

Neither corporate nor government: Why university governance needs to be different, and better

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Abstract

Australian universities face a governance crisis rooted in failures of accountability. Unlike parliaments and corporate boards, university councils lack effective mechanisms for principals to discipline agents. In parliaments, voters can replace elected representatives; in corporations, shareholders can vote out directors. Both systems close the delegation–accountability loop, ensuring alignment between principals and outcomes. University councils, however, are self-perpetuating bodies dominated by external appointees, and in recent decades they are typically from corporate backgrounds. As neither producers nor consumers of universities' core product—knowledge creation and dissemination—they have minimal intrinsic stake in academic outcomes leaving councils detached from the university's core mission.

This misalignment fosters mission drift, weakens oversight, and contributes to repeated scandals. Because councils largely appoint their own successors, they remain insulated from meaningful scrutiny, unlike boards or parliaments where underperformance is sanctioned externally.

Restoring accountability requires giving academic staff and students a renewed oversight role, alongside clear safeguards for the public interest. Because academics and students are both producers and consumers of knowledge, they have a direct and enduring stake in its quality. We recommend two mechanisms to do this are:

1. Academic Senates empowered to appoint and review council members, ensuring councils reflect the university's purpose.
2. Robust Committee Systems that embed staff and student voices in decision-making, reduce information asymmetries, and align incentives with academic purposes.

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Without such reforms, universities will continue to drift, governed by self-insulating leaders and their agents rather than those invested in knowledge and learning.

Introduction

The Australian university sector is in crisis. Some of the drivers of this crisis are external, including levels of public funding and pressures on international student enrolments.

But many of the drivers of the crisis are internal to universities. All are related to problems of governance.

Problems of governance in the university sector are often described in terms of their symptoms. For example, the interim report of the Senate Education and Employment Committee Inquiry into the Quality of Governance at Australian higher education providers identified a raft of problems, such as lack of transparency and accountability, excessive executive pay, widespread breaches of workplace laws, precarious employment, and worsening academic and student conditions.² Here we seek to identify the structural cause of these issues, located in university governance systems.

Participants in the sector talk a great deal about what ‘good governance’ supposedly is. Often what they are referring to are principles of ‘good corporate governance’, promoted by bodies such as the Australian Institute of Company Directors. Less commonly referenced are ‘public sector governance’ principles, which underpin how government agencies are run.

But universities are not commercial corporations.³ Nor are they government departments. They are public organisations largely funded by the public for the purposes of research, teaching and knowledge translations.

This difference might appear to be trivial, but this is not merely rhetorical. It matters because properly identifying what university governance is means correctly identifying:

- The relevant stakeholders
- How they are related, and
- What they owe to each other.

Understanding these things means understanding how chains of delegation and accountability operate. It also means understanding the common problems that arise from a mismatch between aims, risk appetite,

² See

https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Education_and_Employment/UniversityGovernance/Interim_Report

³ We are aware that in Australia, universities generally *do* take the legal form of a body corporate established by an act of state, territory or federal parliament. However, we use the term ‘corporation’ loosely to mean a commercial corporation such as a public company, and so by ‘corporate governance’ we mean the form of governance appropriate for such a public company. We do so because this is the meaning generally attached to the term ‘corporation’ in the university governance literature. We acknowledge that this shorthand may be confusing for some, as not all corporations are commercial in nature. For example, collegially-governed universities are among the earliest forms of corporation established in England.

and levels of information. Formally, we call these problems of asymmetric information, adverse selection, and moral hazard; they can cause serious problems and need to be managed by any well-functioning governance system.

In this document, we aim to show why universities require governance arrangements distinct from both corporations and most government agencies. We argue that many of the sector’s current problems stem from governance models that are misaligned with the universities’ core mission of knowledge creation and dissemination. Our goal is to identify the structural flaws in existing delegation and accountability chains; explain how these give rise to principal-agent problems such as adverse selection, moral hazard, and information asymmetry; and propose reforms that restore governance structures suited to the purpose of universities. We seek to chart a path towards governance that better aligns with universities’ unique purpose and ends the damaging litany of scandals emerging from poorly governed universities in recent years.

