

**Effective direction and control of higher education institutions;
An empirical case study of the Croatian private business school**

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Zoran Barac

from

Croatia

Approved on the application of

Prof. Dr. Kuno Schedler

and

Prof. Dr. Martin Hilb

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List of Abbreviations

AACSB - Association to Advance Collegiate Schools of Business
AP - Accreditation Plan
ACI - Actor Centered Institutionalism
ASHE - Agency for Science and Higher Education
AOL - Assurance of Learning
AQ - Academically qualified
BoD - Board of Directors
CEO - Chief Executive Officer
EFMD - European Foundation for Management Development
EQUIS - EFMD Quality Improvement System
ERM - Enterprise Risk Management
EUA - European University Association
FDP - Faculty Development Plan
GSV EDU - Global Silicon Valley Education publication
HE - Higher Education
HEI - Higher Education Institution
HRM - Human Resource Management
IT - Information technology
JCAHO - Joint Commission on Accreditation of Healthcare Organizations
KISS - Keep it situational; Keep it strategic; Keep it integrated; Keep it controlled
MBA - Master of Business Administration
NGO - Non Governmental Organization
OECD - Organization for Economic Cooperation and Development
PRJ - Peer Reviewed Journal
SER - Self Evaluation Report
TMT - Top Management Team
UK - United Kingdom
UNESCO - United Nations Educational, Scientific and Cultural Organization
US - United States
YMCA - Young Men's Christian Associations
ZSEM - Zagreb School of Economics and Management

Summary

Governance approaches of higher education institutions vary depending on a number of contextual variables. These variables might be related to the regulatory and social-economic environment, culture and traditions, ownership, organizational complexity and types of leadership and management. Accordingly, the literature recognizes a number of governance approaches of higher education institutions, including collegial, bureaucratic, professional or corporate (McNay, 1995; Middlehurst, 2004), entrepreneurial (Clark, 1998; Gibb et al., 2009), political (Baldrige, 1971; Birnbaum, 1988; de Groof et al., 1998) and cybernetic (Birnbaum, 1988). This dissertation focuses on the entrepreneurial model because it is this model that the researcher, as a participant – observer, had the opportunity and convenience to explore. Governance approaches of higher education institutions have been studied in the literature mainly from single theoretical frameworks. To address this gap, this dissertation utilizes a pluralistic and multi-dimensional “new corporate governance” framework that enables theoretical triangulation and additional insight into the phenomenon. In the empirical portion of this dissertation, the entrepreneurial governance approach of higher education institutions has been explored through the empirical case of a Croatian private business school. The empirical objective of the study was to identify how institutional and situational variables from the higher education environment shape the entrepreneurial governance model of the studied school. An additional objective of this study was to provide recommendations regarding the necessary elements for an appropriate governance model for the next developmental phase of the school. It has been demonstrated that particular institutional and contingency variables, such as “hard” and “soft” norms, the social economic environment, culture and traditions, ownership, organizational complexity and the method of selecting leaders, impact the behavior of the involved actors and therefore shape the governance model of an institution. Nevertheless, each governance approach is appropriate for a particular context. Therefore, all involved actors should recognize changing contexts and adapt their governance model accordingly. This study provides recommendations for the development of a new governance model that would be most appropriate for the new context. To do so, four dimensions of effective governance have been taken into account: situational, strategic, integrated and controlling.

Zusammenfassung

Governance-Modells in Hochschulinstitutionen variieren abhängig von der Nummer der kontextualen Variablen. Diese Variablen können zum behördlichen und sozial-ökonomischen Umgebung, Kultur und Tradition, Eigentum, organisatorischer Komplexität und Typen von Governance und Management verbunden sein. Dementsprechend, erkennt die Literatur eine Menge von behördlichen Beitritten zu Hochschulinstitutionen, einschließlich kollegialen, bürokratischen, professionellen oder korporativen (McNay, 1995; Middlehurst, 2004), unternehmerischen (Clark, 1998; Gibb et al., 2009), politischen (Baldrige, 1971; Birnbaum, 1988; de Groof et al., 1998) und kybernetischen (Birnbaum, 1988). Diese Dissertation fokussiert an dem unternehmerischen Modell, da das ist das Modell, das der Forscher, als Teilnehmer – Beobachter, die Gelegenheit zum Untersuchen hatte. Governance-Modells in Hochschulinstitutionen sind in der Literatur meistens von einzelnen theoretischen Rahmen untersucht. Um diese Lücke zu behandeln, anwendet diese Dissertation pluralistischen und multi-dimensionalen „New corporate governance“ Rahmen, der theoretische Triangulation und zusätzlichen Einblick in das Phänomen ermöglicht. In dem empirischen Teil der Dissertation untersucht man unternehmerisches Governance-Modell in Hochschulinstitutionen durch empirischen Fall einer kroatischen privaten Wirtschafts-Fachhochschule. Das empirische Ziel der Studie war zu identifizieren, wie behördlichen und situationellen Variablen aus den Hochschulinstitutionen unternehmerische Governance-Modells der untersuchten Schule gestalten. Ein zusätzliches Ziel dieser Studie war, Empfehlungen bezüglich notwendige Elemente für angemessenes Governance-Modell für die nächste Entwicklungsphase der Schule zu geben. Man hat demonstriert, dass besondere institutionelle und mögliche Variablen, wie „hard“ und „soft“ Normen, sozial-ökonomische Umgebung, Kultur und Tradition, Eigentum, organisatorische Komplexität und Methode der Führerwahl, das Benehmen der Teilnehmer beeinflussen und so formen Governance-Modell der Institution. Dennoch, jedes Governance-Modell ist angemessen für den besonderen Kontext. Deshalb sollen alle Teilnehmer ändernde Kontexte erkennen und ihr Governance-Modell folglich anpassen. Diese Studie bietet Empfehlungen für die Entwicklung eines neuen Governance-Modells, dass das zutreffendste für den neuen Kontext sein würde. Um das zu machen, sind vier Dimensionen des wirkungsvollen Governance-Modells beachtet worden: situative, strategische, integrierte und evaluative.

1. Introductory Section

1.1. The Research Problem

1.1.1. Problem analysis

In all organizations or, to put it more broadly, all societal arrangements, there is a continuous interaction between involved actors or stakeholders on the basis of power and influence in order to achieve outcomes of mutual interest. This holds true regardless of the institutional or legal form, structure, or type of the organization. When mutual interests have been satisfied in achieving organizational objectives, effective governance is in place.

In the literature, the concept of governance might be considered from viewpoints representing two sides of a continuous spectrum. From one point of view, governance is related to the work of a supervisory board or board of directors, who are either professionals or representatives of stakeholders with responsibilities encompassing monitoring, advising and counseling management. From another point of view, governance can be considered as an interaction between the “governing actors” in continuously creating and re-creating network structures (Jones et al., 1997).

When analyzing this phenomenon, the phrase “direction and control” has often been used interchangeably with the term “governance”. As such, Hilb (2008, p. 9) defines governance as a “system by which organizations are strategically directed, intercreatively managed, and holistically controlled in an entrepreneurial and ethical way and in a manner appropriate to each particular context.”

During the process of governance, questions often arise as to what are the appropriate governance approaches, models, and mechanisms that fit a particular context. Such questions originated as a reaction to the inadequacy of the generally accepted governance approaches that resulted in recent governance scandals, especially in the context of public corporations. It is important to point out that answers to such questions are diverse rather than uniform and, as a result, governance, its definition, and governance approaches differ depending on multiple factors. These factors might include the theoretical frameworks applied, institutional contexts and forms, the approaches of the executive leaders, and the objectives and purposes of the institution.

Although governance is a very popular phenomenon that is often discussed in both theory and practice, (Durisin & Puzone, 2009; Williamson, 2005), many important institutional forms, including universities, hospitals, cooperatives, etc., remain under-researched. Durisin and Puzone (2009) demonstrated that the largest number

of published empirical studies on governance in leading peer reviewed journals was conducted in the context of American corporations.

Consequently, this thesis focuses on governance approaches of higher education institutions (HEIs). HEIs as objects of governance research are particularly interesting because of their unique public purpose and combination of stakeholders. From an organizational standpoint, they are also a special type of institution, often described as “loosely coupled systems” (Weick, 1976) or “organized anarchies” (Cohen et al., 1972). These terms are indicative of the challenging nature of the direction and control of such organizations.

