

MAPPING THE CHANGING GOVERNANCE CONTROL PARADIGMS OF PUBLIC UNIVERSITIES

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Abstract

Drawing on a multi-theoretical approach to governance, interviews with chief audit executives of seven universities worldwide, and published literature, this study maps and demonstrates that as public universities shift from state controlled, public sector and collegial managerialism to corporate managerialism, they experience different range of controls to be monitored at the board, operational and assurance levels of governance. These differences suggest there is no one fit for governance policies of public universities. Instead, there is an onus on the board and management of each public university to identify their own particular multi-theoretical governance control paradigm. These findings have accountability implications for council members, senior management and control mechanisms such as external and internal audit.

Keywords: Multi-Theoretical Approach; Governance Control Paradigm; Public Universities

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Introduction

Public universities in both developed and developing countries are pursuing different forms of management approaches. At one extreme are the state run universities that are predominantly supported and controlled by the government and generally pursue a public sector approach to management. At the other extreme are those universities under pressure to pursue a corporate approach to management. In between, there are those universities that practice a mix of public sector, collegial managerialism and corporate managerialism in varying degrees. The universities pursuing a corporate approach are experiencing decreased funding from their governments and an increased need to be competitive through increased globalization of their activities (Organization for Economic Cooperation and Development, 2008; Parker, 2011). From a governance perspective, these increased levels of activities have resulted in increasing complexity in the level of operations, requiring a corresponding increase in the level of the accountabilities and responsibilities of university management. These extended accountabilities are towards a wider range of stakeholders arising from the extended activities.

The concept of governance for these ranges of universities relates to the interplay of three constituencies: the stakeholders, the board, and management. In a state run university, the stakeholder is generally limited to the government as the provider of funds. Hence, in line with agency theory principles, the controls developed in each state run public university are generally designed to align their

respective management's interests with those of the government. In the other categories of public universities, the levels of stakeholders generally increase with the level of activities they are engaged in. Here in line with stakeholder theory, the controls developed need to extend to align management's interest with a range of stakeholders. In line with the multi-theoretical concept, public universities are experiencing impacts on their governance paradigms due to a number of wider influencing forces brought about by political, cultural and sociological factors, among others. These forces have been identified as typically relating to the geographical location; governmental influence; globalization; collegial managerialism; and the internal management culture (Christopher, 2012). Collectively, they determine the stakeholder base for each university and thus the consequent controls to be developed to address their needs. Hence, the types of controls to be developed and implemented may vary between universities in line with their wider influencing forces. Their governance control paradigms could differ and not be determined by standardized governance policy requirements that require a set of controls to be developed across all entities.

Given the changing impact of the wider influencing forces, there is considerable uncertainty as to their true governance control paradigms. This study aims to address this knowledge gap by applying a multi-theoretical perspective to an international comparative case study of public universities to determine their true governance control paradigms and the range of controls to be developed and implemented across their governance levels. In that

process, the study also aims to establish the changing levels of accountabilities expected of university management and assurance providers such as external and internal audit. The research question driving the study is: *What impact do the wider influencing forces of public universities have on the range of controls to be developed and implemented across their governance levels?*

The remainder of the paper is arranged as follows: first, a brief literature review on the multi-theoretical model and an explanation of some of the terms used in the study are provided. The research approach is then outlined, and results pertaining to the identification of the wider influencing forces and extended stakeholder bases are reported. Next, the impact of these forces on the different governance control levels is discussed. This is followed by a discussion of the resulting multi-theoretical governance control paradigm for public universities and its impact on the theoretical foundations and accountabilities of assurance providers such as external and internal audit. The final section provides a concluding discussion of the study.

A Multi-Theoretical Approach to Governance

The multi-theoretical approach to governance essentially posits that organizations are affected by a range of wider influencing forces that have different degrees of impact on their governance levels. These wider influencing forces inevitably require a wider set of contractual obligations to be addressed than would an agency-oriented governance paradigm (Aguilera et al., 2008; Daily et al., 2003; Filatotchev, 2008; Young & Thyl, 2008). Christopher (2010) conceptualized this approach in the form of a model that suggests that a governance paradigm is underpinned by the economic-based agency theory and three other management-based theories: the stakeholder, resource dependency, and stewardship theories. The theoretical proposition of the model suggests that the integration of these theories and their complementary effects underpins governance.

The integration effect is described at the following three control levels: the recognition of an organization's wider stakeholder base; the strategic management of the stakeholders; and the operational managing and monitoring of stakeholders. At the level of the recognition of the wider stakeholder base, an integration of stakeholder theory (Donaldson & Preston, 1995; Freeman, 1994) with agency theory has been proposed, as this combination facilitates the recognition of the wider stakeholder interests and the consequent wider contractual obligations applicable to an organization. The argument for complementing agency theory with stakeholder theory to achieve a more inclusive approach to governance has also been advanced in more recent studies (for example, Brennan & Solomon, 2008; Parker, 2007; Sikka,

2008). The varied levels of influence and the contractual obligations of different stakeholders require different levels of accounting and accountability controls to address them. The importance of recognizing these wider stakeholder interests was emphasized by Clarke (2005) who considered the failure to recognize stakeholder interests as one of the causes of the Enron failure.

The next control level refers to the accounting and accountability controls needed to adequately manage the wider influencing forces at the board and senior management governance levels. Numerous studies have established a strong association between organizational performance and the quality of board members (Daily et al., 2003; Hillman, Canella, & Paetzold, 2000). This concept of quality refers to the experience, skill, and networking contacts of board members (described as "board capital") to deal appropriately with the impact of external and internal influences on the governance paradigm of organizations. Christopher (2010) proposed extending the concept of board capital to senior management as well, as organizations similarly require capable senior management staff to assist the board in their day-to-day operations.

The management-based theory that provides flexibility to complement agency theory in recognizing the need for different board or "council capital" to appropriately manage the wider influencing forces is resource dependency theory (for example, Boyd, 1990; Daily & Dalton, 1994; Gales & Kesner, 1994; Hillman et al., 2000; Pfeffer, 1972; Pfeffer & Salancik, 1978). These studies refer to the positive relationship between board capital and firm performance through the board's role of enhancing company reputation, establishing contacts with the external environment, and providing counsel to executives. Under agency theory principles, the strategic management of an organization is limited to addressing the needs of shareholders and realigning management's interest with those of the shareholders through strict control and monitoring devices. Management-based resource dependency theory provides flexibility to complement agency theory in recognizing the need for different board or council capital to appropriately manage the extended contractual obligations associated with different stakeholder needs and complexities of operations.