What is a chain of delegation?

In an organisation, a chain of delegation represents how power is delegated from one actor to another in order to get something done. Accountability typically runs along the same chain, but in reverse. These chains involve ‘principals’ (actors who delegate power) and ‘agents’ (actors who are authorised by a principal). Many agents are also principals, hence the creation of ‘chains’ of delegation.

Understanding the steps in how power is distributed helps us understand whose job something is and where to assign blame if it goes wrong. The point is to prevent or fix problems.

Let’s take an example with which many of us are familiar: the chain of delegation for government in parliamentary democracies like ours.

Here voters are the fundamental principal. Voters elect their agents who sit in the parliament. The parliament forms a government. The government tells the bureaucracy to do things. The bureaucracy tries to provide public goods to the voters. After a few years, at the next election, voters decide if their agents have done a good job. Voters care about the outcome. The delegation-accountability loop is closed.

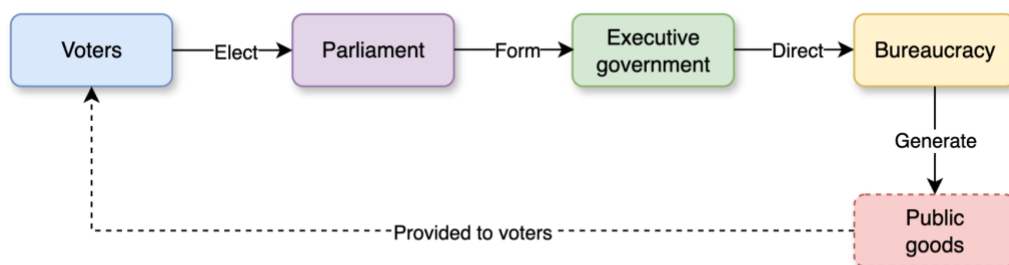


Figure 1: Stylised delegation and accountability chain for a parliamentary democracy

What about corporations?

In the case of publicly traded corporations, shareholders are the fundamental principal. At their Annual General Meeting (AGM), shareholders elect their agents who sit on the Board of Directors. The Board appoints and oversees a Chief Executive Officer (CEO), who manages and directs the company to undertake commercial activities. The activities generate shareholder value, which is returned to the shareholders in the form of dividends and/or capital gains. At the next AGM, shareholders decide if their agents have done a good job; if not, they may choose to replace the directors. (Directors of a public company cannot remove a fellow director; only the shareholders can.) Shareholders care about the outcome. The delegation–accountability loop is closed.⁴

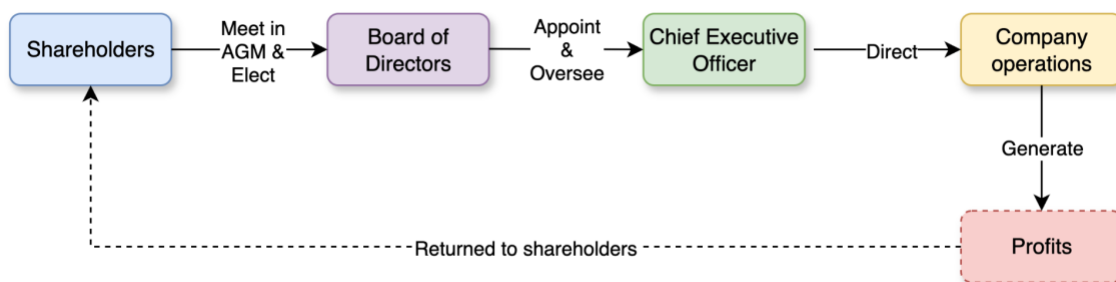


Figure 2: Stylised delegation and accountability chain for a public corporation

What is the delegation–accountability chain in Australian universities currently?

