3.

### Box 3.2 Research funding in the United Kingdom

In the United Kingdom there is a dual support system for funding higher education research. The Higher Education Funding Council for England (HEFCE) and the Scottish Higher Education Funding Council in Scotland distribute funds selectively to higher education institutions with reference to the quality of research as assessed in a Research Assessment Exercise (RAE). The RAE is conducted every four or five years; the most recent was in 2001 and informed funding decisions from 2002-2003. Each institution was awarded a rating, on a scale of 1 to 5\* (five star), for the quality of its research in each unit of assessment (academic department) in which it was active. Only the highest rated departments attract funding, and a quality rating of 5\* attracts almost three times as much funding as a rating of 4 for the same volume of research activity. As a result, funding for research is highly concentrated by institution and department. In 2002-2003, 75% of HEFCE research funds were allocated to 25 institutions out of a total of around 135 higher education institutions in England.

A second stream of government funding allocated by the Research Councils for specific projects covers the direct costs of those projects awarded. The quality-related funding supports the infrastructure and indirect costs and also provides institutions some flexible resources for their own research.

The UK funding councils are currently consulting on a review of research assessment.

Source: HEFCE (2002).

Table 3.2 New methods for allocating recurrent funding to universities: country examples

Country	When implemented	Main features
Australia	1988 (and progressively modified since)	<ul style="list-style-type: none"> <li>• Commonwealth (federal) government funding (around 60% of total revenue in 2001) has two main components: (i) a general operating grant largely based on a specified number of student places in the context of an educational profile of the institution concerned; and (ii) funds for research and research training allocated primarily on a competitive basis.</li> <li>• Resources are allocated in the context of a rolling triennium which ensures that institutions have a secure level of funding on which to base their planning for at least three years.</li> </ul>
Czech Republic	1992 (and progressively modified since)	<ul style="list-style-type: none"> <li>• The major part of funding for teaching activities (about 78% in 2002) is based on inputs (the number of students multiplied by the cost of relevant studies). Around 10% is provided on a competitive basis whereby institutions are invited to submit projects in response to state priorities. The government aims to increase the competitive component to 30% over the next few years.</li> <li>• Government funding for research has two main components: around 30% (research directly connected to teaching) is based on a formula taking into account: (i) the funds raised by the institution for research and development; (ii) the ratio of professors and associate professors to the total academic staff; and (iii) the ratio of graduates from doctoral and master's programmes to the total number of students in the institution.</li> <li>• The other 70% of research funding is provided through a competitive bidding process.</li> </ul>
Netherlands	2000	<ul style="list-style-type: none"> <li>• Universities are funded on the "performance funding model". Thus 50% of the total teaching budget in 2000 was based on the number of degrees awarded in 1999; 13% was based on the number of first year enrolments; and the remainder was a fixed allocation per university. Universities receive separate funding for research programmes.</li> <li>• Universities of professional education (HBOs: <i>Hoger Beroepsonderwijs</i>) are allocated teaching funds by a formula taking into account programme characteristics and teaching output (enrolment and completion rates).</li> <li>• The government has foreshadowed plans to merge these two systems from 2005.</li> </ul>
Norway	2002	<p>Grants to institutions now consist of three main components:</p> <ul style="list-style-type: none"> <li>• a basic component (on average approximately 60% of the total allocation in 2002) associated with unit cost;</li> <li>• an education component (approximately 25%) based on results: the number of completed student credits, the number of graduates (scheduled to begin in 2005), and the number of international exchange students (incoming and outgoing); and</li> <li>• a research element (approximately 15%) dependent on performance and quality criteria including: (i) ability to attract external funding; (ii) number and qualifications of academic staff; (iii) number of postgraduate students; (iv) regional and professional policy priorities; and (v) total student numbers.</li> </ul>
Switzerland	2000	<p>University funding, which was based on teachers' salaries, student enrolments and cantons' financial capacity, now takes account of the services provided by universities:</p> <ul style="list-style-type: none"> <li>• 70% of basic funding is allocated according to the number of students enrolled for the legal duration of studies, weighted by academic disciplines; and</li> <li>• 30% is distributed as matching funds to the contributions that each university obtains from third parties (<i>e.g.</i> the Swiss National Science Foundation and the Commission for Technology and Innovation).</li> </ul>

Source: IMHE and HEFCE (forthcoming); OECD (2003b); Norwegian Ministry of Education and Research (2003); Benes and Sebková (2002).

