

# PROCEEDINGS

## The 2<sup>nd</sup> 2014 IBEA International Conference on Business, Economics and Accounting

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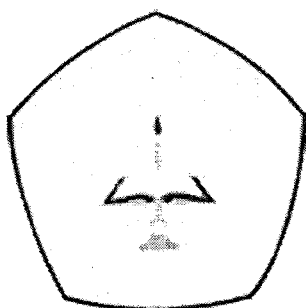
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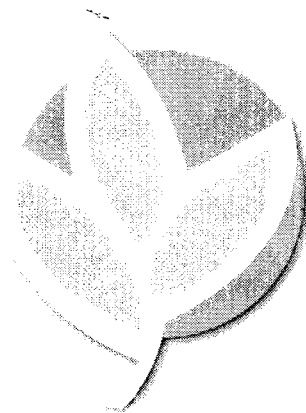
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# Maximizing Stakeholders Value through Good University Governance (GUG) in Higher Education Institutions

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## ***Abstract***

*Higher education institutions (HEI) should create relations with their stakeholders to serve the best interests of the stakeholders (governing board, university executives, administrative staffs, students, parents, employers, and communities) by using a management structure and mechanism within the institutions, this is called Good University Governance (GUG). The reason is the focus of HEI should be long term value creation for the benefit of their stakeholders. HEIs generate revenues from their students, government, or society. According to GUG principles, the institutions will retain the money and the people whom they employed and reinvest them in physical capital, human resources, etc.*

*The university governance should embrace the five fundamental principles of GUG, they are transparency, accountability, responsibility, independency, and fairness. The objective of this paper is to describe the effort to apply GUG principles at Management Department, Maranatha Christian University (MCU), Bandung, Indonesia. GUG is crucial to the effective operation of Management Department, MCU, because GUG secures its success in achieving the vision and mission. It describes about the effective definition and execution of the goals and strategies and secures the institutions' contribution to society wellbeing.*

***Keywords: Good University Governance (GUG), stakeholders, higher education institutions (HEI)***

## **Introduction**

In recent years, higher education institutions (HEIs) have been faced with strong competition and globalization. HEIs are concerning about their quality, their places in national and international markets, and their images at home and abroad. They are looking for a competitive edge (www.forbes.com, 2010). In Indonesia, a variety of public and private HEIs compete for a growing number of prospective students. On the other side, students seek to study at the best possible HEIs. HEIs in Indonesia are also facing

new challenges, including government reforms in higher education, changes in HEIs autonomy and funding mechanism. As the competition increases among HEIs and HEIs have to respond to such challenges, public and private HEIs should increasingly market their institutions intensively and influence the HEI choice process among prospective students (Kusumawati, 2013).

One of the key elements of HEIs' success is to ensure that they respond well to the development of social, economic, government policy and take care of their stakeholders. Studies in Asia found that reference groups such as parents, siblings, friends and other influential people influence student's choice of a HEI. These studies emphasize the important role of some of stakeholders during the HEI choice process (Kusumawati, 2013).

Stakeholders of HEIs are the groups or individuals who can affect or are affected by the institutional activities such as academic activities (academic staffs and students), administrative activities (academic and administrative staffs), research work (academic and non administrative staffs, funding agencies, government, students, industry and society), financial support (government and other financial supporters), students activities (students, parents, graduates), etc (Singh & Weligamage, 2010).

HEIs have multiple stakeholders with various needs and wants. In other way, HEIs expect contribution from their stakeholders. Figure 1 shows some of selected HEIs' stakeholders and relationship between stakeholder satisfaction and contribution.

Figure 1. Combination of Stakeholders Satisfaction and Contribution Model

<b>Stakeholders Satisfaction (Stakeholders Wants and Needs)</b>	<b>Stakeholders</b>	<b>Stakeholders Contribution (Institutional Wants and Needs)</b>
Quality and relevance, guidance, better environment	← Students →	Active participation, feed back, achievements
Employability, achievements	← Graduates →	Feed back, contribution towards development of the country
Employability skills	← Employers →	Feed back, support, information on their requirement
Achievements, support, skills, and benefits	← Staffs →	Support, commitment, ideas
Quality, accountability	← Society →	Feed back

Source: Singh, K. and Weligamage S., 2010

HEIs should understand the needs and wants of their stakeholders and incorporate the needs and wants into management structure and mechanism after

considering the capabilities and resources of the institutions and expected contribution from their stakeholders (Singh & Weligamage, 2010). One of the factors influencing value creation for stakeholders is corporate governance (Sutthirak & Gonjanar, 2012).

