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Summary

University Governance from an Agency Theory Perspective: Opening the Black Box

From the 1980s onwards, a process started taking place in Europe to change the governance of higher education systems and the institutional governance of universities. This process would have a worldwide impact. In this sense, the political and economic reforms adopted by countries in different parts of the world led to the redefinition of the state and the markets' role in universities. Beyond the scope and specific characteristics of local reforms, a common trend promoting greater autonomy and self-management for universities could be distinguished. All this occurred in a context with less state funding and growing competition for resources and prestige among institutions.

In this new scenario, the self-management imperative is pressuring universities to improve how they function as a single coherent organisation from a collective action point of view. In fact, different studies carried out over the last three decades have shown that the quest for greater integration and rationality has motivated the state in some cases - and universities themselves in others - to introduce changes to the institutional governance structure. This has occurred by incorporating governance arrangements into the private sector, a process that literature recognizes as *new managerialism*. However, for many researchers, this is something complex to aspire to, due to the multiple restrictions imposed by the special features of these arrangements, all related to the nature of academic work.

In the same way, recent research has indicated that these processes of change have created tension inside universities, due to the dispute arising between two different cultures and between opposing types of governance: traditional academic collegiality and corporate management practices.

The specific characteristics of how each university is institutionally governed depend on the national context and the institutions' history. However, there is a slight tendency towards hybrid institutional governance based on the coexistence of traditional and managerial academic arrangements. In this situation, it can be seen that institutional decision-making processes come face to face with the tension and conflicts derived from the overlap between the basic principles of academic autonomy and administrative authority. In the last few years, there has been a growing interest among researchers associated with the field of education in looking into universities' actual capacity to behave as individual entities.

Studies conducted in Chile show that, over the last few decades, the structure of institutional governance has remained unchanged. This means that both state and traditional private universities have maintained a governance framework based on the participation of both academics and the chosen vice-chancellor and dean, as well as on diverse opportunities for

decision-making. In the same way, private universities created after the 1981 reform have preserved their original forms of governance, inspired by managerial-type governance arrangements and characterised by the existence of vertical chains of command and a lack of academic participation when choosing higher and intermediate authorities and collegiate bodies. Therefore, few institutions have incorporated specific elements from the collegiate academic tradition.

The latter means it can be assumed that the changes in the power relationships between the institutional governance components at traditional universities have mainly occurred by incorporating managerial-type governance arrangements and administration. Nevertheless, on a national level, there have been no empiric studies analysing the balance of power between university governance components, nor have studies been carried out looking into institutions' capacity to behave as individual organisations.

Therefore, the aim of this research is to contribute to the academic discussion on the problem universities face regarding their capacity to function as integrated organisations. The main aim of this study is to analyse universities' capacity to coordinate different internal interests based on common aims. In order to do so, several case studies were considered and a thematic comparison made of three Chilean institutions: a state university, a traditional private university (which receives public funding) and a private university created after the 1981 Educational Reform (which does not receive public funding).

In the first chapter, the problems universities face worldwide as the result of a growing tendency towards institutional governance models are explored. Said models combine both specific elements of traditional academic culture and forms of governance used by private sector companies and organisations. In addition, this chapter examines the different conceptual frameworks that provide a better understanding of institutions' internal governance. This content is organised into three sections. The first section includes a general literature review, with a special focus on the changes higher education systems have undergone globally and the patterns of change in institutional governance structures. To this end, cases from continental Europe as well as the United Kingdom, the United States, Australia and Japan are analysed. A description of the situation of university governance in Latin America and Chile is also provided.

As far as university systems are concerned, there has recently been a very marked tendency in Europe and Japan towards providing universities with greater autonomy and decreasing direct state control using a centralised model. On the other hand, Latin America's public policies have been aimed at greater regulation, particularly quality control, transparency and auditing, all in an environment of mixed (public and private) provision initially and with a broad degree of autonomy for universities and deregulation at a systems level. As far as universities are concerned, it is seen that, irrespective of the direction changes take and the different kinds of institutional governance implemented in diverse national and international contexts, the trend is to set up a shared internal governance system between three bodies of influence - the board,

the central administrative body and the academic units. These all exist side by side, part of a constant process of give and take and disputing power and influence in internal affairs.