### Box 3.3 University performance contracting in Finland

The Finnish government has a three-year contract with each university that covers objectives, programmes and funding. The contract provides for a government grant in the form of a lump sum to implement the contract, including the goals for master's and doctoral degrees. The budgeting system has been developed to support management-by-results so that the university's goals and appropriations are inter-linked:

- the same three-year period is used both for measuring outcomes and allocating resources;
- negotiations run from February to April preceding the three-year funding period; and
- each university documents the achievement of goals in the form of an annual report.

Source: Holttta and Rekila (2002).

Another conspicuous trend in the funding of institutions has been government encouragement for them to sell teaching and research services: *contract-based funding*. In general, there appear to be two main types of contract undertaken by institutions: contracts with central or regional governments for specific course programmes or research projects; and contracts obtained on the open market with private organisations (Eurydice, 2000). Contract-based funding is common in the United States and Australia. In Europe, the governments of the Netherlands and the United Kingdom have made the strongest demands for universities to seek external funds, including from the European Union. Other countries, for instance, Ireland, Norway, Sweden and Switzerland “have recognized the need for higher education institutions to remain essentially publicly funded while encouraging them to sell their services on an educational market” (Eurydice, 2000, p. 97).

A further funding issue for higher education, and overall the most controversial, is whether and at what level to charge undergraduate students *tuition fees* (see, for example, Biffi and Isaac, 2002). To illustrate the range of contexts, all higher education institutions in the United States charge tuition fees, albeit at a wide range of levels and many students get financial support or scholarships; by contrast, it is constitutionally impossible for higher education institutions to charge tuition fees in Sweden and Finland. The main argument for fees, based on the private financial benefits of higher education, is stronger to the extent that students form a minority of the age-group and are drawn disproportionately from already-favoured

social groups. Yet the practical impetus for introducing fees has been (i) the need to finance the dramatic expansion of student numbers; and (ii) “the political will to encourage self-reliance and consumer choice” (Eurydice, 2000, p. 98). For example, Australia introduced tuition fees in 1989 to both finance expansion of higher education and also ensure that those who benefited from higher education paid a greater share of the costs. A distinctive feature is that payment of the fees is contingent on how much students earn after leaving higher education: students can choose to defer their payment and begin repaying the debt through the income tax system when their income reaches a minimum threshold. By 2001 Australian higher education institutions obtained about 30% of their revenue from student fees.<sup>2</sup> However, only a few countries in Europe (Italy, the Netherlands, Portugal, the United Kingdom and, very recently, Austria) have introduced significant increases in student fees since 1980, while Ireland in 1996 decided that the tuition fees would be paid by the government (Eurydice, 2000; Sporn, 2002).

Fees also relate to other aspects of governance: public higher education institutions in Korea (2002) and to some extent in the Netherlands (1996), have been granted the right to set their own fees in an effort to strengthen their financial autonomy. Both the United Kingdom<sup>3</sup> and the Aus-

2. More details on the Higher Education Contribution Scheme in Australia are provided in Chapter 4 (Section 4.2) of this volume.

3. This decision applies to England, Wales and Northern Ireland only. The Scottish Executive has announced that it does not intend to permit variable fees.

tralian governments recently announced proposals to give universities greater financial autonomy by allowing them to vary fees subject to a prescribed maximum.

A further aspect of the growing diversification of higher education funding is direct financing by “third parties”, such as industry and private foundations, of research and development in particular.<sup>4</sup> The effects of this phenomenon reinforce those of public funding coming in more of a “contracted” form: in both cases, higher education institutions in effect become more like corporations competing for funding streams rather than being primarily extensions of the ministries that sponsor them. This has some important implications for public policy and institutional governance.