The delegation–accountability chain in universities is different, and that difference matters. Currently, the principal appears to be a committee, the University Council, which instructs its agent, the Vice Chancellor (VC), to implement a strategy. The VC then works with the senior executives and the Deans to turn this strategy into actions. They employ staff, both professional and academic, to do the work of the university, which is to produce knowledge, transmit/teach that knowledge to students, and translate that knowledge into the public realm.

But unlike the previous examples, Council does not, in any meaningful way, benefit from or rely upon the knowledge produced by the university. Across Australian universities, most council members are

⁴ Perhaps the most similar model to the university is a partnership arrangement, as in a law firm. The partners work together to build their firm. They make decisions as a collective, typically through a management committee that acts like a CEO. The partners also produce the services the firm sells to generate profits. They share in the profits. The partners care about the outcome. They have every incentive to make good decisions in order to receive profits. The delegation–accountability loop is closed.

appointees, often with business expertise, especially from the finance sector.⁵ Whereas shareholders of public companies are incentivised to maximise the profits of their portfolio, public universities do not produce profits or have shareholders. Most Council members have no personal material interest in maximising the knowledge created and transmitted by the university they oversee. **The delegation-accountability loop between knowledge created and the council is not closed.**

Further, university councils' accountability is typically only to themselves – they have their own closed loop. The process for filling appointed positions differs between universities. Most frequently, seats are 'co-opted' by university councils, meaning current members select and appoint new ones. Those appointees then go on to participate in choosing future members. This self-perpetuating system creates risks that fresh and challenging perspectives are kept to a minimum, friendships and networks among council members are renewed, and groupthink remains comfortably unchallenged. Moreover, few if any appointed council members, have direct knowledge of the product of the organisation they oversee.

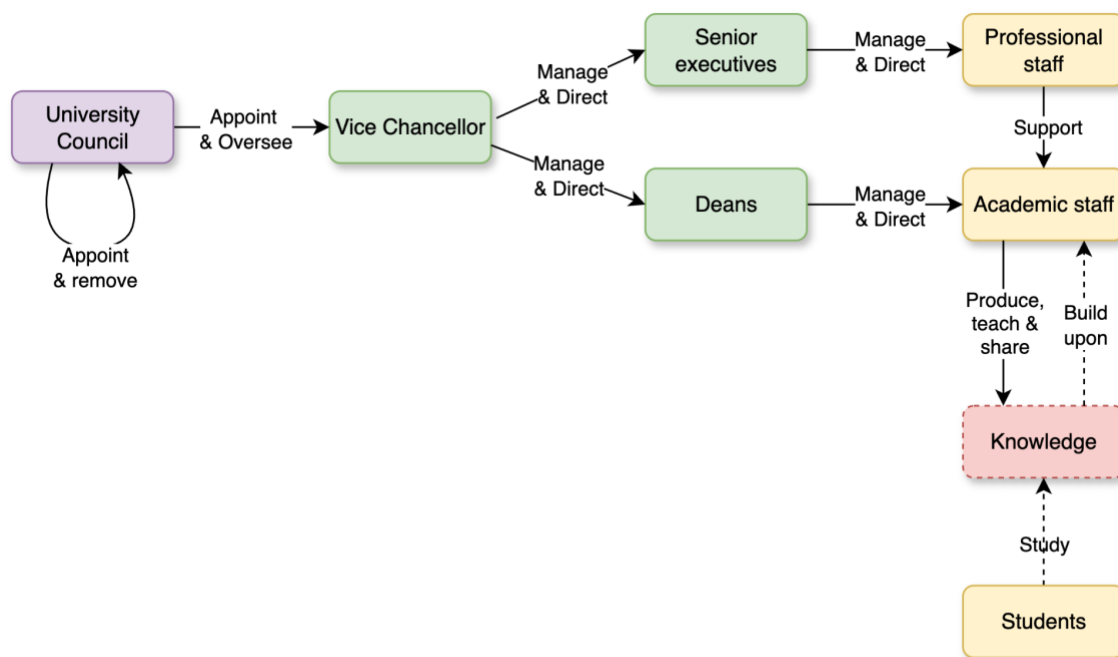


Figure 3: Stylised delegation and accountability chain for a typical Australian university⁶