Nevertheless, the governance models used in HEIs have evolved throughout history. According to Middlehurst (2004) (citing McNay, 1995), HEIs have, over the past few decades, moved from a primarily collegial governance approach, through bureaucratic and corporate models to a predominantly enterprise-oriented governance model. The literature also emphasizes entrepreneurial (Clark, 1998; de Groof et al., 1998; Gibb et al., 2009; Gjerding et al., 2006; Paunescu, 2007; Yokoyama, 2006), political (Baldrige, 1971; Birnbaum, 1988; de Groof et al., 1998) and cybernetic (Birnbaum, 1988) governance models. Indeed, it seems that changing environments and different contexts have impacted the manner in which HEIs have been governed. Many factors from both external and internal environments have influenced the evolution of HEI governance models. HEI governance approaches also depend on who the relevant actors or stakeholders are and what is the balance of power among them. The involvement of multiple actors implies that the governance mechanism should take into account their influence and weight in the decision making process. In addition to the involved actors, national regulations, the social and economic environment and traditions are strong determinants of governance approaches. The outcome of the interaction between all involved actors and the external and internal contexts in which they operate is a particular governance model that might take any of a number of possible positions, ranging from unilateral action to the full cooperation of shared governance.

Consequently, there is no governance model that is suitable for all situations and circumstances. Organizations might be faced with either stable environments or complex and dynamic environments. At times, and especially in simple and stable environments, mechanistic governance structures with centralized hierarchies are more appropriate (Bradshaw, 2009; Gupta et al., 1994). In contrast, complex and turbulent environments require organic, networked or cellular structures (Bradshaw, 2007; 2009; Burns & Stalker, 1961; Gumpert & Sporn, 1999; Jones et al. 1997; Lawrence & Lorsch, 1986;).

The intention of this thesis is to additionally elucidate the phenomenon of HEI

governance, and the entrepreneurial approach to HEI governance in particular, and to identify forces that shape the entrepreneurial model. In order to identify the determinants of an entrepreneurial governance model, this study will analyze processes occurring among relevant actors of the HEI on the basis of their constellations and modes of interaction within a particular context.

This study will present qualitative evidence obtained from the case of the Zagreb School of Economics and Management, where the manner in which environmental contingencies shaped the entrepreneurial governance model of the school and the manner in which the current governance model might evolve towards a more mature governance model was analyzed.

The Zagreb School of Economics and Management is a privately owned HEI, established in 1995 under the initiative of the entrepreneur and academic Dr. Đuro Njavro. The school remains in an early phase of development, with the first generation of students enrolled in 2002. The operation of the school began in 2002 because of the involvement of Dr. Njavro and other co-founders in Croatian Parliament and government administration in the period between 1995 and 2000.

From the time the school was established, its operation has been financed entirely through tuition fees. As such, the central challenge for key stakeholders was to establish a private business school and to achieve recognition among students and the larger academic and business community in a transitional higher education market dominated by public higher education institutions.

To ensure long-term sustainability in the transitional market, the school developed an overall strategy of differentiation from all other business schools in Croatia. An important element of ZSEM's strategy of differentiation has been its international accreditation process¹. ZSEM quickly recognized that, in an environment dominated by public HEIs, a key source of competitive advantage is the legitimacy granted by international accreditation. As such, the school decided to become a member of AACSB International² from the time it was established and to enter into the accreditation process as soon as it fulfilled all necessary conditions. Consequently, ZSEM has been entrepreneurially governed with the objective of achieving international accreditation by mobilizing all relevant actors in the accreditation process. The school became eligible for the accreditation process in 2008 and, after five years, was granted international AACSB accreditation in June 2013. This process created an opportunity for the researcher to observe and investigate how the actors

1 Within the institutional context of business schools, international accreditations granted by international accreditation agencies such as AACSB or EFMD serve as sources of legitimacy.

2 AACSB International is the world's leading international accreditation agency.

operating within a Croatian higher education context were integrated and mobilized in the process of strategic direction and control, thus shaping the entrepreneurial approach to the governance of the institution.

1.1.2. Academic and practical relevance of governance

Among social scientists and practitioners, interest in governance issues has been continuously growing. For example, Williamson (2005) compared the incidence of articles using the word governance, excluding “corporate governance,” in top-tier peer reviewed journals in the disciplines of economics, management, sociology and political science over two time periods. In this study, the 12-year period ranging from 1977 to 1979 was compared with the two-year period ranging from 1998 to 2000. Results indicated a sharp increase in the number of articles using this word, where the number of articles grew from 48 to 275 in this 20-year interval. It should also be noted that while the first period, in which 48 articles were found, was 12 years long, the second period during which the word governance appeared in 275 articles, lasted only two years. Williamson refers to this phenomenon as a growing interest among social scientists in the “study and practice of good order and workable arrangements“ (Williamson, 2005, p.1).

However, the organizational form in which governance has been predominantly explored is the public corporation. With an objective to identify the relevance of governance research in the corporate sector, Durisin and Puzone (2009) analyzed empirical studies related to topics of corporate governance appearing in 3 journals during the period from 1993 to 1997: Journal of Financial Economics, Journal of Finance and Strategic Management Journal. Consistent with Williamson’s (2005) findings, their results also demonstrated an increase in the relevance of governance topics for both academics and practitioners. In addition, the authors identified a significant diversity in approaches to this phenomenon.

1.1.3. Literature review

Governance as a phenomenon encompasses not only public corporations, but also other forms of societal and institutional arrangements in the public and private sector. As a result, there are different definitions for the term governance. One of the most comprehensive overviews of the term governance was conducted by Kooiman (2002), who enlarged Rhodes’ (1997) classification and identified ten ways of using the term:

Table 1: Different definitions of governance

References	Definitions of governance
(Gray, 1994; Rhodes, 1994)	“Governance as a minimal state where governance becomes a term for redefining the extent and form of public intervention. It refers to a societal or institutional arrangement that arises when there is less or no government involvement. Rather, governance would arise from the aggregation of individual decisions in the marketplace.”
(Cadbury, 1992; Tricker, 1984, 1995)	“Corporate governance which refers to the way big organizations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation and describes the rules and procedures for making decisions on corporate affairs. In short, it provides the structure through which company objectives are set, and determines the means of attaining those objectives and monitoring performance.”
(Hood, 1991; Rhodes, 1997)	“Governance as a new public management involves managing public sector by introducing private sector management methods into the particular institution. Furthermore, it stresses incentive structures, like market competition into public sector. Advocates of this approach posit that introducing private sector methods and incentive structures will increase the efficiency of public institutions.”
(World Bank 1992; Williams & Young, 1994)	“Good governance is a concept which is to be found mainly in development policy. It refers to specific conditions to which international financial and development institutions such as the World Bank, International Monetary Fund (IMF), or national ministries tie their development cooperation.”
(Kooiman, 1993)	“Governance as socio-cybernetic governance, an approach according governance can be seen as pattern of structure that emerges in socio political system as a common result or outcome of the interacting intervention efforts of all involved actors. It refers to informal and nongovernmental methods of organizing actors that are accountable to a government in some manner. This model of governance does not require a sovereign authority, as it brings together numerous actors, like local governments, health authorities, the voluntary sector, private sector, all who could benefit from the synergy to solve shared problems and take more effective actions to address shared concerns.”

(Thompson et al., 1991)	“Governance as self-organizing networks where governance is accomplished through trust and cooperation. This approach to governance goes further than governance as socio-cybernetic systems and refers to governance arrangements that develop from coordination among all the actors in a network that are not accountable to a government body.”
(Veld et al. 1991; Kickert, 1995; Mayntz, 1993 ; Bekke et al., 1995)	“Governance as „Steuerung“ (German) or „Sturing“ (Duch) refers on the role of governments in steering, controlling and guiding societal sectors.”
Rosenau & Czempiel, 1992; Commission on global governance, 1995; Desai & Redfern, 1995; Rosenau, 1995)	“Governance as international order or global governance.”
(Wade, 1990; Hollingworth et al., 1994, Campbell et al., 1991)	“Governance of the economy or economic sectors.”
(Hay & Jessop, 1995; Hindess, 1997; O’Malley et al., 1997)	“Governance and governmentality based on the ideas of French philosopher Michel Foucault encompassing art of government and the techniques and strategies by which a society is rendered governable.”