Not being dependent on a single stream of funds increases the autonomy of institutions to plan and shape their own futures. The fact that higher education institutions now are required (or choose to) use a wider range of funding sources (rather than being largely dependent on government) means that they are less vulnerable to sudden shifts (*e.g.* when government priorities change). However, it can also lead to increased uncertainty of resource flows, and in some cases even threaten the very survival of an institution over the long term. In countries such as the United States, where these conditions have long applied, large numbers of higher education institutions have closed over the years due to financial pressures. For other countries, where the growth of non-government funding sources for higher education is much more recent, there are potentially challenging legal and political issues ahead: to what extent, and under what conditions, is the State obliged to continue to financially support higher education institutions that have got into financial difficulties?

An increasing reliance on “third party funding” may shift the balance of higher education resources towards those activities where the commercial possibilities are greatest (De Boer, 2000). Some scholars express concern that lucrative private work pushes away traditional academic activities, and emphasises “applied” compared to “curiosity-driven” or “discipline-based” research. Universities

may thus acquire a hybrid of public and private norms and values, which may sit uncomfortably together and at worst tear the institution apart. Such a scenario makes it even more important that those responsible for external quality assurance, and internal management, ensure that higher education institutions continue to serve their wider public responsibilities.

#### 4. QUALITY ASSESSMENT

Almost without exception, increased autonomy over a wide range of institutional operations has been accompanied by the introduction of a more sophisticated quality assurance system based on the establishment of a national quality agency for higher education. This has shifted responsibility for higher education quality from a mainly internal judgement by institutions themselves to an external process of peer review and judgement by others such as quality assessment agencies, and funding bodies. While this is a relatively recent development in most countries, and in many cases still in its formative stages, higher education accreditation bodies have existed in the United States for a century.

The 1990s saw the establishment of a national quality assessment agency in almost all OECD countries; in 1990 they had existed in only a handful of countries. Box 3.4 shows some common and differing features of such bodies in a range of countries.

4. It is difficult to obtain systematic international data on private sector funding of research and development, but there are some indicative data. In the United States, industry-sponsored R&D expenditure at 32 public universities that are members of the American Association of Universities doubled between 1990 and 2001 (Vaughn, 2001). In the Netherlands, the proportion of income from contract activities in research-intensive universities rose from 12% to 18% between 1990 and 1999. In Sweden, the share of research grants coming directly from central government declined from around 65% to 45% between the mid-1980s and 2001. In the United Kingdom in 1999-2000 HEFCE grants constituted around 33% of total research funding received by higher education institutions, with other significant sources being research councils (22%), foundations and charities (17%), central government/local authorities and health authorities (11%), industry (8%) and other grants and contracts (10%) (IMHE and HEFCE, forthcoming).

**Box 3.4 National quality assessment agencies: Similarities and differences**

By the end of the 1990s, almost every OECD country had a national agency for the assessment of quality in higher education institutions. They have important characteristics in common. Almost all *operate independently* from government, in principle, rather than being a direct arm of a ministry. Almost all are *funded* by government. Almost all rely on judgements made by *external evaluation teams* mostly comprising academics from other institutions, including in some cases from other countries.

However, countries have also developed some different features in their quality assessment agencies. Many are *set up by governments* (e.g. the Danish Evaluation Institute, EVA; the Center of Accreditation and Quality Assurance of the Swiss Universities, OAQ; the Norwegian Agency for Quality Assurance in Education, NOKUT; the Australian Universities Quality Agency, AUQA; the National Institution for Academic Degrees and University Evaluation, NIAD, in Japan; and the Swedish National Agency for Higher Education which has a new mandate to carry out quality assurance); some are *owned collectively* by higher education institutions (e.g. the Foundation of Portuguese Universities); others are *independently constituted* (e.g. the National Evaluation Committee, CNE, in France; the Quality Assurance Agency, QAA, in the United Kingdom; and the Netherlands Accreditation Organisation, NAO). Yet regardless of how they are constituted, their reliance on the expertise of members of the academic community helps to give them legitimacy.