⁵ In April 2024, 366 of the 545 seats on university governing bodies were filled by appointees, 143 of whom were corporate executives or consultants from for-profit organisations: <https://betterrnis.nteu.au/wp-content/uploads/2024/05/NTEU-The-Corporatisation-of-University-Govenance-April-2024.pdf>.

⁶ Universities are subject to public sector financial accountability and the Minister for Education (Federal or State) and the regulator TEQSA exercise external oversight of a university, but they are not part of the internal delegation-accountability chain – just as regulators in other sectors offer external oversight, but are not part of the power relations of companies or non-profits.

This is not a criticism of the character or expertise of specific appointed members of university councils – the issue is structural. **The core problem is the misaligned incentive structures of current university governance.** Small minorities of elected staff and student representatives on Councils aside, council members are not invested in the production and dissemination of high-quality knowledge to the same degree as staff or students. Rather, their primary interest lies in any reputational benefits or costs that may arise from their association with successful or failed policies. When it comes to the core mission of the university, too often they have no ‘skin in the game’ and little knowledge of the product or the process by which that product is created.

The difference in world view and experience can be a source of problems if councils lack sufficient members with experience in knowledge production and dissemination and/or if there are insufficient opportunities for staff to meaningfully contribute to decision-making processes. We can see this in the contrasting interests of academics and corporate executives in many instances, such as with regard to commercial activity in universities. Faced with financial pressures, universities may seek funds through commercial contracts. From a corporate perspective, the logic is simple: if an activity like undertaking commercial contracts brings in more money than research and teaching, then do more commercial contracts and less research and teaching. Academics, however, are willing to pursue commercial contracts only if this supports and expands research and teaching. For them, commercial income is a means to subsidise research and teaching, whereas for corporate executives it is often an end in itself. While these conflicting interests can be managed through good university governance, scandals across the sector suggest that current systems are dysfunctional.

External council members are *appointees*, not shareholders or stakeholders in the university’s core product, even if they bring useful skills. The benefits they derive from being council members (prestige, networking opportunities, a feeling of public service, or the chance to populate the section of their résumé headed ‘not-for-profit’) are entirely unrelated to the purpose of the university: the production and dissemination of knowledge. This is unlike a government where voters are both the beneficiaries of bureaucratic action and the principals who elect parliamentarians.

The fact that appointed members of the Council may have different interests from staff and students – and can be indifferent to the institution’s success and failure beyond their own reputation – also has profound implications for their decision making. This is because all chains of delegation suffer from the **‘principal-agent’ problem**. Put simply, this is where asymmetries of information mean that leaders have less knowledge and practical experience of the day-to-day implementation problems and solutions than front-line staff. While this problem appears at the start of the delegation chain, between council members and the vice chancellors they appoint, it repeats much of the way down the delegation chain.

There are three relevant principal-agent problems facing university governance. The first is the **asymmetry of information** between front-line staff and university leadership. Front-line staff understand the issues involved in teaching students in varied disciplines and the issues involved in research. University leadership who lack up-to-date first-hand knowledge can make decisions that are unlikely to work well on the ground. In addition, councils face **adverse selection and moral hazard**. We deal with these latter two first.

How does this affect university councils?