The final control level refers to the accounting and accountability controls needed to assist the board and management operationally manage the greater contractual obligations arising from the wider stakeholder base. This also relates to providing management with an assurance that the governance mechanisms and processes are operating efficiently and effectively. It has been suggested that this involves developing and implementing the right mix of monitoring controls and extrinsic rewards with empowering controls and intrinsic rewards. An appropriate balance between the two is dependent on

the level of trust placed in the organization and its operating environment due to its wider influencing forces. This balance may be determined by integrating stewardship theory (Davis, Schoorman & Donaldson, 1997; Donaldson & Davis, 1991) with agency theory. Stewardship theory essentially posits that as agents, directors and management have interests similar to those of stakeholders as principals, and that directors and management are motivated by the need to achieve, provide a high level of commitment, and gain intrinsic satisfaction by performing efficiently to gain recognition from their peers and superiors (Davis et al., 1997; Donaldson & Davis, 1991). There is now growing recognition of the important role played by stewardship theory in governance (O'Connell, 2007).

Agency theory focuses on maximum control and minimum trust while stewardship theory focuses on maximum trust and minimum control. The multi-theoretical model suggests that the trust level of an organization lies along the spectrum of agency and stewardship theory. Thus, by determining its trust level, an organization can determine the appropriate mix between extrinsic and monitoring controls and intrinsic and empowering controls to be developed. Recognizing the trust level is especially relevant to public universities, as they are subject to varying levels of trust based on the different levels of governance controls imposed on them by their respective governments and stakeholders. The trust element is hence influenced through the ethical environment in which employees of a university operate.

The Wider Environmental Influencing Forces, Governance Paradigms and Governance Levels

The concepts of wider environmental influencing forces, governance paradigms, and governance levels, as referred to in this paper, are based on those provided by Christopher (2010, p. 686) and are explained as follows: wider environmental influencing forces refer to a "range of issues (e.g., specific legal and regulatory issues, social issues, ethical issues, human resource issues, behavioral issues) occurring within and external to the organization and having an impact on the governance of organizations."

An organization's governance paradigm is described as the unique wider environmental influencing forces that affect it and help shape the boundaries and constraints within which it operates. The influence of these forces invariably sets the extent of the contractual arrangements between management, shareholders, and an extended stakeholder base in an organization.

In the above context, the governance paradigm refers to a cycle that extends from the recognition of the wider influencing forces to the consequent directional and monitoring role of the board and

senior management in addressing the needs of the extended stakeholder base as informed by the wider influencing forces, through to the operational management role of the chief executive officer and the management team in ensuring that the needs of the stakeholders are met. Included in this operational role is the assurance role of the auditors in ensuring that controls are effective.

Research approach

This study adopts an exploratory case study approach to investigate an area in which little or no research has been done. In line with the purposeful sampling approach (Strauss & Corbin, 1998), seven chief audit executives (CAEs) of public universities around the world took part in interviews between April 2008 and July 2010. These CAEs were from Australia, the United States of America, the United Kingdom, Belgium, the Netherlands, China and Malaysia. The rationale for the selection of these countries was to provide an international comparison of public universities that range from state run, collegially managed to corporate managed (or a mix between them) in order to understand the different wider influencing forces impacting on their governance paradigms from a global perspective. This comparison will assist toward illustrating the different control paradigms that are evolving from the historical state run oriented control paradigm.

CAEs were selected for this study due to their functional role in enhancing governance through their status of being an important component of governance (IIA, 2002). They hold senior positions in the organizational structure of each of their universities, and through their role they know the governance spectrum of their organizations from an operational perspective. Further, in combination with the complementary senior role they play in risk management, CAEs are best placed to provide input regarding the forces influencing the universities' governance paradigm from a governance perspective. The interviewees and their respective organizations remain anonymous and are identified in this paper by the initials of their designation, the location of the university and the numerical sequence of the university in each country.

The analysis of the information collected from the interviews was performed in accordance with established procedures (Eisenhardt, 1991; Miles & Huberman, 1994; Strauss & Corbin, 1998; Yin, 1994). An initial single open-ended general question regarding the nature of the external and internal influencing forces impacting on their universities started the interview procedure (Maykut & Morehouse, 1994). Where necessary, probing questions on the impact on various levels of governance and the level of development of respective governance processes followed. The interviews lasted on average for an hour, and were

recorded on a tape recorder. All interviews took place in the interviewee's natural setting to facilitate the emergence of latent and underlying issues (Miles & Huberman, 1994) and continued until no new themes emerged and the data were sufficiently saturated to address the research question (Strauss & Corbin, 1998).

The analysis process commenced with an independent person transcribing and summarizing the raw data from the interview tapes, thus providing an independent validation of the data. The researcher then analyzed the raw summarized transcripts thematically (Miles & Huberman, 1994). This began with a coding process using the "open-coding" technique (Strauss & Corbin, 1998). The whole process of coding, pattern matching and so on used the NVivo software package. The software was particularly useful in compiling an interview summary for each theme (a collation of all interviewee responses relative to a theme that addressed the research question), facilitating a comparative analysis of a participant's response. The themes were then used to analyze the various levels of the extended stakeholder base of each university and the control paradigms it generated.

The primary data was supported by secondary data obtained and analyzed from the university websites and from supporting documents provided by the interviewees. Examples of such secondary data used in the corroborating and supporting analysis included university annual reports, strategic plans outlining strategic directions, governance information relative to statutory acts, council structure, organizational structure, activities (including international programs), and regular updated news and events for each of the universities. This dual process enhanced the rigor and strength in the data gathering and analysis phases of the study.