In some countries there is a *single national quality agency*, in others, *more than one*. An important factor is whether a single national assessment system can be identified: this tends to be the case in countries with relatively homogeneous and smaller systems like the Netherlands and Denmark, but not in Germany, a federal country where there is no single assessment system at the national level, nor in the United States or Mexico, where multiple external assessment systems exist.

In Austria existing quality assurance arrangements applied only to *Fachhochschulen* and to private institutions (which together comprise about 10% of the higher education sector), but they are to be extended to all universities at the end of 2003.

National quality agencies differ considerably in the level and focus of their assessment methods. They may focus on an *institution* (e.g. Australia), on a *programme* (e.g. the Netherlands), or on a *combination of both* (in most other countries). At each of these levels they may concern themselves with teaching, research or management/administration.

In most cases, reports are made *public*, but not in Italy or Greece, where they are given only to the Ministry, nor in Austria in the case of reports on single institutions, where they go only to the institution assessed.

The assessment is mainly a form of *regulation* and *information* rather than being used for funding decisions. However, in the United Kingdom a specific link is made between evaluation outcomes and *funding* (see Box 3.2 above for the case of research funding). In the countries where funding is based on outputs (see Section 3 above), external quality assessment may be used to verify funding-related information.

Source: Brennan and Shah (2000); INQAAHE (2001); Eurydice (2000).

A key issue is who determines the rules and value systems that underlie the assessment criteria. Potentially, the answer can be “governments”, in which case a government that is not directly managing an institution can exert an indirect yet powerful form of control, as the values embedded in quality assurance mechanisms become deeply woven into the procedures and judgements of the institution.

One significant effect of new external quality assurance mechanisms, in combination with increased institutional autonomy, has been to change the distribution of authority within higher education. Academic heads of department who once may have negotiated with ministries for funding find their power squeezed from two directions. First, the chief executive of the institution now often has a more direct influence on external funding sources and internal resource allocation. Second, external review and quality assurance may further reduce the capacity of individual academic departments or staff members to determine their own priorities (Brennan and Shah, 2000). This shift in the internal power structure is explored further in the following section.

## 5. INSTITUTIONAL GOVERNANCE

The traditional model of governing universities is collegial and consultative in nature, with large and broadly representative bodies and forums open to all academic members of the university. The changes outlined in this chapter have had two main effects on internal governance: a strengthening of the power of executive authorities within the university; and an increase in participation on governing or supervisory bodies by representatives and individuals from outside the university.

In most countries there have been efforts to reinforce the executive authority of institutional leaders (Table 3.3 provides some recent examples). Key common elements have been a transfer of power to the Rector, Vice-Chancellor and other leading administrative figures, and a loss of authority and decision-making power on the part of traditional participatory and collegial bodies. However, the strategies and structures chosen to implement this development have varied widely.

Reinforcing the general loss of faculty power, the increased weighting of “external constituencies” and outside interests has contributed to the strength of executive authorities. The manner in which these are represented varies considerably. For example:

- Recent Dutch legislation, particularly the 1997 University Modernisation Act, split leadership between a Rector with executive responsibility and a President of the Supervisory Board drawn from outside the university. This is comparable to the American model of university President and Chairman of the Board of Trustees (Neave, 2001). Recent Austrian governance reform has similarities to the Dutch reforms.
- In Sweden, the Governing Board has a majority of external representatives from business, industry and regional authorities (usually 8 external out of a total of 15 members). Furthermore, since 1997, the chair of the Governing Board is no longer the Vice-Chancellor but “a well-qualified and experienced external personality” who is not employed at the institution and is appointed by the government.

Part of the aim of bringing external representatives into higher education governance has been to include more people with industrial or commercial experience and thereby hopefully strengthen links to the economy and improve internal efficiency. Other external members have been from local or regional government to reflect greater regional interests in funding, and in the contribution of the higher education institution to local economic and social development (Eurydice, 2000). While such representation tends to reduce the relative power of academic interests, the outside interests do not necessarily predominate. One consequence of this model can be a strengthened chief executive’s position by virtue of their greater access to internal information and knowledge.