Adverse selection

Adverse selection occurs when the appointment process favours the wrong kind of appointees. The typical externally appointed council member in Australia either has no or little direct stake in the purpose of the university – the production and transmission of knowledge and the production of highly educated students. Given their lack of knowledge about the university product, they are ill equipped to select other council members (and indeed vice chancellors) who will be well suited to the role. It also increases the probability that they will look to fulfil their own goals rather than the production and dissemination of knowledge.

The risk is that appointments are made for superficial reasons – selecting people unfamiliar with universities and overly wedded to corporate business approaches or to particular professional networks – rather than for their ability to contribute relevant expertise. The university ends up with too many council members who look and sound like business elites, but who lack the depth of knowledge or commitment needed to advance the university’s real educational and research goals. An unbalanced council may lead to mission drift.

Moral Hazard

Moral hazard arises when those making decisions face very different risks and rewards from those who bear the consequences. For example, if a bold new policy succeeds university council members might gain reputational benefits, but suffer little personal loss if it fails. By contrast, the university as a whole may see only small gains from success but carry heavy costs if the policy goes wrong. This imbalance encourages leaders to take risks that others end up paying for. Here the **incentives for risk taking of agents and principals are mismatched.**

A further key difference is that council members typically serve only short terms, while academics often devote their entire careers to a university, driven by a vocation dedicated to knowledge and truth. These contrasting time horizons – short-term versus life-long commitments – shape very different approaches to risk within the organisation. And universities are designed for the long term. The world’s very best universities are perhaps a thousand years old, while the world’s most valuable corporation is just 30 years old.

But are universities really different?

The short answer is yes, as our diagrams illustrate. And here are two other reasons.

The first is simple. Universities differ from companies. Their goal is not private profit, but the creation and dissemination of public knowledge. This is created indirectly through teaching students who then go out into the world, and directly through research. Academic work centres on building communities of scholars, students, and sometimes the public, and on producing knowledge for its intrinsic and public value. The academic vocation is to place truth and knowledge above all else – this ideal underpins academic careers, education, and public engagement.

Students also have an interest in the quality of teaching and research. The benefits of the education they receive depends on the credibility of the knowledge universities produce and disseminate. Unlike customers in a conventional market, students cannot easily assess the quality of what they are receiving at the time of ‘purchase’; the value of their education is only realised over the course of their careers. This creates a classic problem of information asymmetry – which is why universities rely on academic self-regulation and disciplinary standards of rigour to safeguard quality. When these standards are upheld, students gain degrees that are trusted by employers, professions, and the wider public. When they are eroded, students bear the cost in diminished educational outcomes and reputational damage to their qualifications.

Both academics and students thus have a direct *interest* in knowledge production.⁷ They have ‘skin in the game’ when it comes to maintaining and enhancing the quality of teaching and research. Academics have a desire for high-quality students, pride in what they teach and how students respond. Their training equips them to uphold disciplinary standards of rigour and excellence, ensuring public trust. This self-governing system explains why academics review peers’ work without payment and publish without expectation of profit: they are motivated to sustain and improve the practice of knowledge itself. Students desire a high-quality education, which they can only be assured of receiving when academic governance is intact.

Universities are also different in that academics are **both the producers and the primary consumers** of the knowledge universities create. Academics cannot do their work without access to new knowledge to build upon. Knowledge creation is a public, collaborative exercise. While universities resemble TAFEs in reproducing knowledge via teaching and training, they differ markedly by reason of their research output – that is what defines universities.

This fact changes the chain of delegation. Because academics directly rely on the knowledge they and their peers produce, they have an intrinsic stake in its quality. University governance, therefore, cannot be understood simply as principals directing agents, but as a self-governing system where producers and consumers are the same community.

It is for these two reasons that academics expect to be meaningfully involved in the governance of their institution while accepting that their involvement should not be exclusive given the public nature of universities.

Failure to recognise the product of universities in reforms to university governance has led to broken delegation and accountability chains. It has fostered an environment where decisions with perverse outcomes for core business (knowledge production and reproduction) are more likely to be made. It has led to mission drift, loss of social licence, and institutional vandalism. This is why academic voices need to be restored to the delegation chain and the governance model.