Empirical findings: analysis of interview data

The five influencing forces are analysed in the context of how they influence the levels of stakeholders and the consequent extended contractual obligations involved, their strategic management by the board, and their operational management. The common themes emerging from the analysis are:

Geographical location

The analysis of public university structures identified the state or territory (and its independent regulations) in which they were located as important stakeholders. These were described as being an important influencing factor on their governance structures and consequently their board and operational levels of governance. An important aspect of this influence is the state act that formulated the local university act and the university's incorporation. These acts provide

a range of governance guidelines that may differ with different universities. In addition to these stakeholders, range of subsidiary stakeholders within the state in which they were located were identified as having a further impact on the governance structure of the universities. These included local councils, industries, and local communities whose interests were represented at the council levels.

The influence of these stakeholders on the governance structure and consequent board and operational levels of governance of public universities varied across countries. For example, in the USA, the university was headed by a president who, in turn, reports to a chancellor who overlooks all the public universities within that state. The chancellor reports to a board of regents appointed by the state governor. The CAE described the regents as being mainly political appointees with their periods of appointment varying across the states, ranging from 7–12 years. These appointees represent the various stakeholder groups. At the operational level of governance, the state legislature distributes a lump sum funding allocation to the board of regents who then distribute it to the various universities. These funds pay for the infrastructure costs and constitute the operating budget for the universities. A plethora of state financial guidelines that universities must comply with are tied to these funding arrangements, and these vary across the states.

Other than meeting these individual state governance requirements, public universities in the USA have an obligation to their communities and these have an influence on how universities operate. Some of the public universities are very community-focused, involving activities associated with the environment, sports, local culture, and local infrastructure. There is also a strong influence from industry through sponsorship of various research projects. These stakeholder groups are represented at the board level and have an impact on the way the universities operate through various research projects to be undertaken. The CAE of the USA university commented: "We have an influence on industry, but industry has a big influence on us as well. They provide us with funding to partner with us on research projects. These influence our research projects to be undertaken through the year."

In Australia, local acts of the states and their respective regulations have an influence on the governance structures of universities and consequently the board and operational levels of governance. Universities are set up by locally incorporated acts of each state or territory. These acts provide for the roles of councils and management relative to governance. Each university has a vice chancellor at its head who reports to the council. The council is equivalent to the board of an organization and assumes full governance responsibility for the university. The membership component averages about 20 members.

In addition to state government influence on the board and operational levels of governance, local authorities, through local council regulations, influence the governance paradigm of universities. These influences ranged from the granting of new building permits to approvals for parking permits, provision of student housing, and provision of recreational facilities. Universities were also influenced, to a minor extent, by the local communities in which they resided through the provision of community-based facilities for recreation and sports. Local and national industries also played a continuous role in influencing the strategic priorities of universities toward developing and maintaining courses to serve the labor market within the region and nationally. They also influenced universities through the funding they provided for research and compliance requirements tied to these funding arrangements. These various stakeholders, the state government, industry, local community, staff and students, are represented on university councils through their representatives. The councils assume a very consultative approach to ensure all stakeholder interests are taken into account at both the board and operational levels of governance.

In the UK, universities were similarly incorporated by statutory acts that provided guidelines for the governing of the university by the council and vice chancellor. The organizational structure and governance arrangements were similar to Australian universities with local authorities and regional funding agencies described as being, to some extent, an influencing force as they generated a new set of stakeholder requirements in terms of consultative and compliance requirements. The CAE also through his comments suggested that the design of their particular university addressed the needs of business and professions and in that sense, the region's wants: "Our university is designed to be a university for the business and professions and in that sense we could be influenced by what the region wants and what business wants from the students."

In Belgium and the Netherlands, incorporation of public universities was also through a statutory act that provided for their governance structure. Local authorities, councils and industries of the region also influenced universities. This effect was greater if they formed part of the town's history and had a role to play from a tourist perspective. The industries operating in the university's region also affected the strategic priorities of the university. The common sentiments of both CAEs are reflected through the comments of the CAE of the Belgian university: "We are very strongly influenced by local industry demands for specific courses and in this case, it relates to shipping, as our university is close to a port."

In China and Malaysia the CAEs of Mal U1 and China U1 were of the view that the state governments in their country had limited influence on

the governance of universities. It was the federal government that stipulated the governance guidelines. In regards to the Malaysian university, the CAE commented: "The board of directors, predominantly appointed by the government, manage the university. The government stipulates the rules, regulations and policies for governance at the board and operational levels. The university is an agency of the government." With respect to the university in China, the Chinese Department of Education controls it, dictating the operational and financial policies for the university. It does not have a council or a board and the government approves the appointment of the head of the university. The university is also wholly funded by the government. The CAE of the Chinese university commented: "Our university is controlled by the Chinese Department of Education. We are 100 per cent funded by the government. All our financial and operational policies are prescribed by the Chinese Department of Education." State government and local councils only had an influence on local council regulations and compliance requirements pertaining to buildings, parking and accommodation. There was also limited influence from private research funding bodies, as the universities subject to this study are still in a development stage in this area.

The influence of the government had different levels of impact on the governance of universities of the other countries. This is elaborated in the next section.

Government influence

Although funding was not wholly provided from the governments of universities examined in countries other than China and Malaysia, their governments were considered as the main stakeholder and an influencing force on their governance paradigms. They described their board and operational levels of governance as being influenced through their government's various education policy reforms, quality and financial compliance, and reporting requirements. These requirements were generally tied to the funding provided to the universities. This influence had an impact on the strategic priorities to be contemplated at the board level and flowed down to various activities to be undertaken at the operational level of governance and the consequent development of control mechanisms and processes. These governmental influences were managed within the constraints of the governance structure imposed by the state and university acts under which they were incorporated.

In the USA, for example, while there is considerable funding from the federal government by way of research grants and student financial aid, many caveats exist. For example, there are federal codes that stipulate reporting and review processes on contracts and grants awarded and financial aid to students. In addition, in cases of fraud, there are

processes to be put in place within an organization. For fraud concerning federal money, organizations can be fined under these codes.

In Australia, the federal government generally influences universities through policy directions, quality frameworks to be complied with and funding and compliance frameworks. The compliance requirements were very bureaucratic. Universities were described as moving from broader governmental requirements to a significantly micromanaged environment and that while exposed to these bureaucratic demands, pressure was placed on universities to shift from public sector managerialism to corporate managerialism. The CAE of the Australian university commented: "There is a huge amount of bureaucratic red tape involved. They want universities to be businesslike but at the same time not be a business as a result of their conflicting bureaucratic demands which are in conflict with a corporate culture."