Pressures to change the traditional models of university governance have become more acute in recent years as public funding has often become more targeted (and in some countries reduced in per student terms), as institutional autonomy has increased and as, in parallel, external performance management and other accountability

Table 3.3 New models of institutional governance: country examples

Country	Year	Main governing body	What changed?
United Kingdom	1988	<p>In the “new” universities (mainly former polytechnics) the main governing body is a <i>Board of Governors</i> which generally comprises about 25 members, the majority of whom are external; there is also generally an <i>Academic Board</i> which comprises academic staff only.</p> <p>In the “old” universities the main governing body is generally a <i>Council</i> of 25-60 members, the majority of whom are external, and a Senate comprising academic staff only.</p>	<p>Established a small Executive Board, half of whom must be from outside the university with experience in industrial, commercial or employment matters.</p> <p>Strengthened the power of the Chief Executive.</p> <p>Subordinated the Academic Board to the Board of Governors in all aspects and to the Chief Executive in some respects.</p> <p>Although the “old” universities were not affected by the 1988 Education Reform Act, the report of the National Committee of Enquiry into Higher Education in 1997 made recommendations about governance which have, in the main, been adopted by them.</p>
Netherlands	1997	<p><i>Supervisory Board</i>, 5 external members appointed by Ministers.</p> <p><i>Executive Board</i>, 3 internal members including the Rector.</p> <p><i>University Council</i>, academic, administrative staff, plus students; mainly advisory function.</p>	<p>Replaced joint decision-making by Administrative Board and Academic Council.</p> <p>Introduced Supervisory Board, which supervises and appoints members of the Executive Board. The Executive Board is accountable for governance and administration to the Supervisory Board.</p> <p>University and Faculty Councils became largely advisory bodies for students and employees.</p> <p>Executive strengthened relative to University and Faculty Councils; Dean's power increased within faculty.</p> <p>Abolition of the previously powerful Disciplinary Research Groups.</p>
Austria	2002	<p><i>University Council</i>, 5-9 external members, nominated by the Ministry and the University Senate.</p> <p><i>Rectorate</i>, the Rector and up to 4 Vice-Rectors.</p> <p><i>Senate</i>, academic, administrative staff, students; majority of members are professors.</p>	<p>Introduced the University Council which will appoint the Rector, and decide on the organisational plan, budget, and employment structure.</p> <p>The Rector takes on a senior management function, supported by a team of Vice-Rectors.</p> <p>The Senate was retained, but lost much of its power, and is to focus mainly on academic programmes.</p>
Japan	2004	<p><i>Administrative Council</i> with internal and external members.</p> <p><i>Academic Council</i>, comprising the university President, heads of faculty, academics, others appointed by the President.</p>	<p>Administrative Council created to decide on main financial, personnel and organisational issues.</p> <p>Academic Councils created to decide curriculum, appointment of academic staff.</p> <p>Executive Board created comprising the university President and several Vice-Presidents. Overall the university President gains considerable powers.</p>

Source: IMHE and HEFCE (forthcoming); Austria (2002).

mechanisms have required universities to publicly demonstrate their efficiency and effectiveness. Strengthening executive responsibility can help institutions to sharpen their performance in a competitive environment by clarifying lines of responsibility and developing more of a strategic capacity.

At the same time, such changes can generate tensions within higher education institutions. In the long term, their success will depend on resolving these tensions – since it would be hard for a university to retain a true sense of mission if significant numbers of academics become alienated from the institution. This does not mean removing the competition between the cultures of managerialism and academic values, but rather ensuring that they are complementary rather than counter-productive.

## 6. INSTITUTIONAL LEADERSHIP

Crucial aspects of the development of more powerful executives in higher education are the processes by which they are appointed and the qualities of the individuals concerned. As pressure mounts to make institutions more accountable, to develop better linkages with the wider society, and to raise external funds, their leaders need to be more than outstanding academics.