In spite of the widespread propagation of ideas and instruments associated with the 'New Public Management' paradigm between governments in the region and the increasing use of this approach when designing new higher education public policies, changes and any expected effects at public universities have been limited in Latin America, due to the predominance of a collegial model that has an important dose of autonomy and democratic co-governance, weak vice-chancellors and power fundamentally deposited in the hands of academic units.

In Chile, university system governance has a balance of power in which market governance arrangements and academic self-governance predominate over state influence. Nevertheless, the new Higher Education Law (N° 20,091) passed in May 2018 increased the state's role through greater public regulation and an increase in state financing. In effect, said law introduced changes aimed at maintaining a plural and diverse university regime with a high degree of autonomy and increasing levels of responsibility, whose financing was to be based on shared costs (between the state, families and beneficiaries), as well as a clear and stable regulatory framework and a demanding accreditation system based on the trust between institutions and academic communities. All in all, a mixed (public and private) system has been maintained as far as provision and financing are concerned. At an institutional level, state and private traditional universities have had to merge their forms of governance, which are strongly based on the collegial model, autonomy and academic collegiality. These forms of governance include the presence of some of the elements associated with the interested parties' model, with governance shared between academics and interest groups in a managerial-type administrative framework. In private universities, on the other hand, an entrepreneurial model predominates, characterised by the existence of an owner who delegates tasks to designated and unelected authorities based on a specific mandate. Said model rarely involves the participation of teaching staff in the designation of academic authorities and collegiate bodies.

The second section describes some of the concepts related to the nature of academic institutions and analyses the conflict between the administrative and academic authorities. Classic institutional governance models are also examined at both an institutional and academic unit level. Next, the main instruments most recently used to align interests and aims within institutions are revised. In this sense, it can be said that universities have adopted different structures with different emphases on the relationship between authority, collaboration and functionality, according to their internal conditions. In the same way, it is argued that strategic management has been turned into a relevant instrument for governance. The definition of aims and shared strategies contributes to an increase in internal cohesion and the creation of conditions that favour a greater degree of alignment between the institution's priorities and the different interests of the academic units, based on an adequate balance between academic freedom and administrative authority. Along these same lines, other administrative instruments have also made a contribution, such as contracts or performance agreements and the installation of quality assurance processes.

In the third section, the evolution of the conceptual approaches used to study the behaviour of academic organisations is analysed, from the classic theories developed during the seventies to more modern and up-and-coming ones. Bearing in mind these different conceptual frameworks, the agency theory is thought to be one of the approaches that best adapts to this research's aims, based on the study of the governance relationships between the main university authorities. This is firstly because of the changes the forms of institutional governance at Chilean universities have undergone over the last few years, assuming that said changes have had a transactional more than a transformational scope. In other words, the evolution of governance relations between different actors is the result of implementing managerial-type instruments, such as aim-based administration and results and incentive-based financing, such as payment according to merit. It has not therefore been the result of a transformation in the roles or positions of power exercised by each of the interested parties in internal decision-making as a result of their regulatory attributions. In other words, the authorities' way of designating and the composition of collegiate bodies and their attributes have, in general terms, remained unaltered. Secondly, the agency theory hypotheses associated with the existence of individual interests, the problems with information asymmetry and conflict between the aims of organisation members all contribute to understanding the complex governance relationships that, in practice, arise inside universities in a context characterised by the on-going tension between accountability and trust. Thirdly, there is increasing evidence about the use and value this conceptual approach has to help understand how university governance functions.