Corporate governance offers guidelines and plays a vital role in helping the HEIs become more effective in improving quality in all aspects and bringing strategic value to the stakeholders. Corporate governance is a process of supervision and control intended to ensure that the management acts in accordance with interests of stakeholders (Parkinson, 1994 in Sutthirak & Gonjanar, 2012). This concept of corporate governance can be also understood and practiced as a process of strategic decision making in higher education sector, followed the developments in governance in corporate and business environment. If HEIs are well governed, they will be able to satisfy stakeholders whose support can help their future growth, so that they will outperform other institutions. Therefore, we can use the term of Good University Governance (GUG) for the application of Good Corporate Governance (GCG) in HEIs.

In this article, the using of term 'university' is applied to a single campus-based institution that has fundamentally independent academic decision making authority and admits students substantially rely on reference to local standards.

This article will illustrate possible efforts in applying principles of GUG at Management Department, Maranatha Christian University (MCU), Bandung, Indonesia. MCU is a private HEI that its board has authority and responsibility for everything the institution does and it delegates the authority and responsibility to its administrators (dean, head of department, etc) to establish actual operation of the institution and its department. The academic administrators should develop new responses to the questions, such as what are the factors they would consider and the process they would use to develop the mission statement for the department and how would they create management structure and mechanism responsive to the needs of the department and its stakeholders.

### **Importance of Corporate/University Governance**

Corporate governance refers to how organizations are structured and managed in such a way as to lead to effective performance in achieving desired goals and stakeholders' satisfaction (Edwards, 2000). Corporate governance relates with the structures and processes for the direction and control of organizations and concerns the relationships between management and stakeholders (The World Bank, 2010).

From macro economics point of view, good corporate governance (GCG) contributes to sustainable economic development by enhancing the companies' performance and increasing access to outside capital. GCG reduces emerging market vulnerability to financial crisis, reduces transaction costs and the cost of capital, and leads to market development. GCG is also very important for the individual company. Many studies have found that implementation of GCG at many companies led to significant economic value added (EVA), higher productivity, and lower risk of systemic financial failures (The World Bank, 2010). GCG helps to increase investor confidence and lower the

cost of capital to the company. GCG also helps ensures sustainability of value creations with stakeholders (Jesover and Kirkpatrick, 2005).

University governance concept has been introduced into higher education sector, in relevance to corporate governance. Thus, university governance can be defined as determination of universities' values, decision making and resource allocation systems, mission and goals, the patterns of authority and hierarchy, and the relationship of universities to their stakeholders (Marginson & Considine, 2007 in Edwards, 2000). Based on this relevance concept, good university governance (GUG) consists of process and structures which will facilitate decision making and appropriate delegation of accountability and responsibility within and outside university, that ensure to balance appropriately the varying interests of stakeholders, make rational decisions, informed and transparent fashion, and that those decisions contribute to the overall efficiency and effectiveness of the university.

### **Principles of Corporate/University Governance**

Organization for Economic Co-Operation and Development (OECD) has promoted principles of corporate governance that offer standards and good practices which can be adapted by national governments, international organizations, private sector, and professionals (2004). The OECD principles of corporate governance are:

- Ensuring the basis for an effective corporate governance framework
- The rights of shareholders and key ownership function  
The corporate governance framework should protect and facilitate the exercise of shareholders' rights.
- The equitable treatment of shareholders  
The corporate governance framework should ensure the equitable treatment of all shareholders
- The role of stakeholders in corporate governance
- Disclosure and transparency
- The responsibilities of board

Governance models and principles differ from country to country. In Indonesia, National Committee on Governance has issued Code of Good Corporate Governance Indonesia that can be used as a guideline for companies/institutions to implement GCG (2006). Basic principles of GCG in Indonesia developed by National Committee on Governance are also relevant with OECD principles of corporate governance. Basic principles of GCG in Indonesia are:

- Transparency  
A Company must provide relevant information that is easily accessible and understandable by stakeholders to maintain objectivity in running their business and activities. This principle recognizes that stakeholders need information about the performance of the company.