Source: Kooiman (2002, p.68-69)

In his analysis of all identified approaches to governance, Kooiman (2002, p.69-70) developed three key concepts that describe the phenomenon. In his work, he argues that governance is characterized by:

1. the rules adopted by societal systems,
2. cooperation between the involved actors, where actors are searching for legitimacy and effectiveness, and
3. the working processes that are designed by the involved actors.

In other words, governance involves rules and working processes that result from cooperation among the involved actors. These conceived rules and processes should result in legitimacy and effectiveness in societal systems. However, although there

exists this common thread for all governance approaches, each framework has its own perspective.

1.1.4. Governance of HEIs

When analyzing the governance of HEIs, the unique nature of the HEI as an organization should be taken into account. Specifically, the unique purpose and combination of stakeholders results in a certain differentiation between HEIs and regular business organizations. This differentiation is emphasized under five areas by Smith (1992, p.3), as presented in table 2.

Table 2: Differentiation between HEI’s and regular business organizations

Differentiation area	Differentiation in relation to a business organization
Performance measurement	The nonexistence or lack of specific goals towards which progress could be measured
Efficiency of “production process”	“Production output” (teaching and research) cannot be easily placed in the context of “enhancing efficiency”
Competition	Unlike in business organizations, competitors do not pressure higher education institutions for increasing quality, especially for undergraduate programs
Governance and Leadership	Complex committee structures and dispersed authority impact the effectiveness of leadership
Employment conditions	The position of faculty with tenure, sabbaticals, irregular hours, and academic freedom can decrease public support if those employment conditions are abused

Source: Adapted from Smith (1992, p.3)

From an organizational point of view, HEIs are “loosely coupled systems” (Weick, 1976) characterized by diverse stakeholders with varied interests and diverse stakeholder interactions, both inside and outside the institution. Weick (1976, p.3) argues that such institutions consist of a number of loosely coupled subsystems: “[...] if the principal-vice-principal-superintendent is regarded as one system and the teacher-classroom-pupil-parent-curriculum as another system, then [...] we did not

find many variables in the teacher's world to be shared in the world of a principal [...] then the principal can be regarded as being loosely coupled with the teacher [...]”. In such systems, hierarchical structures and administrative mechanisms are not effective in the direction and control of organizational objectives (Firestone & Herriott, 1982).

Similarly, Cohen et al. (1972) identify HEIs as “organized anarchies“. Organized anarchies are organizations characterized by “inconsistent preferences”, [...] “processes which are not understood by its members” [...] and [...] “participants who vary in the amount of time and effort they devote to different domains” [...] (Cohen et al. 1972, p.1).

In their analysis of governance models, Baldrige (1972) and Birnbaum (1988) depict HEIs as political systems. For example, Baldrige (1972, p.12) discusses an interview with the Dean of New York University, who states: “[...] Do you have an organizational chart? O.K. Well you can just throw it away. Forget it, those little boxes are practically useless. Look, if you really want to find out how this university is run you're going to have to understand the tensions, the strains, and the fights that go on between the people [...]”.

HEIs are also organizations with multiple rationalities (Schedler, 2003; 2011). In an organizational context, rationality is the “specific way of thought, speech or action” of an individual or group (Schedler, 2003, p. 538). In other words, rationality is a filter that influences individual or group perception and assessment of the environment (Schedler, 2003). In general, organizations like schools and hospitals have more than a single rationality. Different rationalities are especially evident in organizations that encompass diverse groups of stakeholders, as is the case in universities. According to Schedler (2011), the challenge for such organizations is the effective management of multiple rationalities. Effective management of multiple rationalities encompasses communication across rationalities and attempts to avoid the domination of a single rationality, which creates “blind spots” in organizations (Schedler, 2011).

HEIs are open systems (Birnbaum, 1988; Katz & Kahn, 1978). In certain circumstances, open systems are tightly connected while in others, they are loosely connected systems. According to Scott (1987), organizations evolve from tightly to loosely coupled systems depending on their level of complexity. As such, an open system starts as a hierarchical system in a simple and autarchic environment and progresses towards cybernetic and loosely coupled systems as it becomes more complex and open to the environment.

From a societal perspective, HEIs are considered to be central institutions in the “knowledge triangle”, promoting education, research, and innovation in national economies (Gayle et al., 2003). This ‘triangular’ function implies complex

relationships between an HEI's stakeholders, which includes students, faculty and administration, the business community, government and its agencies, and the general public. In general, HEI governance bodies consist of volunteers (Gayle et al., 2003) and have different operating practices than the standards of performance for corporate boards. Together, these conditions make the governance of HEIs more complex. These complexities must be emphasized and taken into account when defining governance of higher education institutions or universities. Table 3 outlines a number of definitions of university governance.

Table 3: Definitions of university governance

Source	Definition
Marginson and Considine (2000, p.7)	“Process encompassing internal relationships, external relationships, and the intersection between them. Governance is concerned with the determination of values inside universities, their systems of decision-making and resource allocation, their mission and purposes, the patterns of authority and hierarchy, and the relationship of universities as institutions to the different academic worlds and the worlds of government, business and community.”
Gayle et al. (2003, p. 1)	“Structure and process of authoritative decision making across stakeholder-significant issues. Governance may be further interpreted as a decision-making arena contoured by culture, history, and geography within which presidents, faculty, senior administrators, trustees, state legislators, governors, and other interested participants recurrently address core issues such as leadership, strategic direction, institutional transformation, educational technology, teaching and learning processes, overall resource allocation, strategic priorities and outcomes, and accountability.”
Maassen (2003, p.32)	“Governance is about the frameworks in which universities and colleges manage themselves and about the processes and structures used to achieve the intended outcomes, in other words about how higher education institutions operate.”
Kezar and Eckel (2004, p. 375)	“The process of policy making and macro-level decision-making within higher education. It is a multi-level phenomenon including various bodies and processes with different decision-making functions. Certain entities tend to have authority over specific kinds of decisions, such as faculty senates for curriculum or boards of trustees for budgetary issues.”

Oxford (2006, p. 5)	“The term governance refers to the processes of decision-making within an institution which enable an institution to set its policies and objectives, to achieve them, and to monitor its progress towards their achievement. It also refers to the mechanisms whereby those who have been given the responsibility and authority to pursue those policies and objectives are held to account. The adoption of sound principles of governance helps those charged with taking important decisions to identify, assess and manage institutional risk, and to set up sound systems of financial control. Finally, a well-designed structure of governance will serve all members of the institution; but it will also serve the public by virtue of what it does to render an institution accountable to the outside world.”
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Source: Compiled by the author

All of the definitions provided in Table 3 have several features in common. First, nearly every definition claims that university governance is a process of either policy making or decision making. Secondly, all definitions imply that university governance should provide a framework, structure, patterns, or mechanisms of authority and hierarchy. Furthermore, all definitions emphasize stakeholders, both inside and outside of the institution, and their mutual relationships and influence. Finally, all definitions either state or imply that universities should have missions, purposes, and goals that are defined by the stakeholders. Together, these commonalities provide us with a particular set of lenses through which we can consider the various models of university governance.

1.1.4.1. Classification of HEI governance models

In the literature, university governance models can be classified based on the configuration of the governing bodies or on the degree to which stakeholders have the right and/or power to direct the university.

Using the former approach to classification, authors like Hogan (2006), Young (2004), Lombardi et al. (2002) and Lee and Land (2010) identify three different models of university governance:

- Single board system or unicameral governance, where universities are governed by a single governing body, usually a board of trustees, responsible for both administrative and academic matters.
- Dual board system or bicameral governance, where universities are governed by two governing bodies: a board of trustees with administrative

responsibilities and a faculty council responsible for academic issues.

- In tricameral governance, universities are governed by three legislative bodies. These are the board of trustees, the faculty council and a senate. The board of trustees is responsible for administrative decisions while the remaining two bodies divide responsibilities for academic matters.

When the right and/or power of stakeholders to direct the university is considered as a classification factor, the literature outlines the following governance systems:

- collegial/academic (Baldrige 1972; Hendrickson & Bartkovich, 1986; Trakman, 2008),
- bureaucratic (Baldrige 1972), with various degrees of academic influence (Hendrickson & Bartkovich, 1986),
- trustee (Trakman, 2008),
- stakeholder (Trakman, 2008),
- amalgam (Trakman, 2008),
- market/entrepreneurial (Clark, 1998; de Groof et al., 1998; Gjerding et al., 2006; Paunescu, 2007; Yokoyama, 2006),
- political (Baldrige 1972; Birnbaum, 1988; de Groof et al., 1998),
- garbage can or anarchical (Birnbaum, 1988; Cohen et al., 1972),
- cybernetic (Birnbaum, 1988).

