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THE IMPORTANCE OF EFFECTIVE BUSINESS GOVERNANCE IN HIGHER EDUCATION INSTITUTIONS

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Abstract *– The role of effective business governance in higher education institutions is critical to their success. However, not all institutions operate by a business governance plan. Given the influx of international competition within the Jamaican higher education industry, effective business governance plans for all higher education institutions will be an effective tool for promoting better business standards, regulations, and transparency. The purpose of this paper is to engage readers in intellectual discourse on the importance of effective business governance in higher education institutions. The discussion starts with an overview of higher education, then there is an examination of the need for effective governance, as well as developing the dimensions of a comprehensive and effective governance program. There will also be focus on the global influence of the College and considerations for judicious resolutions and a suggested plan for implementation and evaluation of the governance program.*

Keywords *– business governance plan, corporate governance, educational institutions, executive leaders, accountability, higher education institutions, stakeholders*

INTRODUCTION

Business governance is a comprehensive set of principles outlining the direction and administration of organizations, manages risk for and adds value to stakeholders (Letza, Kirkbride, Sun & Smallman, 2008). In general, business governance proposes rules, processes, or laws, which operate, regulate, and control business operations. The principles of business governance extend to stockholders, consumer groups, and government regulations. An organization with a structured business governance plan is attractive to all levels of stakeholders. These organizations are mandated to adhere to accepted ethical standards, uphold organizational values and best practices as well as abiding by the formal laws on the industry within which they operate.

The root word of governance is to "govern" which means "to control" and is aligned to Business Governance. Weill and Ross (2004) presented that the fundamental tenets of corporate governance demand that company objectives should be met, and organizational processes should be executed effectively, not amended for the benefit of individuals. Colvin (2004) opined that, in a busines environment of high-level power and stress to meet bottom lines, top leaders sometimes abandon their ethics and turn to greed, selfishness, and corruption. Therefore, the major function of corporate governance is to look after an organization's business process and ensure that business leaders conduct themselves appropriately.

OVERVIEW OF GOVERNANCE IN HIGHER EDUCATION

Governance, in higher education, is how institutions for higher education are formally organized, managed and operated, (Altbach, 2005). McMasters (2002) argued that governance of higher education institutions internationally varies from nation to nation. Each governance pattern reflects the unique history of the sector and the needs of those specific institutional types. McMaster further notes that the different cultures in higher education institutions reflect the governance which exists.

In the Jamaican context, for example, higher education institutions are governed by a Principal/President, and Vice Principals/Presidents who manage the institution as Chief Executive Officers. These individuals report to a Board of Management, appointed under the Ministry of Education. The concept of management boards has taken on greater importance in institutions of higher learning as the directors' role transcends social and economic issues. The complexities created by paradigm shifts within the higher educational systems are forcing colleges and universities to take a closer look at the extent to which their boards of directors have the skills, abilities, and structures in place to fulfill their responsibilities. This is critical as poor higher education governance decreases public trust.

BUSINESS GOVERNANCE PROGRAM

In this age of corporate accountability and scrutiny, higher education institutions are not excluded from the effects of corporate governance legislation. Many colleges and universities have adopted practices to distinguish themselves as leaders in higher education. Educational leadership must take corporate governance seriously as it has direct implications for their ability to mobilize the board, principals, and deans to get involved in a corporate governance business plan. Furthermore, effective business governance caters to stakeholders, Peterson and Albaum (2005) contend that students within a learning institution fall within the category of stakeholders and are the future leadership of corporations.

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Effective corporate governance is premised on a business plan. However, there is no single model of a business governance plan; therefore, an effective governance plan must be tailored to meet the specific industry and stakeholder needs. To this end, the major components of a business governance plan for a higher education institution should refer to the broad range of policies and practices that executive leaders and boards of directors use to: (1) manage themselves (2) fulfill their responsibilities to all stakeholders and (3) implement openness, integrity and accountability for all and at all levels. The business governance plan should encompass the organization's commitment to values, ethical business conduct to maximize shareholder value on a sustainable basis while ensuring fairness to all stakeholders.