- **Accountability**  
Accountability is a necessary prerequisite to achieve continuous performance of the company. A company must be properly managed, scalable, and in accordance with the company's interest while taking into account the interests of stakeholders.
- **Responsibility**  
This principle recognizes that the company must abide by laws and regulations. However, outside the law and regulations, company should be encouraged to act responsibly and ethically with special consideration of the interests of stakeholders.
- **Independency**  
The company should be managed independently so that each company does not dominate other companies and no intervention by other parties to accelerate the implementation of GCG principles.
- **Fairness**  
The company must keep interest of stakeholders by principles of fairness and quality.

Models and principles of governance also differ according to the nature of the institutions. The following principles of governance are generally considered in HEI sector (Task Force on Higher Education and Society, convened by World Bank and UNESCO, 2000 & Aurangzeb, 2012):

- **Academic freedom**  
Academic freedom is the rights of scholars to pursue their research, to teach, and to publish without control or restraint from the institutions that employ them (The Columbia Encyclopedia, in Task Force on Higher Education and Society, convened by World Bank and UNESCO, 2000) It can make a contribution in promoting quality of institutions and the systems as a whole, but it needs to be understood and respected within the institutions and by the bodies to which they are accountable.
- **Shared governance**  
Shared governance aims to ensure that decisions are devolved by people who are the best qualified of making them. At the institutional level, shared governance ensures that faculties are given a meaningful voice in determining policy, for examples, in curriculum development and academic regulations.
- **Clear rights and responsibilities**  
The roles of HEIs must be explicit, clearly expressed by law and policy. The faculties, students, and administration staffs should have a clear understanding of their rights and responsibilities
- **Selection at merit**  
Selection and promotion of faculties, students, and administration staffs should be autonomous, based on broadly defined merit.
- **Financial stability**  
Sufficient financial stability is required by HEIs to systematic development.

- **Accountability**  
Accountability enforces a requirement to explain actions, successes, and failures periodically in transparent fashion.
- **Regular testing of standards**  
HEIs should regularly test and verify standards of quality.
- **Importance of close cooperation**  
Good governance requires close cooperation and compatibility between different levels of institutional administration. By this, counterproductive, adversarial situations, special problem where the tradition of election prevails can be prevented.

Some tools for achieving GUG and making the proposed governance model to be used work effectively are (Task Force on Higher Education and Society, convened by World Bank and UNESCO, 2000):

- **Senates**  
Senates are representative bodies of faculty members who are responsible to make decisions about academic policy, such as programs offered, curriculum, etc and validate vision and mission, and academic regulations. Delegating powers to senates promotes shared governance by limiting the extent to which HEIs are run on a top down basis.
- **Governing Council**  
A governing council is an independent body that acts as a buffer between HEI and external bodies to which the HEI is accountable. Governing council needs to think about the future and it often be involved in establishing long term planning for HEI and monitoring the implementation.
- **Budget Practices and Financial Management**  
Rules for budgeting and accounting should encourage flexibility, stability, and transparency. Flexibility can be allowed, for example, by transferring funds from one budgetary category to another. Stability can be increased by setting multi-year budget. It will allow HEIs to extend the planning horizons and expand set of feasible options. Transparency is essential to avoid corruption undermining the higher education sector.
- **Data for Decision Making**  
HEIs need good data on teaching and research performance, student achievement, financial status, etc for effective decision making and improving policy making. Data are also crucial for systems of monitoring and accountability which allow HEI autonomy in driving higher standards.
- **Appointment or Election**  
HEIs need strong leadership, whatever selection method of academic leaders is employed (appointment leaders or election leaders).
- **Faculty Appointment and Promotion Decisions**  
External peer review is important in making appointment to faculty and deciding on promotion. Peer review also encourages the quality of publication decisions and the

efficient allocation of research funds. HEIs must develop clear indicators to assess the quality of their objectives, for example, systematic evaluation of faculties on their success in teaching.

- **Security of Employment**

Security of employment is important in HEIs because it allows faculty members greater academic freedom without fear of job loss. However, periodic reviews are also important. It allows faculty members to be discharged if their performance is substandard.

- **Faculty Compensation and Responsibilities**

Salary systems of HEIs must be flexible across disciplines. The market for talent has to be taken into account in salary, because many faculty members have specialized skills that are valued in the job market.

- **Visiting Committees and Accreditation**

Visiting committees, consisting of recognized national or international experts, can be an important tool for monitoring performance of HEIs. Visiting committees provide objective assessment of the achievement of faculties or academic program in relation to appropriate standard. Accreditation can promote quality of HEIs and provide market information that is vital to competition. Being accredited has great value in attracting students, faculties, and other stakeholders.