The prevailing factor for classification within a particular model is the balance of power and interests among stakeholders, mainly faculty and administration. However, other stakeholders, such as corporate partners, students and the public, have not been neglected. In addition to stakeholders' power and influence, leadership style and environmental contingencies might also impact the governance model of a university.

1.2. The Research Objective

The involvement of actors at HEIs, on the basis of their power and influence, in the governance process produces various governance approaches. While some approaches have been substantially researched (Kezar & Eckel, 2004), others remain insufficiently researched. In addition, the phenomenon of governance has typically been considered from single theoretical perspectives. Consequently, there are a number of theoretical frameworks that have been underexploited in governance

research. As such, the research objective of this dissertation is to address an identified research gap and to additionally elucidate the phenomenon of governance, and the entrepreneurial approach to governance in particular, by applying the theoretical framework of “New corporate governance” (Hilb, 2008).

In this study, governance research was performed within the context of an entrepreneurial HEI. The first objective was to determine the manner in which environmental contingencies shaped the entrepreneurial model of the HEI and to identify the key features of the entrepreneurial governance model. A second objective was to determine how the entrepreneurial governance model in the studied case might evolve towards a more mature governance model.

1.2.1. Gaps in the research

In current empirical governance research, there exists a number of gaps related to institutional and geographical settings and theoretical frameworks.

Table 4: Gaps in Previous Governance Research

“Geographical gap”	Most empirical governance studies have been conducted in an American geographical context.
“Theoretical gap”	Governance research has been conducted mainly within a framework applying agency or stewardship theory. In particular, governance research in the institutional setting of HEIs has been conducted using a limited set of theoretical frameworks.
“Institutional gap”	Public corporations have been the most frequently researched entities in governance research. There are other societal, institutional and organizational forms that need to be additionally researched.

Source: Developed by the author

In the first instance, there is a “geographical gap” in governance research, where most empirical governance studies have been carried out in the US. Of the 206 empirical studies conducted over a five-year period between 1993 and 2007, Durisin and Puzone (2009) report that almost 70% of governance research was performed using US data from publicly traded corporations. In their paper, Durisin and Puzone (2009, p. 279) conclude that “there is a large body of accumulated corporate governance research in the US, yet there is an empirical gap on cross national studies in the literature”.

Secondly, governance research also suffers a “theoretical gap” in which most research has been conducted within a framework of agency or stewardship theory focused on examining the impact of board composition and structure, or the insider-outsider proportion, on organizational performance. In their review of the literature, Nicholson and Kiel (2007, p. 591) argue that findings from studies conducted within these frameworks have been contradictory. This argument is supported by Rhoades et al., (2000, p. 77, as cited in Nicholson & Kiel, 2007), who claim that “extensive research in the area has shown any relationship between composition and/or leadership structure and firm performance to be inconsistent and conflicting”. Similarly, governance research within the institutional settings of HEIs in particular has also been conducted using a limited set of theoretical frameworks. In their analysis of the theoretical perspectives used in university governance research, Kezar and Eckel (2004, p.374) identified the following theoretical approaches employed by HEI governance researchers:

1. The structural approach, with a focus on the chains of command, tasks and bodies responsible for decision making.
2. The open systems framework, focusing on broader environmental forces that impact governance decisions.
3. Human relations, cultural and social cognition theories, which emphasize human resources rather than structures.

As a result, Kezar and Eckel (2004) suggest that researchers should apply additional and new theoretical perspectives in HEI governance research.

Finally, there is also an “institutional gap” in empirical governance research. For the most part, only public corporations have been examined in existing empirical studies (Durisin & Puzone, 2009). However, there are other forms of societal and institutional arrangements in the public and private sectors that are currently under-researched. There are a number of questions that remain to be examined regarding the manner in which these institutional forms have been governed through the active participation of their stakeholders.

Kezar and Eckel (2004) argue that, despite emerging empirical research on this topic, there are a number of under-researched areas that require attention. In their discussion of under-researched topics for governance research, these authors emphasize higher education institutions and their responsiveness to the changing context.

In addition to responding to these identified gaps in current governance research, this thesis aims to go further and examine the manner in which HEI governance models are adapting to contextual forces. More precisely, the research objectives are:

- To determine how the entrepreneurial governance model of an HEI originates under the influence of contextual forces and,
- To determine how the entrepreneurial governance model of an HEI might evolve towards a more mature governance model.

The theoretical framework that will be used in this thesis is Hilb's (2008) "New corporate governance" approach. The rationale for the selection of this framework stems from the fact that this approach is:

- a "contextual framework" - it takes into account the contextual elements that shape the entrepreneurial governance model,
- a normative theory - it may be used to provide recommendations as to which governance structures, processes and mechanisms should be used in the next phase of governance model development, and
- a multi-theoretical framework – it enables theoretical triangulation and additional insight into the phenomenon.

1.2.2. Research object and research questions

The context in which the research was conducted is the Croatian higher education environment, with the Zagreb School of Economics and Management (ZSEM) as the research object. ZSEM was founded as an entrepreneurial project in 1995 and was a response to the dominance of public higher education institutions in the Croatian transitional higher education market. In order to effectively compete with public HEIs in the local market and to respond to changes in the environment (such as risks related to a changing regulatory framework, the globalization of business and business education, and increasing mobility of students and faculty), the school devised a strategy that distinguished it from other similar institutions in the environment. One of key elements of this strategy has been the school's dedication to quality. In order to confirm its quality, the school entered into a process of international accreditation with AACSB International³. Stakeholders of the school have consistently been aware that, by achieving international accreditation, the school would gain additional legitimacy that could be, in turn, utilized as a source of competitive advantage. Consequently, ZSEM has been governed using an entrepreneurial model, with an objective to achieve international accreditation by mobilizing all relevant actors in

3 AACSB International is an accreditation agency established in 1916, with the purpose to support and assist continuous improvement and development of business schools worldwide.

that process. This created an opportunity for the researcher to observe and investigate how the involved actors have been integrated in the process of strategic direction and control and how this has shaped the entrepreneurial approach of governance at ZSEM.

This thesis aims to analyze the ZSEM governance model through the “contextual lenses” of “New corporate governance” in order to identify the environmental elements that shaped such a model.

In addition, because key stakeholders at the school are aware that the entrepreneurial governance model represents only one phase in the development of the institution, they are examining and preparing for a transition to a more mature governance model. Accordingly, an additional goal of this study was to provide recommendations regarding the necessary elements for an appropriate governance model in the next phase of the school’s development.

The research questions of this study are:

1. What are the contextual forces that shape the entrepreneurial governance model of the HEI?
2. What are the distinguishing features of the entrepreneurial governance model of the HEI?
3. How is strategy developed and implemented within the entrepreneurial governance model of the HEI?
4. How are involved actors integrated within the entrepreneurial governance model of the HEI?
5. What is the controlling approach within the entrepreneurial governance model of the HEI?
6. What adaptations are necessary to the current entrepreneurial governance model in order to progress towards a more mature governance model?

1.3. Approach

When examining the nature of any phenomena, there are a number approaches that might be applied. This is the topic of focus in an area of epistemology dedicated to exploring the approaches used to acquire new knowledge (Easterby-Smith et al. 2008). From an epistemological viewpoint, there are two distinct approaches or research paradigms.

The positivist paradigm, as a deductive approach, is characterized by the testing of a hypothesis developed from existing theory (Blaikie, 1993; Saunders et al. 2007). Alternatively, the constructivist paradigm argues that reality is constructed

through experience. As a result, constructivists argue that there are many different interpretations of any researched phenomenon (Blaikie, 1993; Hatch & Cunliffe, 2006) and, as such, it is important to understand contextual factors and interpretations. The constructivist paradigm is an inductive approach.

1.3.1. Theoretical paradigm

This thesis applies a constructivist paradigm for its study. Contrary to the positivist approach, where the researcher is separated from the phenomenon or object of research, a constructivist researcher creates an environment in which the research subject and the research object jointly construct a version of reality through the interaction between the investigator and the respondents. While the positivist paradigm must demonstrate causality through hypotheses and deductions, the constructivist approach aims to increase general understanding by gathering data from which ideas are induced (Evans, 2010).