In the UK, the government drives the direction and what it wants to do in terms of education. The funding body, which is a government department, influences the governance of universities through a financial memorandum that stipulates monitoring guidelines (including the role of internal auditors) and sets out reporting requirements.

A government policy reform in the UK similar to that implemented in Australia is the reduction of funding to universities to encourage them to be entrepreneurial, and thus more self-reliant, effective, and efficient. The CAE of the UK university explained: "...increasingly we have to look to the private sector and other bodies to support what we do financially. We have a company set up that is very much geared toward seeking or attracting funds."

The CAE of the Belgian university reported that the government influenced the university in a different way: "The government is a strong influence. They control the operational expenditure and have a representative on the board." The CAE further commented that although the government supplies only 42 per cent of the funding, they still have a significant influence on the operations of the university.

There was, however, a different scenario in the university in the Netherlands. The CAE of Net U1 indicated that while the university relied on the government for more than 70 per cent of their income, there was also a reasonable amount of autonomy and trust placed in university management: "While we are substantially supported by the government and there are corresponding regulations to adhere to, there is also a fair amount of freedom in the way we operate and the extent of reporting to be done."

The Belgian and Netherlands universities were not subject to pressure to encourage corporatization or entrepreneurial managerialism by the government. They appeared to be in the collegial managerialism phase and were more compliance-focused rather than

efficiency- and effectiveness-focused. Less developed processes at the governance levels, normally associated with a corporate approach to management, reflected this different management culture. Such processes included strategic planning, risk management, performance management, financial and management reporting, and audit assurance services.

Globalization

A further influencing factor on the board and operational levels of governance identified by the interviewees was globalization. This influencing force generated a wide range of additional stakeholders through varied cross-country affiliations involving partnerships and joint ventures.

The CAE of the US university described their need to be global and seek affiliations overseas as more directed toward the pursuit of excellence in research and teaching: this strategy invariably had an impact on needing to meet new stakeholder demands and related governance control processes in relation to their extended operations overseas.

The CAE explained:

We have affiliations in France, Ireland and Singapore and are working toward further affiliations in Africa and India. We also have staff members who teach in Europe and China. Globalization is more for expanding our horizons and being competitive in getting the best research students and staff and not necessarily just for more funding.

In Australia, a main factor identified as contributing to this influencing force was the inherent need to expand the income base of public universities through internationalization. This was a result of reduced government funding and encouragement by governments to be more self-reliant.

The whole spectrum of internationalization through onshore recruitment, offshore campuses and twinning programs with partners required the development and implementation of a range of quality and operational governance processes.

The scenario in the UK university was similar. Most key university business plans incorporate a projection relative to recruitment of overseas students for onshore courses and also the establishment of offshore campuses or twinning programs. They compete with Australian and other overseas universities in these areas.

The CAEs of the universities in Belgium and the Netherlands reported progression of the older traditional universities in their countries toward globalization of their operations, but this was more of a long-term plan due to language difficulties. The CAE of the Netherlands university echoed this common sentiment: "As we are a public university, Dutch is our official language but it not a very popular language. We are not allowed to organize many courses in English." These CAEs described the scenario as one where management was still in the

process of convincing the government to allow more courses to be run in English to attract offshore students.

The CAE of Mal U1 commented that while it had not been an international player as were the universities in the UK and Australia, the Malaysian government had established a strategy to commence attracting more overseas students. The interviewees described this as a government strategy imposed on universities to develop Malaysia into an education hub for the Asian region and to compete with traditional education providers such as the UK and Australia. Hence, compared to the USA, UK and Australia, the Malaysian community is still in its early stages of globalization and consequently the governance control mechanisms and processes in these areas are not as well developed.

The CAE of the Chinese university indicated that in China they are in a different growth phase in respect to globalization of education. Their current strategic priorities are directed toward improving their education facilities for their own citizens:

At the moment we are impacted more from our government than by global competition. We are 100 per cent funded by the government and there is an increasing investment in universities by the government to improve the quality of their own citizens as a priority.

Collegial managerialism

Another influencing force identified by the CAEs as impacting the governance of public universities was their inherent collegial and autonomous management culture. This influence suggested that academics are an important stakeholder and their needs are to be addressed within the governance levels of universities. The characteristics of this culture are generally in tension with the characteristics of a corporate culture (Parker, 2011). This culture differed between universities and hence exhibited different levels of tension with the corporate or public management cultures promoted by the governments of the USA, UK, and Australia. This tension invariably placed a constraint on the development and implementation of governance processes associated with a corporate culture.

The CAEs of the university in the USA, UK and Australia reported the existence of a shared governance framework, where academics have some decision-making influence through their governing body. While this structure existed, the CAEs indicated that at the operational level one of the negatives of the collegial culture that still remains is the long-winded collegial committee system and associated consultative process—typical characteristics of collegial managerialism which are at odds with the corporate culture. The CAEs described this tension as arising from the academics' need to maintain their traditional collegial culture and a culture of autonomy

against the pressure of conforming to a corporate compliance culture.

They also reported that this tension was more prevalent in older universities, where academics, used to a less compliant environment, see the shift to a fee-for-service entrepreneurial model as counter to the basic principles of the university.

The CAEs from the universities in Belgium and the Netherlands also confirmed the tension that existed between academic collegiality, autonomy and administration. Its impact was associated with the age of the university, as there was a high dependence on the professoriate for guidance in the running of the university. The CAE of the Netherlands explained the impact of collegial managerialism on decision-making: "We are like a large tanker. We need to start steering three miles in advance if you want to change course as governing a university is very much about convincing people of the right course instead of dictating it."

On the other end of this tension spectrum were the Malaysian and Chinese universities. Being very heavily government-controlled, the CAEs indicated that collegiality and academic freedom was either non-existent or occurred within the confines of government control. There was therefore less tension experienced by academics arising from government-led management and administrative procedures.

Internal management culture

A further and final underlying influential factor on the board and operational levels of governance was described as the professionalism of internal management. Respondents suggested that administrative staff were also considered an important stakeholder and their management culture invariably had an impact on the governance levels of universities. This culture varied between universities based on factors such the age of the university, the different levels of impact by different governments, human resource issues and historical changes in the management culture of the university.