In many countries, the tradition has been to elect university leaders to ensure that they represent the constituency – especially the academic one – of the university. As shown in Table 3.4, although election of university leaders still continues in a number of countries, the trend seems to be moving towards appointment, often by a board with a majority of external members. Legislative changes in Austria, Denmark and Norway introducing new appointment systems, represent recent examples of this trend. In Norway, however, appointment remains an exception from normal procedure and has only been used to date in state university colleges and institutes of the arts.

The change towards appointment rather than election is a crucial part of the redefinition of the relationship between the chief executive and others within the institution. An appointed rather than elected chief executive may find it easier to

implement major changes that cut across vested interests. Nevertheless the process of appointment is vital to ensure that the institutional leader has credibility within the institution.

Indicators of the changed roles and expectations of institutional leaders are found in the language of recruitment advertisements, for example:

*“We are looking for an outstanding individual who combines the ability to inspire and lead with a clear vision of the future direction of higher education, both nationally and internationally. The successful person will have the drive, personality and determination to develop the University to match that vision.”* (United Kingdom University)

*“We need a leader who, together with me [the Chair of Council], the board and a large number of qualified staff members, can lead the activities into a new millennium. You should have good knowledge about industry, business and authorities within the [institution’s] sectors of activity and a good anchorage in the science fields covered ... A wide network of contacts and experience from leading large knowledge-producing organisations are also important, as well as the ability to inspire.”* (Swedish University)

Nevertheless, a strong academic background continues to figure prominently in leadership appointments. A survey in four of the countries that appoint their university leaders (the Netherlands, Sweden, the United Kingdom and the United States) found that:

*“Despite extensive changes in university organization, key structural elements, particularly those which underpin professional autonomy, continue to circumscribe and define the powers of the vice-chancellor; there is little evidence of broadening recruitment patterns, and those appointed to the post of vice-chancellor continue to come from similar, predominantly academic backgrounds.”* (Bargh et al., 2000)

An underlying reason for this is that, despite an increased emphasis on general leadership skills and managerial competence, governing bodies largely continue to hold the view that universities have to be run by academics or those with academic backgrounds, because of the distinctiveness of universities as institutions. Thus, managerial expertise is seen as additional to a strong academic track record rather than the driving consideration in an appointment (Bargh et al., 2000).

Table 3.4 Appointment of leaders of higher education institutions

	Process for election or appointment	Government has to approve?	Typically appointed for how many years?	Renewable position?
<i>Countries where leaders are usually ELECTED by:</i>				
Finland	Academic staff and heads of separate institutes	No	5	Yes
France	Board or Council	No	5	No
Japan (national)	Academic staff	Yes	4	Varies
Korea (national)	All full-time faculty members	Yes	4	Varies
Switzerland	Senate or ad hoc committee	Yes, mostly	5	Yes
Turkey	All full-time faculty members	Yes	4	Yes
<i>Countries where leaders are usually APPOINTED by:</i>				
Australia	University Council (majority usually external)	No	5-7	Yes
Ireland	Governing Body (approximately 50% external)	No	10	No
Netherlands	Supervisory Board: 5 external members appointed by Minister	No	4	Yes
Sweden	Government, on recommendation of mainly external Governing Board, which first consults students and employers	Yes	6	Yes, for two periods of 3 years
United Kingdom	Governing Body, of which the majority are external members	No	7	Yes
United States (public)	State government-appointed Regents or Coordinating Boards on the recommendation of Search Committee	No	Varies	Varies
<i>Countries where reforms have been implemented in 2003:</i>				
Austria	Formerly elected by University Assembly comprising professors (25%), assistant professors (25%), other staff (25%), and students (25%) from the candidates proposed by Senate From 2003, appointed by University Council made up of external members, from a shortlist of three candidates nominated by Senate	No	4	Yes
Denmark	Until July 2003, elected by: academic staff (50%); other staff (25%); and students (25%) From July 2003, appointed by a Board with a majority of external members	No	4	Yes
Norway	Formerly elected by academic and other staff, with some role for students From 2003, an Executive Board with strengthened external representation may propose to the Minister that it appoints the Rector	No	3-4	Yes

Source: Survey of university governance among member institutions of the OECD's Institutional Management in Higher Education (IMHE) programme, conducted by IMHE in 2003. Note 1 to Table 3.1 outlines the scope and limitations of the survey.