1.3.2. Research strategy

In order to address the research questions, the case study method has been employed as a research strategy. In the literature, there are many definitions for case study research. Perhaps the most frequently cited definition is that of Eisenhardt (1989a, p. 534), who defines the case study approach as “a research strategy which focuses on understanding the dynamics present within single settings”. Another well-known definition comes from the work of Yin (1994, p. 13), who states that “a case study is an empirical enquiry that investigates a contemporary phenomenon within its real life context, especially when the boundaries between phenomenon and context are not clearly evident”.

The central proposition of the “New corporate governance” meta-theory is that approaches to direction and control are highly contextual. As such, the selection of a case study approach, which attempts to examine a phenomenon that cannot be separated from its context, is a good fit with the notions embedded in the theory of “New corporate governance”.

Observing the phenomenon of entrepreneurial governance thorough the lenses of the “New corporate governance” model fulfills both of the above conditions. Firstly, it is a contemporary phenomenon occurring within a real-life context. Secondly, because the entrepreneurial governance of ZSEM is strongly embedded in the context, the boundary between the phenomenon and the context is not clear.

According to Benbasat et al. (1987) (as cited in Iacono et al., 2009, p.41), the case

study method may be adopted to aggregate and formalize practical knowledge within a researched phenomenon. In this thesis, the phenomenon of effective direction and control has been examined in order to develop and systematize practical knowledge about the origin of governance approaches.

One goal of the study was to address a real life problem by proposing changes to the existing governance model of ZSEM⁴. Therefore, case analysis has additionally been used as a tool for a review and evaluation of the current situation in order to address the final research question, i.e. “What adaptations are necessary to the current entrepreneurial governance model in order to progress towards a more mature governance model?”

By applying the case study as a research strategy, the position of the researcher encompasses the dual role of both observer and participant. While adopting the roles of both researcher and participant has certain limitations⁵, this approach also offers the advantage of conducting research in real time and in a real life situation. In addition, it offers a convenient method through which the observer and participant can review the specific context and existing situation, identify the problem and, at the same time, recommend changes to improve the situation (Azhar et al., 2010; Waterman et al., 2001).

The sources of data used in this study include various documents (reports, presentations, minutes of meetings, etc.), archival records and interviews.

4 As previously mentioned, the founders of the school are aware that the entrepreneurial governance model is only one phase in the development of the institution and, as such, are considering a transition to a more mature governance model. Accordingly, an additional goal of this study was to provide recommendations on the necessary elements for an appropriate governance model for the next phase of the school’s development.

5 The limitations of participant observation as a research approach are often related to the issue of methodological rigor. Most commonly, criticism of the participant observation method is related to the bias of the researcher and the reactivity of respondents. In other words, since the phenomenon of interest is explored through the eyes of a single observer, there is a potential for a lack of objectivity. In addition, because the observer is also a participant, his or her presence might influence the behavior and responses of the informants.

2. General Theoretical Section

2.1. Introduction of the General Theoretical Section

Theories of governance are both positive and normative. In other words, governance theories aim “to influence as well as understand behavior” (Masten, 1993, cited in Donaldson, 2012, p. 257). While the aim of positive theories is to contribute to the explanation of governance structures, processes and mechanisms, normative theories seek to define the structures, processes and mechanisms that should be used to improve the effectiveness of governance.

The purpose of this section of the thesis is to present Hilb’s (2006; 2008) “New Corporate Governance” model, which aims to integrate the theory and practice of governance. In the “New Corporate Governance” approach, Hilb (2006; 2008; 2012) offers a theoretically based set of instruments and tools that can be used for effective governance practice.

The key features of Hilb’s approach are:

- It is a normative theory.
- It is a holistic approach.
- It is a meta-theoretical framework.

2.1.1. “New Corporate Governance” as a normative theory

Masten (1993, cited in Donaldson 2012, p. 257) argued that governance theories should serve, at least in part, as a “normative theory of organizational choice and design”. Similarly, in his support for a normative approach in governance theory, Donaldson (2012, p. 257) emphasizes that governance refers “to the collection of rules, policies, and institutions affecting how a firm is controlled”. Accordingly, governance theories “must play a prescriptive, action-guiding or normative function” (Donaldson, 2012, p. 257).

In his “New Corporate Governance” model, Hilb (2006) criticizes the one-dimensional or reductionist approach of existing governance theories. As such, he developed a set of recommendations for effective governance practice, housed within four dimensions or guiding principles. First, when developing best governance practice guidelines, the contextual factors in which an organization operates should be taken into account. Secondly, an effective strategic role of the governing board depends on a well-diversified and competent board team. Thirdly, because the governing board is a team, effective and integrated human resource policies should

be utilized at the board level. Finally, a holistic monitoring system at the board level should be developed.

2.1.2. “New Corporate Governance” as a holistic approach

Hilb (2005; 2006; 2008) argued that, because the commonly accepted shareholder maximization value dictum has often resulted in corporate scandals, governance approaches need to be challenged in theory, practice and research. He identified four main reasons for the collapse of organizations as a result of problems in governance:

1. Lack of adaption to a changing situation – the environment is changing but governance remains the same.
2. Lack of strategic direction at the board level.
3. Lack of professional human resource practices at the board and top management levels.
4. Lack of integration of strategic monitoring and risk management functions at the board level.

In order to avoid such pitfalls, Hilb proposed a holistic or “shared value” framework that integrates the interests of all relevant actors (i.e. shareholders, clients, employees and the general public) in the strategic direction, integrative management, and holistic control of organizations within each particular context.

Such an approach allows the “New Corporate Governance” model to be applied in sectors and institutions with complex constellations of involved actors, such as hospitals, cooperatives, and higher education institutions.

2.1.3. “New Corporate Governance” as a meta-theoretical framework

If we look up the word “meta” in the dictionary, it is defined as “occurring or situated behind or after” and “occurring later than or in succession to”. Therefore, meta-theory should come after a particular theory is developed or extend beyond it. According to Turner (1990, p. 38), meta-theory is “about structures and implications of existing theories” and is a “tool for generating and improving theories”.

In the “New Corporate Governance” approach, Hilb has evaluated the concepts and propositions of existing theories and built a meta-theory on top of several corporate governance theories. Hilb (2008) argues that, because the diversity of governing board roles cannot be explained from a single perspective, effective governance should be considered from a “multi-theoretic” point of view. Drawing on Hung’s

(1998) classification of the roles of governing boards⁶ and corresponding theories, he proposes an integrated four-dimensional framework of governance. The following table illustrates Hilb’s four dimensions and the corresponding theories that explain these dimensions.

Table 5: Hilb’s four dimensions and corresponding theories

“New corporate governance” dimension	Corresponding theory
Situational	Institutional theory Contingency theory ⁷
Strategic	Stewardship theory Role theory
Integrated	Resource dependence theory
Controlled	Agency theory Stakeholder theory

Source: Adapted from Hilb (2008, p.10)

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- 6 According to Hung (1998, p.101), the six major roles that can be identified in the literature are:
 Linking role in ensuring critical resources between the organization and external environment
 Coordinating role in balancing interests within the network of relevant stakeholders
 Controlling role in monitoring and evaluating managerial performance
 Strategic role in formulating overall organizational goals and policies that serve as a basis for the allocation of resources.
 Maintenance role in sustaining the relationship between the organization and the environment.
 Supporting role in legitimizing the decisions of management.
- 7 In Hilb’s (2008) approach, the “unit of analysis” is the Governing Board, in which he presumes a “directing and controlling” board with board members acting as “agents of change” with the ability to recognize a particular context. Therefore, in the situational dimension, Hilb (2008) uses Fiedler’s contingency model or Fiedler’s leadership effectiveness model. According to this model, every situation requires a different leadership approach, which might range between “task-oriented” and “relationship-oriented” leadership styles. However, in this dissertation, the “unit of analysis” is the constellation of all involved actors of HEIs, encompassing the Board of Trustees, executive leaders and faculty. As such, in the development of a model for the origination of governance approaches (p. 46), this dissertation utilized “structural contingency theory” (Burns & Stalker, 1961; Lawrence & Lorsch, 1986; Gupta et al., 1994). According to structural contingency theory, the organization that successfully adapts its structure to environmental contingencies (such as ownership, size, organizational complexity and stage of development) improves effectiveness.