The second chapter includes the development of an analytical model to study university institutional governance, based on four analysis dimensions associated with concepts established in agency theory: the relationship between the principal and agent, contracts, agency problems and moral risk administration. This chapter is split into three sections. In the first section, the different forms the two agency relationships can theoretically adopt and on which the analysis model is based are established: the relationship between the board (the principal) and the central administration (agent) and the relationship between the central administration (principal) and the faculties (agents). In the second section, the agency problems that arise in the relationship between principal and agent are described, which are associated with information asymmetry and conflicting aims. Lastly, in the third section, the main types of moral risks and the way they most commonly manifest in the university context are examined - elusion; the opportunistic search for income and irrational spending; opportunistic crossovers and distorting information when being held accountable. The third section deals with the contracts - the ones based on controlling the agent's behaviour and those orientated at achieving results - as instruments for managing moral risk using agency theory.

Chapters 3, 4 and 5 include the results of the case studies about the state university, the private university and the traditional private university respectively. Each chapter has four sections. In the first, the institutional regulations on the responsibilities and attributes of the different individual and collegiate authorities are briefly described. Then, based on these regulations and on agency theory hypotheses, certain preliminary suppositions are made about the quality of agency relationships - between the board and the central administration and between the central

administration and the faculties - considering each actor's individual expected behaviour; the type of relationship established between the principal and the agent; the contract model used to regulate the tasks delegated to the agent; the potential level of conflicting aims between both parties; the probable degree of information asymmetry affecting the principal regarding the agent's actions and the likely level of quality control mechanisms used by the principal to monitor the agent's conduct. In the second section, the agency relationship between the board and the central administration is described and analysed, bearing in mind the empiric evidence collected in the interviews carried out with a deliberate sample of the institution's senior executives, middle management and academics. Specifically, how each authority carries out their managerial tasks is examined; then, their actual governance relationship is described and lastly the initially established supposition's level of validity is determined. In the third section, the analysis focuses on the governance relationship between the administration and the faculties, in the same terms as previously described. In the fourth section, the main conclusions associated with the factors that influence how governance relationships are established, the institution's capacity to reconcile diverse interests based on common aims and the balance of power between the authorities that exercise institutional governance are presented.

In the case of the state university, the empiric evidence suggests the absence of an institutional authority that plays the role of principal in the terms established in agency theory. Despite internal regulations providing the board with a broad range of attributes to set development guidelines and the central administration with the same to direct and supervise the institution's administrative, academic and economic functioning, none of these authorities actually take on the role of leader in the task of directing both the institution and institutional decision-making. As far as the governance relationship between the board and the central administration is concerned, the principal is both passive and absent from decision-making about institutional priorities and aims, as well as from supervising the work of the main executive team.

Regarding the governance relationship between the central administration and the faculties, the principal has hardly any influence over the agents' academic, administrative and economic administration. Its authority is reduced by elements such as the need to adapt decisions to internal pressures to reach a minimum level of legitimacy; the fragmentation or isolation of managers when exercising their functions and the lack of coordination in the main executive team. In the faculties, the deans have few incentives to carry out or influence the academic tasks developed by the disciplinary departments and only a fragile relationship of vertical authority over the area heads, who are chosen democratically by academics in the sub-units and who, in fact, lead disperse areas of power that interact through horizontal-type authority relationships.

In the case of the private university, there is a contrast between the formal governance arrangements established in its internal regulations and the governance practices actually applied through institutional authority interaction. Although the regulations establish the functions and attributes of each authority - both collegiate and individual - based on the separation between managerial and executive tasks, the empiric evidence reveals that their roles overlap, as seen in the dual function the board's executive committee plays in upholding formal

regulations and as a de facto agent. These findings are slightly different to the initial understanding of the existence of a single principal and single agent relationship between the board and the central administration. Actually, it is confirmed that, through its homogenous preferences and directors who tend to legitimise the executive committee's decisions, the board seems to act like a single principal. On the other hand, the agent's conduct differs to preliminary suppositions, since its work is both fragmented and shared between the executive committee (acting together or separately as individual authorities), the vice-chancellor (who focuses on external matters) and the corporate vice-chancellor (through executive committee delegations or individual members).