Public universities in the US, UK and Australia were described as still consisting of long-term employees accustomed to a public sector culture where there is less focus on the bottom-line profitability or the long-term viability of the organization. The CAEs described this internal management culture as a hindrance to the change toward a more corporate culture.

These universities are moving away from a public sector culture to a corporate management approach. The CAEs of these universities viewed the rate of change in internal management to cope with the changing management cultures over time as not being consistent between universities, due to different management directions, resource constraints, and degrees of tension with their other environmental influencing forces as identified in this study.

Universities were still coming to grips with the organizational and management structures necessary to cope with meeting the demands of the changing management culture of universities.

In Belgium, the CAE of Bel U1 was of the view that changes were in process and there was a considerable improvement in the level of professionalism of central administration staff in the university. Similarly, in the Netherlands, the CAE of Net U1 was of the view that although the phenomenon existed, it was in the process of change. The pressure to change in Belgium and Netherlands was, however, not the same as in Australian and UK universities, as the degree of the push toward entrepreneurial managerialism was different.

In Malaysia and China, the CAE of Mal U1 and China U1 were of the view that government policy and directions determined the internal management culture. Public universities were an extension of the government network and hence public sector managerialism influenced its workforce. There was insignificant or no tension from academic freedom or collegial managerialism. In addition, there were insignificant constraints from resources as public universities in Malaysia and China were predominantly government controlled and aided.

Discussion of results

The results of the study, as analyzed from the interviewees' responses and secondary data, identify that a common set of external and internal influencing forces, but with different levels of intensity across its governance levels, impacts the governance paradigm of all universities. These concern the different political directions, regulatory frameworks, cultural and sociological directions, types of management culture, and corporate strategic directions that universities face at any one point of time during their life cycle. The resulting effect is that universities, although operating with similar activities, are subject to different levels of stakeholder bases and contractual obligations. These result in different levels of development and implementation of governance control mechanisms and processes. The results further suggest that agency theory, complemented by a range of other management-based theories, informs these different levels of governance controls to be developed and implemented. This theoretical proposition is supported in the next section through an analysis of the three conceptualized control levels of public universities against the multi-theoretical approach to governance.

Recognizing the wider influencing forces

The findings show that the wider influences applicable to the public university sector principally arose from a wider stakeholder base than that posited by agency theory. Other than the government, which

is identified as the main stakeholder in a public sector organization, these stakeholders include the state government, local authorities, councils, local communities, local industry, employees (including academics), suppliers, students, and the wider society holding an interest in the services provided by universities. The impact of these stakeholders varies through the different levels of impact of the governments, state and local councils, collegial and autonomous culture, and internal management culture of each of the public universities. The different levels of impact of globalization and its consequent extended interested parties further increase this range of stakeholders. The current public sector and collegial cultures have created ongoing tensions with the corporate culture broadly influenced by neo-liberal policies (Anderson, 2008; Kavanagh, 2009). As a result of these tensions, the neo-liberal universities are subject to varied effects and multiple forms (Larner and Le Heron, 2005). In the context of this study, this phenomenon translates to a varied range of influences on public universities invariably setting different levels of contractual obligations with their respective extended stakeholders. Figure 1 (Appendix A) illustrates how these different levels of the stakeholder base and the consequent contractual obligations applicable to each university results in an extended range of controls to be developed and monitored through a multi-theoretical approach to governance as compared to an agency-oriented governance paradigm.

Strategically managing the wider influencing forces

In terms of the strategic management of the wider influencing forces recognized in this study, the results reveal that as the level of influence varied with universities, different levels of board capital or council capital and senior management were inevitably needed to address the different levels of accountability and responsibility required of them. The differences in board structures and composition and accountabilities for each university, as reflected through the results, principally arose from the different accountabilities required for the different needs of the stakeholders of each university. These ranged from complex management accountabilities due to an extended stakeholder base (as reflected in the universities of the developed countries) to less complex management accountabilities due to a single group of shareholders (as reflected in developing countries such as Malaysia and China). The results revealed that this variance was also due to the different levels of changing social, cultural and legal constraints that contribute to the complexities of operations each university was faced with. Figure 2 (Appendix B) illustrates the extended range of resource capital controls applicable to each university to be developed and monitored through a multi-

theoretical approach to governance as compared to an agency-oriented governance paradigm.

Operationally managing the wider influencing forces

At the operational level, a concern of universities was with the development and implementation of appropriate governance processes to assist the board and management in meeting their wider governance accountabilities. This included assurance processes to provide the board and senior management with regular feedback as to the effectiveness of the control mechanisms and processes. The results of the study indicated that the development and implementation of these processes in universities was directly associated with the recognition of the wider influencing forces (drawn from stakeholder theory) and their strategic management (drawn from resource dependency theory).

At one extreme of the control environment, an agency-oriented governance paradigm provides a stringent control and monitoring function. This was evident in the universities influenced by a culture of strong governmental control such as Malaysia and China. At the other extreme, a governance paradigm influenced by a culture of trust and professionalism required a different control and monitoring environment. All other universities examined in this study fell between these two extremes. This is most evident in the universities of countries such as Belgium and the Netherlands which encourage a more trusting and participative accountability, and is less evident in universities in the USA, the UK, and Australia where this trust is combined with significant legislative and bureaucratic controls. Universities in these countries essentially balance rigid monitoring and extrinsic controls with empowering and intrinsic governance controls. This balance is sought as imposing stringent monitoring controls in such an operating environment will only increase costs, reduce flexibility in decision-making and impair effective governance (Durden & Pech, 2006). Further, research shows that an over-compliant regime can become more risk averse and less competitive (Clark, 2006). The different levels of controls at the operational level of governance to be monitored through a multi-theoretical approach to governance as compared to an agency-oriented governance paradigm to address the different trust levels within each university is reflected in Figure 3 (Appendix C). This figure illustrates how these controls (a mix between monitoring and extrinsic reward controls and empowering and intrinsic reward controls) can be informed by complementing agency theory with stewardship theory.