The key argument for a multi-theoretical model is that one theory is insufficient to comprehensively explain the operation of a governing board (Hilb, 2008; Hung, 1998). Accordingly, each theory can explain only a portion of the whole picture. For example, when the governing board plays only a controlling role, agency theory might be sufficient for the explanation of the board's work. However, institutional theory might be a better framework for explaining the function of the board when it plays a ceremonial role only, giving legitimacy to the organization.

2.1.3.1. The situational dimension based on Institutional and Contingency theories

Institutional and contingency theories offer contrasting explanations for the manner in which organizations respond to their environments. On one hand, institutional theory emphasizes the social and cultural context as key determinants of organizational forms, behaviors and processes. In contrast, various task and technical elements are forces that shape organizational processes within the contingency framework (Gupta, 2007).

Despite possessing nearly contrary approaches in understanding the factors that impact organizational processes, these two frameworks have often been combined in empirical research. One study that used both theories was that of Gupta et al. (1994), who combined these theories to understand the forces that impact coordination and control in a governmental agency. The results of this study demonstrated that the application of both institutional and contingency theories contributed to a better understanding of the impact of institutional forces on coordination and control within a governmental agency. Tucker (2010, p. 27), in his consideration of organizational performance in the not-for-profit sector through these two lenses, argued that “theoretical triangulation” involving institutional and contingency theories might provide additional insight into observed phenomena.

The main postulate of institutional theory is that institutional forces, in the form of cultural, social, and political processes, shape organizational systems. Scott (2005, p. 469) argued that “institutional theory had multiple roots and was being pursued in varied ways across the social sciences”. According to Scott (2004, p.6), the most well-known institutional theory is the “East Coast variant”⁸ developed by DiMaggio and Powell (1983). Here, it is argued that, because of external pressures, organizations in the same organizational fields will have similar structures. Such similarity or institutional isomorphism is the result of coercive, mimetic and

8 This variant of institutional theory was developed at Yale University by, Paul M. DiMaggio and Walter W. Powell (Scott, 2004, p.6).

normative forces, where coercive forces might arise from government and regulatory agencies, mimetic isomorphism arises from the imitation of other organizations, and normative isomorphism is an outcome of the organizations' alignment with the professional standards established by professional communities.

In an attempt to construct a comprehensive framework, Scott (2001, p. 48) postulated that institutions encompass “cultural-cognitive, normative and regulative elements that, together with associated activities and resources, provide stability and meaning to social life”.

According to North (1990), an institution, at the most general level, might include any entity created by the involved actors in order to shape social interaction. North argues that the institutional context is comprised of “formal” and “informal” institutions. In other words, “institutions are rules of game in society” in the form of “hard” (regulatory) and “soft”(culturally influenced) norms (North, 1990, p. 3).

While institutional theory predicts convergent behavior among organizations due to institutional pressures, contingency theory posits that organizations diverge because of the unique context within they must operate. Accordingly, organizations adapt their organizational structures to a particular context (Burns & Stalker, 1961; Gupta et al., 1994; Lawrence & Lorsch, 1986). Galbraith (1973, p. 2) argues that “there is no one best way to organize”. According to contingency theory, every particular organizational context is unique and determined by its task environment, which encompasses all possible variables on which organizational sustainability depends (Dill, 1958, Donaldson, 2001). As a result, organizations adapt to these diverse and numerous contingency variables. Gupta et al. (2007) reviewed the various contingency variables cited in the literature, such as technology (Woodward, 1958), environmental uncertainty (Burns & Stalker, 1961), environmental complexity, growth rate, organizational size, ownership, organizational climate, stage of development, national culture (Thompson, 1967), management style and strategy (Burton & Obel, 1998). Scott (1992, as cited in Hung, 1989), emphasized various contingency variables, such as organizational complexity, degree of centralization in an organization and communication network. Therefore, in order to be effective, an organization has to identify “which contingency factors most significantly affect the design of organizational units” and adapt its organizational processes to those contingency factors in order to achieve “contingency fit” (Van de Ven & Drazin 1985, p.358). Undoubtedly, the task environment consists of numerous potential contingency factors and, as such, it is essential to identify those contingency factors that are crucial for the organization. For example, Hilb (2008) emphasizes ownership, organizational complexity and degree of internationalization as contingency variables that impact the task environment of governance.

2.1.3.2. The strategic dimension based on Stewardship and Role theories

Apart from its’ fiduciary and monitoring roles, the most important role of the governing board is a strategic one. In order to fulfill its strategic role, the board must actively participate in organizational matters. Stewardship theory, as a “pro-organizational” (Hernandez, 2012, p.172) or “collectivistic” (Davis et al., 1997, p. 20) framework, provides an appropriate “lens” for observing and understanding active and participatory board behavior.

Hung (1989, p. 107) emphasizes the strategic role of the board by arguing that it should function as “the dominant coalition in guiding management to achieve the corporate mission and objectives.” Furthermore, effective governance within the stewardship framework implies the need “to find an organizational structure that allows coordination to be achieved most effectively” (Donaldson, 1990, p. 377). In other words, the optimal structure is that which ensures teamwork, coordination and active participation.

Podrug et al. (2010, p.1227), citing Donaldson and Davis (1993), emphasize that the concept distinguishing stewardship theory from other governance theories is “a model of human behavior“. In the organizational context, this “model of human behavior” might be “economic” and “rational”, as presumed by agency theory, or “socio-psychological” and “based on trust”, as implied by stewardship theory. Within the stewardship framework, “socio-psychological” behavior is “pro-organizational” (Hernandez, 2012, p.172) or “collectivistic” (Davis et al., 1997, p. 20), where interests of principal and stewardship converge upon each other. In order to achieve these interests, the relationship between the principal and manager should be one based on mutual commitment and trust. When a culture of trust exists between the principal and manager, the principal supports and empowers the manager-steward even in the absence of any established control mechanisms.

Caldwell et al. (2010, p. 498) argue that trust is “established by creating a duty-based or covenantal relationship with followers and with stakeholders”. A covenantal relationship is based on mutual commitment between the involved parties and has both transactional and relational dimensions (Hernandez, 2012, p.173-174). This type of relationship builds trustworthiness among managers and therefore positively influences stakeholders’ trust (Caldwell et al., 2008; Caldwell et al., 2010: Hernandez, 2012).

Trust was also a theme in research conducted by Mishra (1996) examining organizational responses to crisis, which presents a model for the manner in which trust is developed within an organization. In his work, Mishra (1996) reviewed the literature examining the concept of trust and identified four behavioral elements that

impact trust. These four dimensions were confirmed in 33 interviews conducted with managers. Mishra's (1996) model incorporates the following four factors.

- Competence or ability of leaders (Kirkpatrick & Locke, 1991),
- Openness and integrity in communication (Gabarro, 1987),
- Concern for others (Nanus, 1989) and
- Reliability or consistency in actions (McGregor, 1967).

According to this model, these four factors influence the level of trust among followers and stakeholders and increase the trustworthiness of the manager.

Stewardship theory, in its assumption of converging relationships based on trust, has received some criticism for neglecting the potential conflicts and social dynamics within a governing board. For example, Tricker (1994, as cited in Hung, 1989, p.107), argues that stewardship theory “ignores the dynamics of boards, interpersonal perceptions of roles and the effect of board leadership”.

In his explanation of the strategic dimension of governance, Hilb (2008) introduces Role theory (Belbin, 1981; Margerison & McCann, 1985) as a supplement to stewardship theory. Here, he argues that only an appropriate team can create a culture of trust. Role theory takes into account the mechanisms through which individuals adopt positions within teams. According to the role theory developed by Belbin (1981) on the basis of research conducted with teams at Henley Management College, effective teams have a balanced range of roles serving eight core functions. In contrast, unbalanced teams exhibit a deficiency of some roles or the over-representation of others.

Belbin (1981, as cited in Prichard and Stanton, 1999, p. 653), identified five principles vital for team performance:

- Each team member should participate in the achievement of objectives within the functional⁹ and team¹⁰ roles.
- The functional and team roles of team members should be optimally balanced and take into account the nature of the team objectives.
- The relative strengths of team members should be recognized and utilized to promote the effectiveness of the team.
- It should be recognized that the personal qualities of team members may be

9 Based on the know-how

10 Based on interaction within the team

an advantage for some team roles and a disadvantage for others.

- An appropriate range of team roles that enables teamwork is a key condition for the effective deployment of team resources.

Belbin’s role theory has been extensively used in human resource practice as a tool for management team development in various commercial organizations and management consultancies (Prichard & Stanton, 1999).

