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## Higher Education and Corporate Governance

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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

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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.