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TRUST, THE ESSENCE OF GOVERNANCE?

1. MANAGED UNIVERSITIES?

In this first decade of the twenty-first century, universities seem to be caught up in grand contradictions (Clark 1998: 146). They have, for instance, to do more and more with less money, to maintain the expanding cultural heritage with the best of the past and at the same time quickly and flexibly develop new fields of study and modes of thought, and to respond to everyone's demands because all are 'stakeholders'. It is, however, not only the 'angry world outside' that puts pressure on universities, but also the dynamics of science itself, with its accelerating pace of knowledge growth, specialization and reconfiguration. To deal with these contradictions, problems and tensions, or if one likes to dramatize, to survive in the increasingly tight and competitive world of higher education, universities should have an organisational structure that is able to swiftly respond to this rapidly changing environment. Most of us would tend to agree with this conclusion, but then what should the university decision making structure look like? There are, and have always been, significant differences of opinion on the answer to this question.

Advocates of what might be broadly termed neo-liberal ideologies towards the public sector (new public management, managerialism and the like), argue that responsiveness, adaptiveness, entrepreneurialism and flexibility are essential strategies for organisations, both public and private, to survive in turbulent times and situations. They believe that traditional models of university governance, such as the British and Continental models (Clark 1983), have become obsolete and unfit for rapidly changing environments. They believe that a fundamental change is needed in the way universities are run.

In several Continental and Anglo-Saxon countries, these ideologies actually took root.¹ The new rules of institutional governance and management differ, of course, from one country to another, but most reforms amounted to strengthening the executive leadership at the central institutional and faculty levels vis-à-vis a diminishing of powers of senates, councils and assemblies where elected members usually represent staff and students. Broadly speaking, these changes have been based on the assumption that decision making authority within universities should be less dispersed and should be in the hands of those who are 'qualified to rule' (see De Boer and Denters 1999). In terms of the new public management rhetoric, university executives should have the 'right to manage'.

It goes without saying that these kinds of developments create tensions within universities. Some, particularly executives and managers, have welcomed the changes, assuming that they gain power. Others, mainly academics and students,

have been less enthusiastic. They argue that the centralization and concentration of power reduces their opportunity to participate in (strategic) decision-making, which may have negative implications for the university's viability. Bypassing academics and students may impact on both the quality of decisions and the university's capacity to implement of policy. Are they right? And if so, what are the implications?

In this chapter I will address the governing structure of the 'managed university', a structure that, compared to previous university regimes, is characterized by executive leadership and the concentration of authority (at the expense of the professional's role in decision-making), by instrumental rationality, stressing the 3 E-s of efficiency, effectiveness and economy, and by top-down decision-making (or centralization). A university governance structure, as such, is regarded as a set of rules concerning authority and power related to the performance of a university's activities directed towards a set of common goals. It reflects the ways in which an organisation divides and integrates responsibility and authority. The rules refer to prescriptions commonly known and used by organisational members to bring about an orderly set of repetitive, interdependent relationships inside an organisation.

The concept of hierarchy will be used to reflect on the new internal order of universities in many Western European and Anglo-Saxon countries that exude an atmosphere of tight forms of surveillance and control in which self-management, at the various levels, is significantly reduced. Following Miller's insightful line of reasoning in his book *Managerial Dilemmas, The Political Economy of Hierarchy*, I will use this concept to elucidate some of the managerial dilemmas that universities will encounter if they rush towards a model of governance and management that the more advanced and enlightened business corporations are rejecting and moving away from. The core managerial problems that are discussed in the next section evolve out of tensions between the individual self-interest of organisational members and collective efficiency (Miller 1992).

University governance and management in the Netherlands will serve as an example of a 'managed university'. In 1997, the Dutch government enforced a new organisational design for universities in which appointed executives seem to have 'the right to manage' without many opportunities for staff and students to play a decisive and effective role in university decision-making. Recent experiences with this new structure will be analysed in terms of the managerial dilemmas described below.

2. MANAGERIAL DILEMMAS

Coase, in his famous 1937 article "The Nature of the Firm," argued that transaction costs determine the degree of efficiency of an organising principle. Transaction costs are those costs associated with negotiating, monitoring and enforcing agreements, and rational actors will try to reduce such costs. In the ideal market the price of a good or service functions as a perfect carrier of information and, consequently, transaction costs are marginal. In a perfect market these costs only happen when conflicts arise, and an arbiter is needed to solve the dispute. However, market

imperfections like externalities, information asymmetries or market concentrations increase the transaction costs and this leads to a loss of efficiency. By introducing new lines of authority the transaction costs can be reduced and, consequently, a hierarchy may reduce inefficiency. Basically, hierarchies exist because of market failures.

There is, however, a price associated with hierarchy (Miller 1992). In a hierarchy there is a tension between individual freedom and liberty on the one hand and group efficiency on the other hand. To 'solve' social dilemmas, such as the well-known prisoner's dilemma², actors may choose to increase collective efficiency by becoming organised in hierarchies (with 'binding decisions forced upon subordinates'). This is the core tension between efficiency and freedom, and this tension is a central theme in the debate over higher education governance where university executives and managers promote greater efficiency for the university as a whole and academics treasure their academic freedom.

There are also other problems associated with a hierarchical structure; problems that exist because information asymmetries do not simply disappear with the introduction of a hierarchy, a point I will demonstrate below.

Take, for argument's sake³, the most extreme hierarchy – a dictatorship, where power is centralized and concentrated in one actor – as a point of departure. It seems that such a hierarchy is beneficial in terms of efficiency, coherence and consistency. But, as Machiavelli noted, even an absolute prince needs accurate information and advice from others (Miller 1992: 77). Dictators are also subject to the concept of bounded rationality. Consequently, (benevolent) dictators who want to establish and select the best alternative require advice and information, and this leads to a dependency on those who possess information and expertise.

Suppose that an almighty university president has two advisors, an academic and a student, and that each have a 0.6 probability of making the right decision. Thus, the president has a 0.6 chance of being right, if he does not listen to his advisors. However, if the president is willing to make the decision by majority rule and asks the academic and student to express their true opinions, then the probability of choosing the right answer will increase by nearly 5 percent. A good decision will be made if all three are right ($(0.6)^3 = 0.216$), or if any two are right ($((0.6)^2 (0.4) \times 3 = 0.432$). The probability of making the right decision is then $0.216 + 0.432 = 0.648$, which is 4.8 percent better than the probability of the president making the right decision alone. If the two advisors are real experts and have, for instance, a 0.8 probability of making the right choice – and the president still has a 0.6 chance – then in 83 per cent of the cases the right decision can be made by majority rule, which is an improvement of 23 per cent.

The implications for hierarchies are that those units or individuals that have knowledge and expertise will not only be asked to utilize this expertise, but will increasingly manage to secure a share of the decision-making power. The relationship between the decision-maker and the expert is one of dependence and this dependence is related to power. Dependence is based on two dimensions: 1) the availability of alternatives from which similar outcomes may be obtained, and 2) the importance of the outcomes at stake (Bacharach et al., 1999). Delegation of decision-making becomes inevitable within a hierarchical structure (under the

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