Another frequently mentioned approach for selecting team members and improving team effectiveness is Margerison and McCann’s (1985) Team Management Systems approach. In a study involving over 115,000 individuals in various roles in over 80 countries, Margerison and McCann (1985) identified that, while some teams were highly effective, others were not, despite having similar experience and skills. The reasons for team failures were conflict, mistrust and poor communication. As a result of this study, Margerison and McCann developed a model describing the core functions that all teams must fulfill.

The following table presents a comparison between the two approaches described above.

Table 6: Margerison and McCann’s (1985) and Belbin’s (1981) approaches

Margerison & McCann’s Role	Description	Belbin equivalent
Reporter-Adviser	Likes to help others. Gathers information and makes it understandable. Listens patiently before deciding. Prefers to be slow and fully right rather than quick and mostly right.	Monitor-Evaluator
Creator-Innovator	Likes independence to think and innovate. Not afraid to challenge norms. Good at starting new things.	Plant
Explorer-Promoter	Likes to connect with people outside the group as well as inside. Good at seeing the big picture. Good at creating enthusiasm for new ideas.	Resource Investigator
Assessor-Developer	Likes experimenting with new ideas. Good at evaluating different options. Good at organizing new activities.	Coordinator

Thruster-Organiser	Likes ‘making things happen’. Ready to add energy and turn an idea into an action. May be impatient	Shaper
Concluder-Producer	Likes completing things on time, on budget and to specification. Likes using well-developed skills. Good at methodical, careful work.	Completer-Finisher
Controller-Inspector	Likes working with detailed information. Good with facts and figures.	Implementer
Upholder-Maintainer	Looks after the physical and social elements of the team. A great source of emotional strength for others on the team. May have strong views on how the team should be run.	Team worker

Source: Retrieved from http://changingminds.org/explanations/preferences/margerson_mccann.htm

Using the frameworks of stewardship and role theories, Hilb (2008) emphasizes the targeted selection of a diverse team that is able to develop a culture of constructive criticism and trust. According to Hilb (2008), only a team with networked structures and processes and proper success measures will effectively fulfill its strategic role. However, team diversity is not an advantage unless it is properly managed on three levels. More specifically, team diversity requires complementary characteristics at the:

- level of Know-how – if the board does not possess the same know-how as management, management cannot be directed and controlled (e.g. an entrepreneur vs. risk manager or human resource manager vs. compliance manager),
- level of Team roles – the board needs to have complementary roles within the team (e.g. critical thinker vs. implementer or promoter vs. controller),
- level of Demographics or traditional diversity (gender, nationality, age)

2.1.3.3. The integrated dimension based on Resource dependence theory

According to resource dependence theory, boards should be able to bring resources to an organization. Board resources encompass the human and social capital of its members (Eminet & Guedri, 2010). In other words, the knowledge and competences that the board members acquire through education and work, together with their social networks, are valuable resources for organizations.

Hilb (2008) argues that, although organizations might possess valuable resources, they may not be utilized effectively without proper human resource management at the board level. In order to be utilized effectively, board resources need to be selected, reviewed, remunerated and developed in an integrated and targeted manner for each particular context.

As such, he recommends that the selection of board and top management teams is based on the following dimensions:

- Personality
- Professional expertise
- Social skills
- Leadership skills

The integrated board management concept also requires that board performance is reviewed in order to compensate positive performance and to improve suboptimal performance.

Furthermore, compensation should also take into account:

- Internal equity – all organizational members are included in a single all-encompassing compensation system
- External equity – compensation should be benchmarked with competition
- Company performance equity – introducing a variable performance based pay system with a larger variable part of the total pay for more senior positions.

Finally, board development should also involve board seminars and networking activities. Another important function of board development is succession planning, with an objective to effectively utilize internal resources.

2.1.3.4. The controlling dimension based on Agency and Stakeholder theories

In the controlling dimension of governance, Hilb (2008) adopts the perspectives of agency and stakeholder theories.

Agency theory assumes divergent interests among principals - owners and agents – managers. As such, it becomes necessary to arrange effective monitoring in order to decrease agency costs resulting from the prevailing influence of managers in the governance process (Fama & Jensen 1983). When managers have a prevailing influence in organizations, communication might become ineffective and a problem of asymmetric information among stakeholders emerges. In addition, managers tend to influence the board selection process and, as a consequence, board members do not have sufficient expertise for the fulfillment of their roles.

Stakeholder theory assumes that, in addition to owners, the organization is also responsible to various other groups (Freeman, 1984). Within a stakeholder theory framework, the governance process should ensure fair treatment of all relevant stakeholders and the role of the governing board is to coordinate stakeholder interests (Hung, 1998).

By combining agency and stakeholder perspectives to explore the controlling dimension of governance, Hilb (2008) recognized the need to establish the following board functions : (1) Auditing function, (2) Risk management function, (3) Communication function and (4) Evaluation function. Within the controlling dimension, the purpose of these four functions is to neutralize the prevailing power of the managers and to reduce the problem of asymmetric information between managers and other stakeholders and the problem of lack of expertise among board members for fulfilling monitoring roles.

In the following chapters, HEI governance will be analyzed using the theoretical perspective of the four-dimensional “New corporate governance” framework.

2.2. The Situational Dimension of HEI Governance

It is an empirical fact that HEIs have been governed in various ways in different legal, national and historical contexts (McNay 1995; Middlehurst, 2004). Therefore, in order to describe the manner in which different contexts impact the governance approaches adopted by HEIs, governance models will be discussed in this chapter using institutional and contingency theories as an analytical lens. Within the situational dimension, HEI governance models evolve as a balanced outcome of institutional and contingency pressures. In other words, the situational dimension of HEI governance includes various institutional and contingency variables that

influence and shape a particular governance model. In this thesis, the method for identifying institutional and contingency variables has been derived using Hilb's (2008, p.7) approach of combining institutional and contingency theories.

While institutional variables support the convergence of governance approaches, contingency variables support model diversity. The outcome of the interplay between institutional and contingency variables is a particular governance model. More precisely, the situational dimension of HEI governance, discussed in more detail in the following text, describes the context of HEIs. This context is determined by variables such as the legal status of the HEI, the configuration of the governing boards, the size and selection of the governing board, the social economic environment, culture and traditions, ownership types, organizational complexity, and the selection methods of executive leadership in the HEI.

Within the situational dimension, HEI governance models have been evolving as an adaptation to different historical, cultural or geographical contexts as well as national and global trends (Birnbaum, 1989; Clark, 1998; de Boer et al., 2010; Fielden, 2008; McNay 1995; Trakman, 2008). For example, Birnbaum (1991, p. 4) argued that “the reality of *university* [emphasis added] governance today is much different than the strict legal interpretation would suggest”. In other words, HEIs have been governed in a way that transcends the formal rules stipulated by national regulations.

McNay (1995) goes further and identifies four “cultures” or governance models to describe the transition from traditional collegiate models through bureaucratic and corporate models to a predominantly enterprise-oriented model. Birnbaum (1989) presents five governance models: collegial, bureaucratic, political, anarchical and cybernetic. In addition to faculty and corporate models, Trakman (2008) also discusses the trustee, stakeholder and amalgam models of HEI governance that have been developed in response to various institutional and contingency variables.

2.2.1. Institutional and contingency adaptation of HEIs

When analyzed using institutional and contingency theories, it might be argued that HEI governance models originate as outcomes of institutional and contingency adaptation.

In the first instance, HEIs tend to suit the institutional contexts, comprised of formal and informal institutional rules, in which they operate. By corresponding to the institutional context, the structures, policies and practices of HEIs converge towards one another. This convergent behavior is influenced by a number of variables in the institutional context, including “hard” and “soft” norms, the social economic environment as well as culture and traditions. According to institutional theory,

a governance model that is a good fit with the institutional context produces the benefits of legitimacy and resources (Donaldson, 2008; Scott, 1995).

Conversely, a contingency framework implies that there is no governance model that is suitable for all situations and circumstances (Gailbright, 1973; Scott 1992, cited in Gupta et al., 1994, p. 265). Consequently, the contingency approach begins with the identification of contingency variables that might impact a particular governance model. In order to be effective, the governance model should be suited to the contingency variables. Various contingency variables, such as ownership, size, purpose, organizational complexity, and leadership styles, also impact the manner in which HEIs are organized. Each of these variables might empower one group of actors and weaken another (Kramer, 1985; Millesen-Miller, 2003). For example, in a public institution where managers are professionals and the board consists of lay members, the relative distribution of power will lie with the managers. In a private institution where owners are not involved in day-to-day operations, it is more likely that the Governing Board will be comprised of professionals in order to ensure effective controlling mechanisms. Such factors might stimulate diversity among HEIs and, as such, might assume a number of different institutional and organizational forms and corresponding governance models. According to contingency theory, the governance model that is a good fit with existing contingency variables supports high performance and effectiveness.