Additionally, effective corporate governance is about ethical conduct and, as such, is concerned with the codes and ethical principles that enable educational institutions to make decisions in the best interest of all stakeholders. Donaldson (2003) expressed that sound business governance plans need gatekeepers and stewards to ensure that the plan adheres to cultural and ethical standards as well as the integrity of the organization. Board of directors play the most important role in promoting superior corporate governance within an organization. In support of this position, Davies (2006), posited that leadership for corporate governance must come from the board if it is to fulfill its statutory obligations.

NEED FOR EFFECTIVE GOVERNANCE

Over the past decade, corporate governance has been the subject of increasing stakeholder attention. Gomez–Mejia–Balkin (2002) reported that organizations do not perform operations in silos and all activities must be coordinated with changes in the environment. The authors further argued that management tasks in corporate governance are unique, ambiguous, and situation specific. Therefore, modern higher education institutions depend on competent leadership to coordinate their activities for survival in the context of their environment- international or local. Organizations conducting a business in today's modern society where consumers have a strong voice are pressured to defend themselves from legal liability and other risks, higher education institutions are no exception to this scrutiny. Gregory (2001) argued that corporate governance is important at the macro level to stimulate private sector capital investment and ensuring the efficient use of assets. Gregory further argued that public policy makers now view the way corporations are governed as of major importance to the company, internal and external stakeholders, local and international investors, their national economies and to society. Different studies, including that of the World Bank, indicate that the loss of trust of different investors in organizations was directly linked to a lack of meaningful corporate performance and compliance. The restoration of investor confidence in these nations will require, among other things, corporate governance reform (Gregory, 2001).

Given the influx of international competition of higher education institutions in the Jamaican economy, effective corporate governance is important. Companies compete in industries where effective governance is imperative in relation to functional activities such as attracting and maintaining talented, qualified staff, shareholders, and by extension, customers. Effective business governance will be a successful tool for promoting better business standards, regulation, and transparency. Higher education institutions operate with functional departments or schools, and this is aligned to the strategy proposed by Gandossy and Sonnenfeld (2004) who purported that organizations need specialized functional departments to assist in the decision-making process. This will contribute significantly to the outcome of business governance when putting a plan in place. With the effects of international competition, higher education institutions actively market their products and services for a competitive advantage. Gordon (2007) observed that effective business governance extends to linking marketing and shareholder value. Most importantly, educational institutions have very high-quality audit, accounting standards, and practice requirements. Beatty, Ewing and Tharp, (2003) related that governance programs encounter challenges to stay within the legal framework to function, reward positive behavior, and deter activities which will affect the reputation of the organization in a negative way.

Global Influence

The growth of advanced communications technologies has encouraged firms, especially higher education institutions, to cross borders into globalized business operations. The business activities and governance of these international organizations are used to support the competitive advantage against those of the local organizations. Business activities, within any type of organization which are not regulated, can raise questions regarding the legitimacy and integrity of the governance of leaders, managers Principals/Presidents, Vice Principals/Vice Presidents, and Board of Directors. This is more so with the influx of international higher education institutions in the Jamaican educational landscape.

In the corporate world, management is in a position of accountability to the board and the shareholders. According to Carver and Carver, (1996) board decisions are policy decisions. Effective business governance should ensure managerial accountability. The board can use the power, which is invested in them, to establish policies to resolve business issues that threaten the integrity of the organization.

Mescher and Howieson, (2005) supported the recommendation to promote, within organizations, the making of ethical and responsible decisions. This will result in determining the level of integrity of an organization. Transparency of personal and company operations will assist in resolving issues of integrity. Baum (2004) posited that transparency is essential for organizations because it is important to be honest and open about business operations because this has long-term effects in creating internal and external shareholder value. Executives 'compensation plans should be designed to encourage the achievement of performance objective and create long-term shareholder value (Stout & Li, 2003). All established practices should be organized and practiced in ways which do not detract from the organization's integrity.