A well-functioning delegation model in a university would close the loop between the principal and the actors with an interest in the core mission of the university – research, teaching, and knowledge translation. These actors are primarily academics, but also students and the public at large.

⁷ By interests here we mean preferences or goals of actors. Staff and students also have material interests. Staff may be motivated by their vocation, but they are not entirely altruistic!

Will having the right delegation-accountability model fix all our problems?

The short answer is no. But what it will do is help universities set up the right systems and processes (incentive structures) so they can:

1. Best align the incentives of staff and the organisation to make it easier to produce decisions that match the university's aims of knowledge production (research, teaching, public goods).
2. Maintain appropriate systems of oversight of decisions by including the voice of staff and students - the key stakeholders and true 'principal' in universities.

As noted above, universities, just like governments or corporations, have to cope with principal-agent problems. The main solutions are:

1. *Pre-contract*: mechanisms to reduce adverse selection by improving the information available when appointing or electing council members and executive staff (e.g. academic senates, transparent selection criteria, reputational signals).
2. *Post-contract*: mechanisms to mitigate moral hazard and asymmetric information through monitoring and incentive alignment (e.g. committee systems, reporting requirements), ensuring that governance structures support high-quality knowledge production.

At present, many Australian universities are failing to address both sides of the principal-agent problem.

On the front end, protections against adverse selection are weak: too often, council appointments are controlled entirely by Chancellors and their previous appointees, with little or no external scrutiny of their choices. This creates the risk of appointing poorly qualified members. On the back end, the oversight function is also broken. Universities have lost sight of their true principals — academic staff, students and the public — and the accountability mechanisms that once sustained governance, particularly robust committee systems, have withered away.

Corporate governance is not 'bad' per se — it is just not appropriate for universities. University executives place an excessive emphasis on a narrow version of corporate principles, defined almost exclusively in terms of 'financial goals and sustainability'. Yet they have failed to create financially secure and sustainable universities, largely because they misunderstand the work of the university. Furthermore, the stream of scandals across the sector shows how other core principles of corporate governance — incentive alignment, ethical conduct, transparent and accountable decision-making, and the maintenance of effective oversight — have been neglected or sidelined.

We argue that university governance can benefit from some corporate governance principles, but it must *also return* staff and student voices as fundamental principals in the delegation-accountability chain. It needs to recognize and involve the public within its governance principles. Without fixing the problems of misaligned incentives in university governance, the higher education sector will continue to forfeit social licence and spawn scandal after scandal.

Some solutions

What do we mean by governance and what should it look like in a university setting? We expect that good governance means that institutional structures and incentives will facilitate the university achieving its aims of teaching, research, and knowledge dissemination.

We suggest that there are two potential models for how this agency problem could be mitigated. We consider these solutions to be complementary and recommend adopting both.

The first is to make universities more like publicly traded corporations, by putting the ‘shareholders’ (in this case academics and students) in charge of the appointment of directors (the university council). This arrangement has sometimes been called an ‘academic senate’. The second is to cascade decision-making power up through the organisation via robust committee structures.

Academic senate model

An ‘Academic Senate’ is a mechanism to bring academic staff and student oversight and accountability to the university council. Such a senate should be charged with nominating appointed members of council, and arranging elections or appointments of internal members, and should have the ability to dismiss council members and recommend the removal of senior executives and deans if their performance were deemed unsatisfactory. It could be composed in various ways, but must be substantially controlled by student and academic staff representatives. It could include professional staff, and members of the public, perhaps alumni of the university. It could be elected via a slate of the whole staff, or through natural divisions within the university, faculties or departments. There are various models compatible with our major argument that the accountability loop needs to be closed.