The extended governance control paradigm

The above analysis of the impact of an organization's wider influencing forces across its three governance levels suggests the range of controls have extended from those in an agency-oriented governance paradigm. Christopher (2010) refers to this changed governance paradigm as the extended governance control paradigm arising from the recognition of an organization's wider influencing forces, its consequent wider contractual obligations, and the development and implementation of a wider set of control mechanisms and processes. The above analysis suggests these extended range of controls are informed by a mix of multiple theories. The findings also indicate that this extended governance paradigm differs between each university by being aligned with the different levels of impact of the common wider influencing forces. This is consistent with the notion that there is no universal governance template (Filatotchev, Toms & Wright, 2006; Young and Thyl, 2008).

Implications for assurance providers (example internal and external audit)

The above inference of a dynamic and extended governance control paradigm which impacts on the range of controls to be monitored has far reaching implications for assurance providers. The role of auditing traditionally draws from the theoretical foundations of governance. Agency theory (Berle & Means, 1932; Jensen & Meckling, 1976) underpins this foundation and provides for a set of contractual obligations between management (as the agent) and the shareholders (as the principal). These contractual obligations align the interests of management with those of the shareholders through a series of controls. The role of auditing is embedded within this agency-oriented governance concept through its role of independently monitoring these agency controls on behalf of the stakeholders. In this way, auditing has been described as an important component of the governance.

The findings of this study, however, suggest that the range of public universities involve a multi-theoretical relationship as a consequence of the impact of the organization's wider influencing forces on its governance paradigm. It specifically suggests that the range of controls to be developed and implemented by a public university is a function of its range of stakeholders and is informed by a balance between agency theory, stewardship theory, stakeholder theory and resource dependency theory.

The findings of this study further illustrate that the extended range of controls inferred in the extended governance paradigm commences with a need to recognize and incorporate the wider influencing forces within a public university's

governance framework. Thereafter, they extend to the need to strategically manage them. At this level, the controls necessary vary with the different levels of impact of the wider influencing forces. This is reflected through the different board structures, the corresponding accountabilities and responsibilities of board members, and the strategic priorities they set. Finally, these controls extend to the need to operationally manage the influencing forces. At this level, the controls to be developed range across a spectrum determined by the operating environment, characterized by a mix of a high level of trust (resulting in empowering and intrinsic reward types of controls) at one end and extreme control at the other end (resulting in rigid monitoring and extrinsic reward types of controls). These controls invariably flow on from the strategic priorities set by the board. The strategic planning, policy setting, budgeting, performance monitoring, financial and management accounting, and risk management processes are all controls reflected at this level.

The audit process needs to recognize these different ranges of controls within a public university's extended governance paradigm in its planning framework to meet its role of enhancing governance. Of particular significance to the audit process is the wider range of controls attributable to the needs of a growing level of stakeholders who have an interest in the activities of a public university. Recent studies have linked the lack of such controls within the governance levels of organizations as contributing to corporate scandals. Clarke (2005), for example, argued that one of the reasons for the spate of corporate scandals, such as Enron, was the lack of recognition of the needs of these wider stakeholder bases within the corporate governance framework. Organizations are accountable to these stakeholders and they need to be managed through appropriate controls developed by management across the governance levels and monitored by auditors to ensure their needs are met. Failures by the accounting profession to adequately monitor these controls were attributable to numerous corporate scandals and have been highlighted in published literature. Low et al. (2008) for example attributed various scandals to the profession not serving the interest of a wider stakeholder base and the prioritization of "self" above all else. Saravanamuthu (2004) also refers to the accounting profession as not prioritising the public interest. The transformation of management's rules of engagement with multiple stakeholders was ignored. Roberts (2006) refers to corporate executives using disciplinary control mechanisms (e.g. offer of bonus share options) to satisfy the interest of shareholders by increasing shareholder value at the expense of other stakeholders and/or long term organizational wealth. Sikka (2008) refers to the importance of employees as stakeholders but their interests are not taken into account through appropriate control structures and processes to address their needs. At the

board governance level, Pirson and Turnbull (2011) highlighted control weaknesses such as poor information supply to the board and consequently failure to undertake proper risk management oversight relative to ensuring the interest of all stakeholders are addressed as a contributory cause for failures in Lehman Brothers, Freddie and Fannie Mac, and Citibank. They also highlighted a further control weakness relative to the infrequency of risk management committee meetings in Lehman Brothers as a contributory cause.

Conclusion

This exploratory study draws on the multi-theoretical approach to governance to examine what impact the wider influencing forces of public universities have on the range of controls to be developed and implemented across their governance levels. The findings revealed that the governance paradigm of public universities consists of a number of governance levels that are each affected by wider influencing forces; that the governance levels in public universities with similar activities are subject to varying wider influencing forces, resulting in different governance control paradigms for each university; and that these different governance control paradigms are informed by multiple theories, including agency theory, stewardship theory, stakeholder theory and resource dependency theory.

In particular, the findings revealed that the different governance control paradigms of public universities are due to a need to address different levels of stakeholders, due to the different levels of impact of certain common wider influencing forces. This in turn results in different levels of controls being developed and implemented at the board and operational levels of governance.

The implications of this differing control paradigms for different categories of universities is that public universities that pursue a corporate approach need to consider a range of additional controls that would normally not be associated with a state run public or collegially managed university. In addition, it implies that there is no one fit for all governance policy or guidelines for public universities. Instead, there is an onus on the board and management of each university to identify their own particular multi-theoretical governance control paradigm and develop and implement the appropriate controls to manage the nexus of contractual obligations associated with it. This is consistent with the view that management is the primary driver of corporate governance (Cohen, Krishnamoorthy & Wright, 2002). In a similar vein, others have argued that 'genuine and sustainable reform has to come ultimately from within and not be legislated from outside' (Low et al., 2008 p. 234).

It is argued that the corresponding implication for assurance providers like internal and external audit

is that in order to fulfil their role of assisting the board in enhancing governance, a similar multi-theoretical governance paradigm as determined by management should underpin their role rather than an agency-oriented governance paradigm. This would facilitate the monitoring of a more inclusive set of controls that have been ignored in the past and have been described as contributing to a number of corporate scandals.

From a theoretical viewpoint, the findings of the study support the multi-theoretical governance approach and the concept of the changing governance control paradigm. The results reveal that public universities are dynamic, being subject to different levels of influencing forces, which in turn have an impact on the governance controls to be developed and implemented.