- **Institutional Handbooks**

Faculty and student handbooks can be an important tool to promote good internal governance. Faculty handbook should typically include a general statement of faculty rights and responsibilities. It also should provide guidance for faculty members to conduct teaching, research activities, and other professional activities. Student handbooks define the objectives, rules, and requirements of different academic programs, students' right and responsibilities.

### **Efforts in Implementing Good University Governance (GUG) at Management Department MCU**

Since governance arrangements and quality guidelines play similar roles in helping institutions become more effective, Management Department MCU has seek to implement GCG. This section will describe examples of some efforts can be made at Management Department MCU in improving GUG. Table 1 shows the comparison between condition before implementing GUG and efforts toward GUG at Management Department MCU. The efforts should be done in accordance to governance principles.

Table 1. Before GUG VS Efforts toward GUG

Before GUG	Efforts toward GUG
<p>Vision, mission, strategic values and goals have been set by head of department without the involvement of stakeholders. There was no effective dissemination of vision, mission, strategic values and goals. Consequently, students and staffs did not appreciate and live the vision, mission, strategic values and goals.</p>	<p>Students, faculty and administration staffs, alumnus, and employers are given a meaningful voice in determining vision, mission, strategic values and goals of department. Vision, mission, strategic values and goals are legalized by faculty senate and always echoed in any special occasions. Therefore, students and staffs are motivated to achieve and realize the vision, mission, strategic values and goals. Mission, strategic values and goals are important to outline the vision, so students and staffs will follow a coherent direction.</p>
<p>Head of department was appointed by dean. This appointed academic leader was less likely to allow their programs to be stalled by lack of consensus.</p>	<p>Election of head of department can be employed as well as appointment of leader with in-depth consultation with other stakeholders to increase the appointed leader's legitimacy.</p>
<p>Curriculum was reviewed and developed by head of department. Then, faculty staffs were required to deliver the curriculum to the students. Hence, the curriculum was not relevant to the interests of the stakeholders.</p>	<p>Students, faculty staffs, alumnus and employers are involved in reviewing and developing curriculum periodically. The interests of stakeholders are taken into account in this curriculum.</p>
<p>Administration staffs did their jobs based on habits without clear job description. Consequently, administrations staffs became less responsible for their jobs.</p>	<p>Job descriptions are set and standardized. The department develops clearer staffs' responsibilities.</p>
<p>Faculty staffs delivered courses to the students without clear learning design. Accordingly, the expected learning competencies of the courses were not achieved.</p>	<p>Learning design for each course has been clearly established. Competencies and materials of the courses have been set and standardized although the faculty staffs can deliver the course with variety of methods.</p>
<p>There are no standard operations procedures for administrative and academic activities. Consequently, students and staffs became confused in conducting administrative and academic activities. The</p>	<p>There are standard operations procedures for repetitive administration or academic activities. These standard operations procedures can achieve uniformity of the performance of specific administration and</p>

plots or procedures of all activities are difficult to understand because they have various meaning and may be differently interpreted by the students and staffs.	academic activities.
Department did not clarify academic regulations and policies.	Department has issued and legalized academic regulations and policies which contain information about course structure, assessment regulations, complaints, disciplinary, etc. Students are expected to take responsibility for their education and personal development.
Lecturer centered approach was commonly used in learning process. In this approach, lecturer focused on what they did and not what the students were learning.	Student centered approach is becoming more visible in learning process to provide best service to the students. In this approach, the knowledge is constructed by the students and the lecturers are the facilitators of learning rather than presenters of information.
Quality assurance system has not been fully implemented and integrated.	Department develops quality assurance as integrated system with university which makes an effective contribution to achieve the strategic plan.

## Conclusions

HEIs are in transition in changing environment. Therefore, HEIs have to relate their vision, mission, and goals to appropriate governance structure and get benefits from learning from the past experience. University governance is also about relationships with the stakeholders, which work best when there is trust among those who need to work together to achieve common objectives. The interaction of HEIs and their stakeholders will transform institutional governance in the coming years.

In preparation, Management Department MCU may decide to ensure that effective governance and appropriate interface mechanisms are in place. The process of defining principles of GUG has often resulted in a better shared understanding of institutional diversity.

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