An academic senate restores staff and students to their place as the fundamental (and appropriate) principal in the university's chain of delegation. Due to their *interests* in the production and consumption of knowledge, members of an academic senate are better equipped to ensure that the council directs the university appropriately. In a minimalist oversight model, an academic senate appoints council members and has a say over any reappointments or term extensions. In a maximalist model, it can say to council that it has or has not done a good job in the same way shareholders or voters can pass judgement on Boards of Directors or governments. This element of a new university governance system would help mitigate the adverse selection problems inherent in the current system. **Significantly, constituting an academic senate restores staff and student voice as the principals and closes the delegation-accountability loop.**

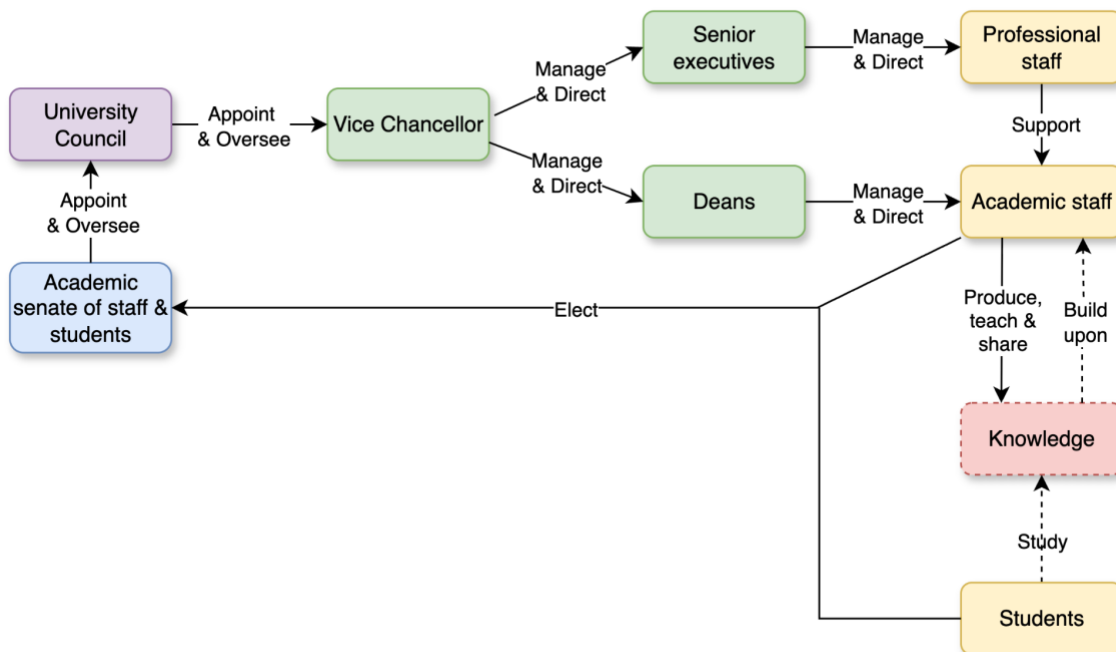


Figure 4: Stylised delegation and accountability chain for an Australian university with an Academic Senate as the principal

It is important to note that the academic senate model presented above does not necessarily represent the public interest in universities. Nor does it necessarily represent professional staff. Examples from around the world do include professional staff and/or members of the public – perhaps alumni. It might also be useful to have some academic advisors external to the university within such a senate. Any such choices involve trade-offs that institutions are best placed to judge for themselves. Finally, it is important to note that the public interest is safeguarded through both parliamentary and regulatory oversight, annual reports made to ministers, funding conditions, and so on.

Powerful Cascaded Committee System

A core problem in current university governance is the asymmetry of information. Senior leaders are often far removed from the realities of research and teaching, which are best understood by front-line staff and students. When major decisions are made without drawing on this expertise, the outcomes are typically poorer. The most effective way to incorporate the voices of academics, professional staff, and students is through a cascading system of committees. These committees, chaired by senior leaders but made up largely of academics, would oversee each area of governance within the university, ensuring that decisions are informed by those closest to the core academic mission.