The significance of the findings are that they assist towards providing a framework for establishing the accountabilities expected of council members, university management and assurance providers of different categories of universities.

In interpreting the findings, the following limitation to the study needs to be recognized. The sample size of both universities and interviewees were small. Further, the interviewees were limited to only chief audit executives. Hence, it is not possible to generalise the findings with other similar categories of universities within the same country or with another country. This limitation provides opportunities for further research to confirm the findings with a wider sample of universities and types of interviewees.

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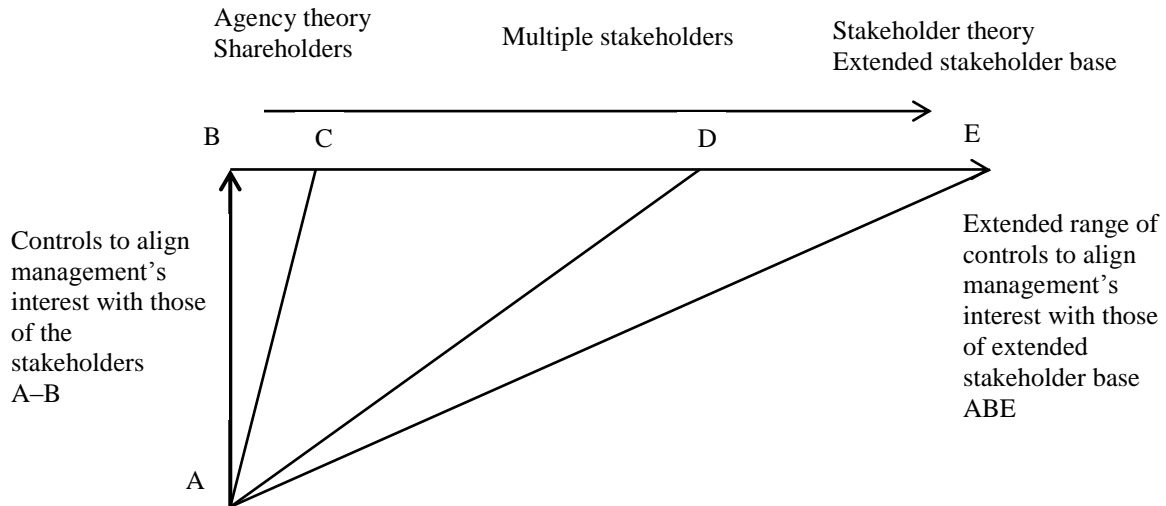
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Appendix A

Figure 1. Extended Stakeholder Base and its Implications for the assurance providers

Complementing agency theory with stakeholder theory to recognize the wider stakeholder interest of an organization, the wider contractual obligations to them and the corresponding wider controls to be developed and implemented.

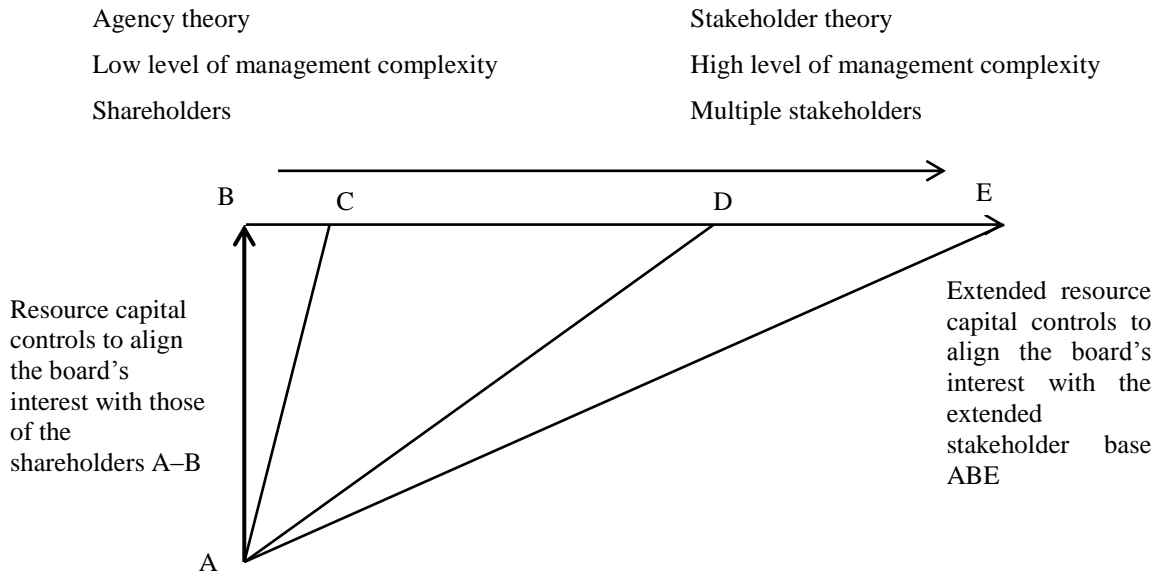


Agency theory controls are designed to align management's interest with those of shareholders and are reflected through the narrow axis (A-B). In addition to the shareholders, there could be a range of stakeholders. The axis B-E represents shareholders (as informed by agency theory) at one end and multiple stakeholders (as informed by stakeholder theory) at the other end. The range of stakeholders relative to an organization may vary and can lie anywhere along the spectrum B-C. For example, due to the impact of globalization and government policies encouraging competitiveness, the public universities in the UK, the USA, and Australia seek more funding independently, pursue a corporate approach, and have resorted to a wider range of activities locally and internationally. Their stakeholder base has therefore increased. The range of controls to be developed and implemented to address this varied range of stakeholders may lie anywhere along the area bounded by A-B-E. This influence has less of an impact on the European public universities, due to the smaller impact of globalization and government policies encouraging competitiveness and the seeking of more external funding. The range of controls to be developed and implemented to address this varied range of stakeholders could lie anywhere along the area bounded by A-B-D. On the other extreme, the impact of globalization and government policies encouraging competition is negligible for public universities in Malaysia and China, thus limiting their main stakeholders to their respective governments. The range of controls to be developed and implemented to address this limited range of stakeholders may lie anywhere along the area bounded by A-B-C. This figure illustrates the extended range of contractual obligations and consequent controls that needs to be developed as a result of recognizing the interests of the different levels of the stakeholder base within an organization's governance framework. It also demonstrates the extended range of controls to be monitored by assurance providers like the internal and external auditors.