Gandossy and Sonnenfeld (2004) disclosed that, for the implementation of a business governance plan to be successful, the change must be embraced by all levels of the organization. If the transformation concept is not embraced, at all levels, deliberate roadblocks can impede the successful implementation. Cameron (1986) endorsed that it is almost impossible to arrive at a consensus for effectiveness; this is so because of the difference in individuals and organizational values. Resistance to the change process can impede successful implementation. If management fails to recognize the economic, social, and cultural implications of change, implementation will be unsuccessful.

Moral Underpinnings of the Business Governance

Corporate governance is about ethical conduct and, as such, is concerned with the codes and ethical principles that enable the management of higher education organization to make decisions in the best interest of all stakeholders. Zimmerli, Holzinger and Richter (2007) postulated that ethics is that part of philosophy which is concerned with living well, being a good person, doing the right thing, getting along with other persons and wanting the right things in life, which applies at all levels within higher education institutions. Zimmerli, Holzinger and Richter further argued that ethics is important to living and working within a society with its different traditions, practices, and institutions. The traditions and practices must be assessed according to ethical standards. Zimmerli, Holzinger and Richter (2007) presented that "moral is both the product of society and one of its constitutive features" (p. 12). We learn ethics in an incremental manner, which contributes to the complicated way we respond to ethical situations because, as living systems, our ethics is continually changing. This concept is particularly important in the governance of higher education institutions, especially when implementing policies and procedures, which will affect and influence the work and study environment of stakeholders.

Freeman's (1984) stakeholder theory articulated that organizations function to coordinate joint service to its stakeholders, as such, a strong balance among these services is required. Normative ethical stakeholder theory view is that the management of an organization should reflect the balance among the interests of all stakeholders. The moral foundation of these institutions should reflect this fair balance of all stakeholders. As suggested earlier, moral and ethical framework is contextual, therefore, there is need for a deontological approach to morality, based on the underlying assumption that everyone is morally obligated to act as a member of the community (Shepard, Shepard, Stephens & Winbush, 1999).

The common good approach is another fundamental moral precept which is important for higher education business governance. The author Richardson (2004) purported that, "In this approach, we focus on ensuring that the social policies, social systems, institutions, and environments on which we depend are beneficial to all" (p.3). Higher education institutions' major responsibility is to train future leaders and managers to manage different categories of organizations as such the principles of corporate governance should be evident within these learning institutions.

CONCLUSION

Business governance has become a topical issue due to the number of corporate failures within the last decade. Scandals associated with banks, mortgage lenders, failing stock markets, dubious accounting practices, legal and consulting firms have flooded the media with great cause for concern. Higher education institutions are highly scrutinized for different business practices and need to see the importance for effective business governance within their business processes. Byrne (2004) pointed out that, in the wake of international corporate scandals, executives are learning that faith, honesty, and impartiality are important ingredients for corporate governance, as such higher education organizations should invest in a business governance plan.

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Summarily, with changing landscape within which higher education institutions operates, effective business governance is important for growth and will continue to serve as the guide for success. Effective business governance is used as a marketing strategy to attract faculty, staff, and students to the institution. Past business governance models have failed; hence it is crucial for practitioners to create new models for the future. Deane (2006) argued that market globalization has created a shift in corporate governance to global importance. This implies that effective corporate governance can allow a higher education institution to position itself as an institution of greater value to its stakeholders. In the last few years, internal and external stakeholders are pressuring higher education institutions to redefine and change their business governance styles and practices which may encourage greater trust in the people they serve. Higher education institutions are comparable to established private sector organizations and, as such, business governance best practices are interchangeable. The topic of corporate governance in higher education has gained much attention in the corporate and public sector, which should not be ignored. The writer looks forward to further discussion on this topic.

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