Research committees, education committees, library committees, building committees would be composed of academic representatives from the relevant stakeholding units (colleges, departments, schools), and exist at various levels within the university. Proposals for change could emanate from the top or the bottom (leaders or academics, or in relevant areas from professional staff). These ideas are fed upwards and downwards with discussion involving all relevant staff. All in the organisation would know of proposals, could have input via their representations, and have a stake in the ownership of decisions.

Most universities already have committees of this nature, but increasingly they are composed not of stakeholders, but of senior leadership.⁸ Currently, committees of this nature are frequently excluded from major decisions governing teaching and research. Instead, they are left with the task of trying to come up with schemes to implement policies that have not been discussed within the broader university community. Often they exist to provide sticking plasters to major wounds created by university leadership ignorant of the actual process of knowledge creation and transmission.

A powerful committee system is a way to bring both staff and student voice and oversight into the decision-making of the university. Ideally, its *deliberations and decisions* would filter up to the level of council. Council would also engage with the committee system to help reduce information asymmetries underlying the principal-agent problems we have discussed.

This model also closes the delegation-accountability loop by ensuring effective oversight through a strong conduit of distributed power and staff voice. The committee system legitimises decisions by involving key stakeholders – staff and students – in the processes of design, deliberation, and endorsement. At its best, this system enables genuine two-way communication across the university and throughout its hierarchy. Meaningful dialogue and shared decision-making build legitimacy for university policies. The governing principle here is constructive contestability: through deliberation, the differing risk attitudes of principals and agents can be aligned. Leadership can articulate the need for change, while academics shape how that change is practically designed and managed at the policy-creation stage.

Conclusion

Universities are not like corporations or government departments; they have different delegation-accountability chains. What this means is that problems of information asymmetry, adverse selection and moral hazard manifest differently in universities. **This is why universities need different governance arrangements to appropriately resolve and mitigate their risks.** ‘Corporate governance’ as practiced in the sector, is an incomplete solution for a university and has contributed significantly to the policy failures plaguing our sector.

The crisis facing Australian universities is fundamentally a crisis of governance. While the symptoms – executive excess, wage theft, worsened classroom conditions – grab headlines, the underlying cause is structural: a broken delegation-accountability chain that has severed the connection between those who govern universities and those who depend on the knowledge they produce.

Universities have adopted governance models that are ill-suited to their core purpose of teaching, research and knowledge translation. Incentives for members of university councils do not align with the work of teaching and research. This misalignment has created a system where:

- University councils lack meaningful stake in the institution’s purpose
- The voices of the true principals and beneficiaries – academics and students – have been marginalised

⁸ For example, at our own university (the ANU), the university wide committee for Indigenous Strategy currently has 28 members, five of whom publicly identify as being Aboriginal or Torres Strait Islander people. Most members are senior managers in ex-officio roles.

- University councils become self-perpetuating networks of appointees who control the university and pick their own successors without oversight or accountability
- Principal-agent problems of asymmetric information, adverse selection and moral hazard go unchecked

The result is institutional drift away from universities' fundamental purpose, eroding public trust and social licence.

The Path Forward

We suggest adopting two ways forward to restore proper governance by closing the delegation-accountability loop:

1. An **Academic Senate** would place elected academic and student representatives as the principal authority, responsible for appointing and overseeing university councils. This directly mirrors corporate governance by ensuring those with the greatest stake in outcomes control institutional direction.
2. A **Powerful Committee System** would cascade decision-making through robust academic committees that provide meaningful input into council and executive decisions, ensuring expertise flows upward and accountability flows downward through the institution.

Both processes recognize that academics and students are simultaneously the producers and primary consumers of university knowledge — a unique characteristic that demands their central role in governance. **We argue that adopting both would best support good university governance.**