In the relationship between the central administration and the faculties, there is a principal with a high level of both authority and power to establish both official priorities and the institutional executive agenda and to delegate and supervise compliance with the faculties' and campuses' academic tasks. This capacity for authority is based on four elements. Firstly, there is the important hierarchical relationship between the central executive directors and the faculties' academic authorities. Secondly, there is an absence of academic collegiate bodies to act as a counterweight in autonomous and binding decisions. Thirdly, there is the existence of a centralised and matrix-based management model that implies that any policy or strategic decision related to academic, administrative and economic matters should be adopted at a central level and its implementation delegated to the responsible authorities in the faculties and branches. Fourthly, there are the university's administrative positions, such as the high level of professionals in administration and finance management positions and the intense use of sophisticated administration tools commonly to companies. Even when internal regulations indicate that the vice-chancellor is the executive in charge of managing the institution, this job is actually shared with the academic vice-chancellor, who aims to be a spokesperson for the central executive team and a critical link to the deans and members of the board's executive committee. Either together or individually and informally and at their discretion, they supervise and exercise direct control in conjunction with the vice-chancellor and the deans. For their part, the deans have a high level of authority and power over the faculties' academic and administrative management.

The system of governance at the private traditional university being studied is shared between different collegiate and single authorities, both at an institutional level and in the faculties. The functioning of these is based both on the governance arrangements established in its internal regulations and the governance practices reflected in how authorities carry out their functions. In the same way, this governance scheme is characterised by the existence of a significant level of overlap between the authorities' role in management and in carrying out tasks. Its institutional governance is highly complex, mainly reflected in the on-going dispute between different authorities for power and influence in how the institution and academic units are run, as well as in the conflicts of interest that authorities' face in their dual role as judge and jury in decision-making processes both at a higher and intermediate level.

As far as the relationship between the council and the central administration is concerned, the findings confirm that the collegiate body is the key player, acting more in a political manner

than as an upper-level management body. This is mainly due to the absence of a president (someone different to the vice-chancellor) who can promote long-term strategic institutional decision-making; a diverse composition where none of the parts represent the central administration; the fact that the deans, academics and external councils are dominant or make up the majority and a heterogeneity of preferences, reflecting the conflicts of interests members face given their dual role as principals in the council and agents for both formal and informal administrative tasks on different levels. On the other hand, in the case of the central administration, a multiple agent type can be seen, differing from the initial supposition that assumed strong leadership from the vice-chancellor and the central executive team operating under a united front. In reality, the vice chancellor's executive role is weak, leaving a power vacuum and, at the same time, giving other high-up authorities the opportunity to challenge him, even when the economic vice-chancellor, the economic committee and - to a lesser extent - the academic council have a greater influence on the institution's executive agenda.

Regarding the relationship between the central administration and the faculties, the empiric evidence shows a quasi-agency relationship between the main group and a group agent, based on weak links of authority and the overlapping of roles between the different parties. As far as the principal is concerned, the vice-chancellor's preferences are heterogeneous concerning how the academic units should be run and, in fact, these are related to the faculties at a group level through a contract that contains complementary as well as some opposing aims. Regarding the agents, the way the faculties act responds to a permanent process of negotiation between actors who represent disperse power factions, heterogeneous preferences and who compete to influence internal decisions. Weak hierarchical relations are actually seen between single academic authorities and professors and collegiate bodies are more important in decision-making associated with local administration in a scheme of political and collegiate traditional models with individual governance.

The sixth chapter includes a comparative analysis of the results from each of the three case studies. The findings show that there are more differences than similarities in the governance relationships between the main institutional authorities. In the case of the state university, the governance relationship between the board and the central administration is an agency relationship with a single principal and a single agent. On the other hand, at the private university, the relationship between the board and the central administration is one of a single principal and a multiple agent. Finally, at the traditional private university, the relationship between the council and the central administration is similar to one with a collective principal and a multiple agent.

As far as the agency relationship between the central administration and the faculties is concerned, even though the three cases have different formats, there are still some similarities between the state and the traditional private university in the collective behaviour of their faculties and the existence of a high degree of conflict between the preferences of the central administration and the aims pursued by the academic units.