Appendix B

Figure 2. Extended Stakeholder Base and its Implications for the Board Level of Governance and assurance providers like internal and external audit

Complementing agency theory with resource dependency theory to recognize the resource capital required to manage the different levels of complexities associated with the different levels of an extended stakeholder base. This relates to the board and senior management level of governance.

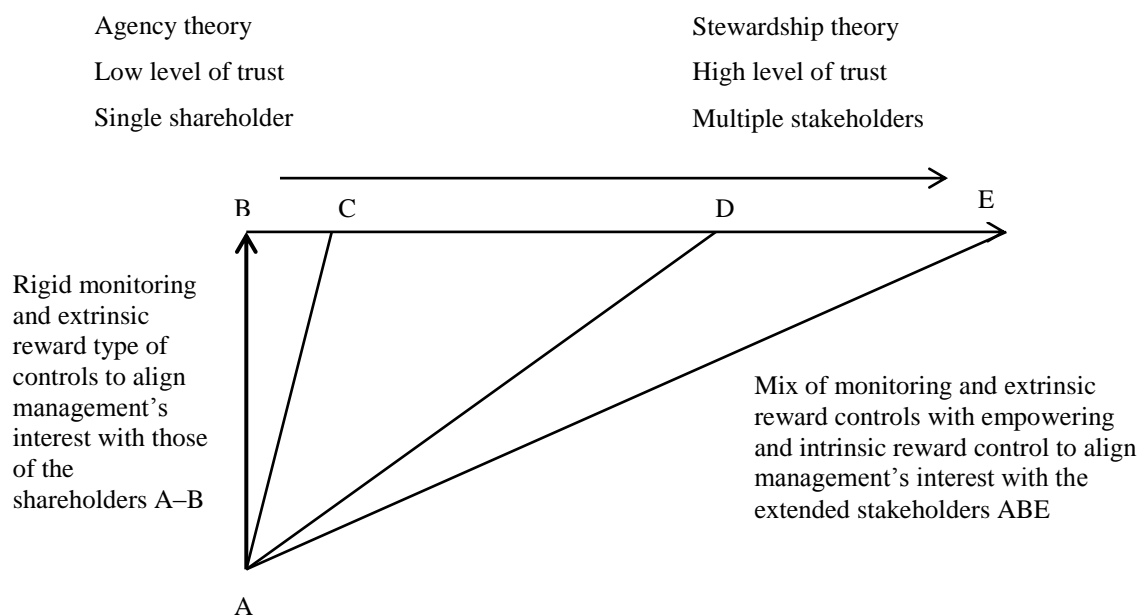


Agency theory controls at the board level of governance (relative to the resource capital required to manage the interest of shareholders associated with agency theory) are designed to align the board and management's interest with those of shareholders and are reflected through the narrow axis (A-B). The diagram uses a scale that associates a higher level of complexity in management with a greater number of stakeholders and greater board capital control to be developed and implemented. The range of stakeholders relative to an organization may vary and could lie anywhere along the spectrum B-E. The corresponding range of board capital controls to be developed and implemented to address this extended range of stakeholders could lie anywhere along the area bounded by A-B-E. For example, due to the extended stakeholder bases for the Australian, UK and USA universities examined, their councils are associated with a higher level of management complexity. The range of board level controls to be developed and implemented to address this varied range of stakeholders could lie anywhere along the area bounded by A-B-E. At the other extreme, the Malaysia- and China-based universities examined are associated with a lower level of complexity as they predominantly need to address the needs of their respective governments as the main stakeholder. The range of controls to be developed and implemented to address this limited range of stakeholders could lie anywhere along the area bounded by A-B-C. The European universities lie anywhere between these two spectra. The range of controls to be developed and implemented to address this varied range of stakeholders could lie anywhere along the area bounded by A-B-D. This figure illustrates the extended range of contractual obligations and consequent controls at the board level that needs to be developed as a result of recognizing the complexities involved in managing the different levels of the stakeholder base within an organization's governance framework. It also demonstrates the extended range of controls to be monitored by assurance providers like internal and external auditors.

Appendix C

Figure 3. Extended Stakeholder Base and its Implications for the Operational Level of Governance and assurance providers like internal and external audit

Complementing agency theory with stewardship theory to recognize the various trust levels associated with an organization and the levels of controls to be developed at the operational level of governance.



Agency theory controls at the operational level of governance are designed to align management's interest with those of shareholders and are reflected through the narrow axis (A–B). Due to the low level of trust at the agency theory end of the axis, these controls are associated with rigid monitoring and extrinsic reward type of control processes. Stewardship theory controls at the operational level of governance are designed to align management interest under an environment of trust. This trust level may extend along the axis (B–E) between agency theory at one end and stewardship theory at the other end. The range of controls (which could include a mix of agency and stewardship type controls) to be developed and implemented to address the various trust levels of an organization could lie anywhere along the area bounded by A–B–E. For example, due their corporate approach to management, the public universities in the USA, UK, and Australia are associated with less trust and require more monitoring levels of controls. Hence processes such as strategic planning, budgeting, performance monitoring, financial and management accounting, and risk management are more pronounced as they are required to address the needs of the extended stakeholder base. The range of controls to be developed and implemented to address this varied range of stakeholders could lie anywhere along the area bounded by A–B–D. These control processes are less pronounced in the European countries that practice a more collegial style of management, and are associated with a more trusting environment. The range of controls to be developed and implemented to address this varied range of stakeholders could lie anywhere along the area bounded by A–B–E. The controls are even less pronounced in the public universities in Malaysia and China, which are influenced by public sector managerialism and cater to controls associated with government-related guidelines in relation to funding and reporting. These controls are more related to an agency-oriented environment that predominantly addresses the needs of the government. The range of controls to be developed and implemented to address this limited range of stakeholders may lie anywhere along the area bounded by A–B–C. This figure illustrates the extended range of controls that needs to be monitored by assurance providers like internal and external audit as a result of recognizing the various trust levels of an organization.