How can higher education institutions and public companies benefit from corporate governance principles and practices as they have emerged in the last decade? That question is appropriate knowing that some but not all business firms have met the challenges confronting them but many have made significant changes. Here are some of the ways higher education might apply lessons from the emerging corporate model.

1) For over a decade, more than any time in corporate history, new regulatory requirements of the SEC have forced boardrooms to become more responsible to shareholders. Higher education institutions, both public and private, could benefit by considering similar changes. After all, campuses too have “shareholders”, including state tax and tuition payers, students, alumni donors, and the local economies they impact.

The most significant change involving public companies is additional transparency to stockholders. Everything from the annual proxy statement to the quarterly statements, the content and timing of issuance has resulted in more current and accurate information than in the past. However, it is not clear that higher education has reflected the same concerns even as the increasing transparencies in the corporate world, expansion of technology, and globalization of activities continue to grow.

2) One of the major issues addressed in corporate governance is compensation of executives. Shareholders now have more of a voice regarding annual assessment with “say-on-pay.” Can higher education use this approach to establish a competitive pay package for campus administrators, athletic coaches, and other senior officials? Most likely, yes, there can be improvements with some if not all the changes. The challenge will be making the salary and the achievement metrics required for performance transparent to the public with no reductions in educational quality.

Many public universities are using athletics as a means of marketing to alumni and maintaining a power image. Such a focus can also circumvent the authority and accountability that is the responsibility of the senior administrators of a campus and appears to reverse the slogan “student athlete” to “athlete student” as the priority may be athletics, not academics. There is obviously more pressure now that more and more games are on high definition TV and regional athletic associations are creating their own channels.

3) The changes emerging in public companies and the selection of corporate directors raise the question of the process for selecting university trustees. Corporate boards are required to have a majority of independent directors with defined capabilities. There is also an emerging annual assessment of all board members by shareholder vote. Public higher education trustees in many states are appointed only because they have political relationships and little or nothing more to contribute. Thus, in higher education, other stakeholder groups may not be represented. This issue is becoming a concern as states reduce funding and student tuition is increased year after year.

Some states have a legal process of trustee appointments affirmed by legislators but without a public hearing to verify the quality and diversity the nominee will bring. Such a practice reinforces existing political power and
works against ensuring that a board has the requisite
talent to discharge its general governance responsibilities
properly and reduces the change to appropriate
representation on its various committees to safeguard
the interest of students, parents, faculty, alumni, and other
stakeholders.

Private universities, as well, should give serious
consideration to the adoption of a selection process that
avoids the pitfalls associated with having too large a
board. Public corporations with very large boards may
experience very difficult problems. Such boards may
provide the executive committee and the chief executive
the means to dominate issues by diluting the impact of
board members. In the case of private universities, the
size of the board may represent the entire category of
shareholders or stakeholders, yet having such a large
board may leave the president and a small executive
committee in complete control. Board size and the
appointment selection process can be a strength, but, in
both public companies and universities, can be also a
weakness.

4) There are a number of other practices in corporate
boardrooms today that could be beneficial in university
governance. The tragedy at Penn State University brings
to mind that existence of a hotline and/or whistleblower
practice might have enabled a more immediate and
timely response. Higher administration intervention
could have avoided the problem rising to such levels in
the first place. Public corporations today are required to
follow that practice, and board members have
responsibility to monitor evolving issues and take actions
needed.

Higher education cannot mirror all of the governance
practices of public companies but an objective and
creative assessment of what has and continues to improve
shareholder value could be an asset to an emerging era of
changes in education. Therefore, higher education
should closely review a number of board issues faced by
public companies and strive to address them in order to
improve the governance processes to enhance the
delivery of educational services. The governance
practices required by companies today can offer content-
rich solutions to current issues faced by institutions of
higher education.

Accountability to investors is a central theme in the
business world. Students, particularly undergraduates,
like shareholders, entrust much of their future to
education. The responsibility of all higher education
should be to continually affirm that good governance
practices elevate the quality of faculty performance and
the content of curriculum.

Business colleges appear to an example of this new era.
Master of Business Administration (MBA) degrees and
other degrees are offered online from global locations by
some universities. Moreover, other classes, including
those for undergraduates, are likewise offered online and
are increasing in each passing year. Both universities and
corporations have been focused on the “economy of size”
which historically is fiscal size. The emerging use of
technology likely changes the focus to the economy of
agility. As it occurs this new era will likely answer the
question; how quick can a necessary change be made that
will become as important as the economy of size?

Online classes are of increasing importance but every
institution should also be aware that incoming students
will need to have relationships with fellow students. If
every learning process is abstract as a product of the use
of technology, the use of knowledge might be at risk.

The same is true of corporate employees. If individuals
are separated from others the risk is also there for future
changes. Even a global firm should be aware of the risk
and make changes that fit the culture for the present and
future.

5) In a world of rapidly changing technology and its use
is increasingly important. With the corporate world this
need is often met by use of short or long-term contracts
of employees based on work performance. In universities
the process of awarding lifetime tenure has a deep seated
history and tradition but one whose value might merit re-
evaluation in this century that is far into the future.

As noted, both higher education and corporations are
becoming more and more global with increased
economic changes necessary. Classes are offered by
some campuses online with the faculty physically located
elsewhere. Likewise, more and more companies are
offering sales online and delivery from non-traditional
location. In essence a sea change is becoming a
significant part of the future economy for the entire
globe. Higher Education compared to companies has had
modest change but the future change must become a
major consideration for every campus, its administrative
structure, faculty, and its board of directors.

In summary, higher education and corporations will have
to continually change for success in the future. Board
member size, the selection process, increased
transparency of financial cost and the use of rapidly
changing technology are all important elements to assure
continued performance growth.

The topics discussed here became my interest with the
creation of the Corporate Governance Center at the
University Tennessee College of Business
Administration. I previously served as Dean, on two
governors’ cabinets, nine different publically traded
corporate boards, and as interim president of a private
university. Obviously, there are several areas where
lessons learned in the corporate world might transfer to
academic institutions.