## 7. CONCLUSIONS

Higher education in many OECD countries can still be viewed primarily as a part of the public sector. Governments have a predominant role, either directly providing (as in France) or purchasing or ordering services (as in Sweden). This is true even in countries like the United States where universities have a long history of being entrepreneurial and seeking funds from a variety of sources: the typical four-year college is still largely funded and regulated by state authorities.

Yet markets and competition are increasingly shaping higher education. In some countries (*e.g.* the United Kingdom), this has happened predominantly through competition among public institutions; in others (such as Hungary), through competition between public and private institutions. Increasingly, competition for students and academic staff is taking on an international dimension.

In this context, higher education is moving towards a new system of governance, where the power of markets and the power of the State combine in new ways. Government is generally withdrawing from direct management of institutions, yet at the same time introducing new forms of control and influence, based largely on holding institutions accountable for performance via powerful enforcement mechanisms including funding and quality recognition. Institutions that can no longer take their continued existence for granted are having to work hard both to meet the criteria embedded in funding and regulatory regimes and at the same time to strengthen their position in the marketplace. In the latter task as in the former, institutions cannot afford to stand still.

The market for students is both expanding and changing, while competition from a much wider range of providers becomes more intense.

It is within this more demanding environment that the internal governance of higher education institutions is being reassessed. Such institutions need to be able to develop clear organisational strategies backed by decisive and co-ordinated implementation if they are to survive and thrive. What makes the challenge for their leaders if anything more demanding than for a private company is the inherent nature of a university's mission, as first and foremost a generator of knowledge and a community of learners. Effective leadership must take that community with it; university leadership will fail if it leaves "academic" interests behind. The governance of higher education in the 21<sup>st</sup> century needs to develop a fusion of academic mission and executive capacity, rather than substitute one for the other.

A similar balancing act will be required of governments. Government retains a strong interest in, and a complex range of objectives for, higher education. It will need to regulate the sector, to adopt policies that promote national objectives, to provide incentives to stimulate appropriate improvements by providers, to mobilise from taxpayers the resources needed to meet public goals for higher education, and to ensure equality of opportunity and equity in access. Yet in doing all this, government will need to take care not to replace one potentially counter-productive form of control over higher education with another. The art of policy making will in future involve ensuring that public goals are met in higher education through influence rather than direction.

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### APPENDIX: Country details on aspects of university autonomy

This Appendix elaborates the summary provided in Table 3.1. The numbers in parentheses refer to the columns in Table 3.1 that cover different aspects of autonomy.