As far as the capacity for strategic internal alignment is concerned at the universities studied, there are diverse scenarios. The empiric results show that, at the private university, there is a high level of coherence between official institutional priorities, the operational aims pursued by the central administration and the operational aims pursued by the faculties. This important capacity for alignment mainly occurs because of official institutional intentions, governance relationships based on a hierarchical chain of command and management-type administration mechanisms that make it easier to articulate aims from top to bottom. In this framework, the board's executive committee is the authority that has the most power and influence on institutional decisions through its formal role as part of the board and its informal role sharing agent tasks as part of the central administration. In contrast, the state university has a low level of coherence between official priorities, the central administration's aims and those of the faculties. In this case, none of the principals exercises their managerial role completely and, in practice, academics have an important amount of freedom to establish their working agendas, based on their individual and group interests in the subject departments. In this sense, department heads stand out as the single authority with the greatest influence over the operational aims that fan out to the sub-units. At the same time, the traditional private university has a moderate level of coherence between the aims pursued at different levels. The greatest level of alignment occurs with the official aims related to increasing enrolment and improving economic administration, as opposed to priorities associated with promoting post-graduate studies and research, where alignment has been low. In this respect, the shared governance framework involving the council, the central administration, the deans and the faculty councils, the leadership and work of the council's economic committee and the economic vice-chancellor makes it possible for official priorities, result-based contracts, incentives and control mechanisms based on negotiation and agreed with the deans and their respective faculty councils to be established.

In the same way, the empiric findings show that the private university is the only case study that incorporates the trend for change at an international level as far as institutional governance is concerned. This is associated with designating executive authorities to replace democratic elections; centralising power for institutional decision-making; encouraging the participation of external parties interested in institutional governance; promoting individual responsibilities above collective commitments and strengthening the executive capacities of mid-level academic authorities. In the case of the state university, this diverges from the governance arrangements that literature recognises as trends for change despite the fact that, in regulatory terms, there is a convergence of the centralisation of power for decision-making and the participation of external members of the board. The traditional private university converges with the trends associated with external participation in governance structures and designating executive authorities to replace democratic elections (even though this is partial).

Finally, the evidence shows that the different scenarios for internal strategic alignment are mainly influenced by the balance of power produced between the three institutional governance components: the upper-level managerial body (board or council), the central administration and the faculties. At the same time, this balance is conditioned by three factors. The first is related to the governance arrangements that regulate the balance of power between the three

internal governance components and their capacity to promote coherence between the institutional and the executive units' operational aims at different levels. The findings reveal that governance arrangements create organisational conditions that can be either more or less favourable to internal strategic alignment. The second element is associated with the individual capacities of those who exercise high-up or mid-level managerial positions, whether individuals or collegiate. The results show that personal skills and proficiency can either boost or weaken the role of the authorities and their degree of influence in decision-making and, therefore, also influence the balance of power between the institutional governance components. The findings also reveal that this factor is more relevant in institutions where the principals cannot choose or change agents who are not ideal. The third factor is linked to the individual interests that motivate the behaviour and preferences of those who form part of the three institutional governance components. According to the findings, when they prioritise these, it leads them to distance themselves from their roles and functions or to use their positions of power to achieve their aims. This kind of behaviour influences the internal balance of power and conditions how institutional aims are promoted.

In summary, the case studies show three types of institutional governance. First, there is *misgovernance* at the state university as the result of the absence of hierarchical relationships and weak leadership from the single and collegiate authorities with managerial responsibilities at an institutional level. Secondly, there is *over-governance* at the private university, due to the involvement of controllers in both managerial and executive positions and the predominance of management-type governance arrangements. Finally, there is *shared governance* at the traditional private university, given that disperse powers and authorities - both higher and intermediate - exist, competing to influence decisions in a hybrid scenario where traditional and management-based academic governance arrangements coexist. In this respect, it can be concluded that only this last institution has any kind of resemblance to the governance scheme that literature recognises as predominant.