<b>Australia</b>	(2) State governments set limits and must approve borrowings. (6) Since 1994 university staff salaries have been determined through an enterprise bargaining process in which salary increases are required to be productivity-related. (7) Universities are able to set the standards for entry into different courses within the constraints of an overall profile negotiated with government. (8) Fees for international and domestic students are subject to government guidelines.
<b>Austria</b>	(1) The buildings are owned by an outsourced institution, Federal Real Estate Association ( <i>Bundes-Immobilien-Gesellschaft</i> : BIG). Full autonomy concerning equipment. (2) From 2004, however, the Universities Act 2002 will authorise institutions to borrow funds. (5) All newly appointed academic staff after the Universities Act 2002 are to be employed by the university on the basis of private contracts: full autonomy for institutions within legal norms. (6) The salaries for newly appointed academic staff after the Universities Act 2002 will also be negotiated between the newly founded "Austrian universities association" and the unions. The legal status of the "Old" staff will not be changed.
<b>Denmark</b>	(1) Universities hire buildings from a state agency and are free to rent buildings from other providers. From July 2003, a new act permits universities to obtain permission to own their buildings. There is full autonomy regarding ownership of equipment. (4) Although the establishment of a new programme needs to be approved by the ministry, in practice institutions have considerable scope for determining academic structures and course content. (6) Formally there is no constraint on salaries, but in practice institutions offer salaries which exceed the collectively bargained rates by no more than 10%. (8) Institutions can charge tuition fees for part-time students and open university programme only.
<b>Finland</b>	(4) Study fields require a government decree, but this is expected to be changed soon to give institutions more autonomy. (7) Institutions can determine their entrance capacity provided that the degree targets agreed with the Ministry of Education will be reached.
<b>Ireland</b>	(2) Universities have autonomy to borrow subject to a framework agreed between the universities and the funding agency, the Higher Education Authority. In practice, this means they can borrow freely provided the transaction is on a self-funding basis ( <i>e.g.</i> for student housing) and may borrow for other purposes, provided that the financing costs (including repayment) based on a ten-year repayment period, do not exceed 4% of income, defined as total core teaching income (state grant, student fees and sundry income) plus research income. (6) Universities can decide the salaries of their personnel subject to approval of Minister for Education and Science and Minister for Finance. (8) Universities have the legal right to determine fees but, since the State pays most of the undergraduate fees, consultation take place.
<b>Japan</b> (national/public)	(4) Institutions have autonomy in the establishment of a new programme within existing structures and course contents only. (5) Formal decision regarding employment of academic staff is taken by the government, but actual consideration of these decisions is made by the university concerned. See Box 3.1 for forthcoming changes introduced by the National University Corporation Law in Japan.
<b>Korea</b> (national/public)	(4) Institutions have autonomy in the establishment of a new programme within existing structures and course content only. (5) The positions funded by sources other than state are not subject to state position control, all requirements and benefits of the state civil service. In employing academic staff, formal decision is taken by the government, but actual consideration of these decisions is made by the university concerned. (7) The number of students in the institutions located in Seoul should be approved by the government. This restriction is also applied to private universities.
<b>Mexico</b>	(2) Institutions can borrow funds on the condition that the Board of Trustees approve. (6) Institutions can determine the salaries of their staff provided that they obtain the funds necessary for such expenditure in addition to those provided by government. (8) In practice, the level of tuition fees is low.
<b>Netherlands</b>	(4) The establishment of a new programme of study must be approved by the Netherlands Accreditation Organisation (NAO) if degrees are to be awarded, and by the Ministry of Education for funding. (6) Universities can decide the salaries of their personnel if broadly consistent with agreements at other universities. (8) Since 1996 universities have been able to determine their own tuition fees for part-time courses and those that alternate with work experience (sandwich courses). Universities of Professional Education (HBOs), however, generally keep tuition fees at the minimum rates set by the government.

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Norway	(1) All university property is owned by the State. Universities have some limited authority concerning buildings, but full autonomy concerning equipment. (6) Institutions can decide salaries of their staff provided they fall within guidelines set by the government.
Poland	(6) Institutions can decide staff salaries provided they do not exceed state-formulated limits. (8) Institutions can decide the level of tuition fees only for studies other than full-time day programmes, which are free.
Sweden	(1) The ownership of assets other than buildings is devolved to institutions. The buildings are normally rented by Akademiska Hus AB, a state-owned enterprise. However, institutions are free to choose who to rent from and to decide the share of their budget for buildings. (2) Institutions can borrow from the Swedish National Debt Office. The government sets the maximum amount of loans and credits allowable. Borrowing from private financiers is not allowed. (7) Institutions can determine their entrance capacity provided that institutional tasks laid down by the budget document are fulfilled.
Turkey	(4) Institutions can determine their academic structure provided the Higher Education Council approves. (5) Institutions can employ their staff as long as positions are open. (7) Institutions can determine their own entrance capacity for graduate school only.
United Kingdom	(2) Institutions can borrow funds provided they do not exceed borrowing thresholds set by the Funding Councils. (7) Institutions can determine their entrance capacity provided they achieve their contracted number of students across broad subject categories. (8) Tuition fees are subject to government ceilings.

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Source: Survey of university governance among member institutions of the OECD's Institutional Management in Higher Education (IMHE) programme, conducted by IMHE in 2003. See Table 3.1, Note 1.

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