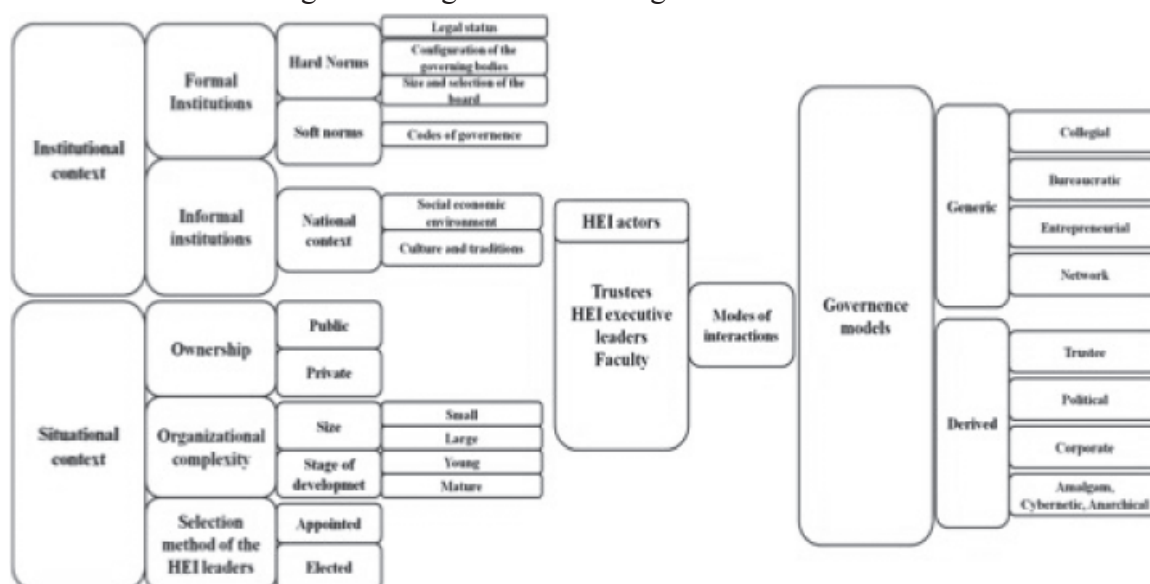
Furthermore, the institutional context and contingency variables impact the behavior of involved actors. HEIs are “pluralistic organizations” (Schedler, 2012) characterized by the involvement and interaction of various actors, such as faculty, students, administration, trustees, the corporate community and the general public. According to actor-centered institutionalism (Scharpf, 1997), HEI actors are characterized by their orientations, capabilities and modes of interaction. Their orientation, i.e. preferences and perceptions, are “rationally bounded”¹¹ (Scott, 2001; Schedler, 2012). The capabilities of actors’ include all resources, capacities and competences that enable them to influence the decision making process. Furthermore, actor orientation, as well as actor capabilities and modes of interaction, are “influenced but not determined” by the institutional context (including both formal and informal institutional rules) within which they interact (Scharpf, 1997; Scharpf, 2000, p. 770-771). Such a framework, comprised of formal and informal rules, creates the playing field for actor interaction.

11 It is assumed that the rational choices or “rationalities” of actors are constrained or “rationally bounded”. In other words, their actions are “bounded” or influenced by contextually shaped preferences and perceptions.

To summarize, an HEI governance model represents a balanced adaptation of the HEI to the institutional context and contingency variables. It also encompasses the roles, constellations and modes of interaction of all involved actors, which are also influenced by institutional and contingency pressures. While the institutional context creates a convergent force on actors and approaches to HEI governance, contingency variables contribute to divergent actor behavior and governance models. While adaptation to the institutional context produces legitimacy and resources, adaptation to contingency variables supports high performance and effectiveness.

The following graphics depict the origination of a governance model as the balanced outcome of institutional and contingency forces. This graphic can be used as a map for the current chapter.

Figure 1: Origination of HEI governance models



Source: Developed by the author

In this model, HEI governance approaches originate as an outcome of their adaptation to institutional and contingency pressures. Institutional pressures (arising from the institutional context) and contingency pressures (arising from situational context) influence actors' orientations, capabilities and modes of interaction that, in turn, shape a particular governance model.

2.2.2. Institutional pressures on HEI governance models

Institutional pressures on HEI governance models can be both formal and informal (North, 1990). Formal pressures arise from constitutions, statutes, and other

regulations that are part of a wider normative framework encompassing “hard” and “soft” norms. Informal pressures stem from the customs, values and other norms of behavior of governing actors or stakeholders. These informal pressures are additionally embedded in national contexts, characterized by the social economic environment, national customs and culture. HEIs tend to respond to institutional pressures by adapting their organizational processes and mechanisms. By adapting to meet institutional pressures, HEIs “receive the benefits of legitimacy and external support” (Scott, 1995, cited in Donaldson, 2008, p. 22) and create the ability to survive (Aoki, 2001; North, 1990). The perception of legitimacy ensures organizational success, an idea that is especially true in the HEI institutional context. According to Meyer et al. (1981, p. 56, as cited in Morphey, 2000, p.6), “an [educational organization] succeeds if everyone agrees it is a school; it fails if no one believes that it is a school, regardless of its success in instruction or socialization.”

2.2.2.1. Formal institutional pressures on HEI governance models

Formal institutional pressures create a normative context, which consists of inter-related “hard” and “soft” standards and norms that shape governance models. “Hard” norms impact the governance of HEIs by regulating their legal status, the configuration of governing bodies and the size and composition of the governing board. For HEIs, it is mandatory to comply with this normative framework. Conversely, “soft” norms exist when legal arrangements are weakened and when alignment with regulations is not mandatory. In general, “soft norms” include codes of good governance for HEIs.

2.2.2.1.1. “Hard” regulation of HEI governance

While diverse in terms of their origin, size and organization, HEIs have several mutual legal features that are tightly regulated. Specifically, all HEIs:

- Are established under the terms of a constitutional act or related higher education regulation
- Are legally separated entities with diverse levels of independence
- Have a non-profit (charitable) status
- Have a governing board that represents the institution

2.2.2.1.1.1. Legal status of HEIs

HEIs are generally established as non-profit entities, either on the basis of a constitutional act (chartered corporation) or on the basis of a specific act of parliament with a statute as a key governance act (statutory corporation).

Sometimes, in the case of for-profit entities, HEIs are established as private or public limited liability companies.

The legal status of HEIs has a direct impact on their level of independence and autonomy. For example, when an HEI is established as a governmental body, there exists a low level of independence under strong governmental control. On the other hand, an HEI as a chartered corporation or limited liability company might have full independence and autonomy. In his analysis of the legal status of public HEIs, Fielden (2008, as cited in Hilb, 2012a) identifies a range of possible means by which public HEIs might be controlled by the government.

Table 7: Level of government control of public HEIs

Institutional Governance Model	Status of public universities	Examples in
A. State Control	Organized as a governmental agency or state-owned corporation	Malaysia
B. Semi-Autonomous	Organized as a governmental agency, state-owned corporation or statutory body	New Zealand, France
C. Semi-Independent	Organized as a statutory body, charity or nonprofit corporation subject to governmental control	Singapore
D. Independent	Organized as a statutory body, charity or non-profit corporation with no government participation and control; linked to government only through national strategies and public funding	Australia, United Kingdom

Source: Fielden (2008, p. 9)

The table above presents examples of several levels of government control. If “tight control” is in place, an HEI is organized as a governmental agency or state-owned corporation. Accordingly, the state is highly involved in the direction and control of such institutions. In this form of institutional governance framework, leaders

are generally appointed under strong political guidelines. Alternatively, within an independent governance framework, HEIs might be organized as a statutory entity or non-profit corporation without any governmental influence on direction and control. In this case, the HEI's only connection to government is its alignment with national strategies and its dependence on public funding.

In the most extreme case of independence, the funding of an HEI might be entirely private. While private institutions are generally established as non-profit institutions licensed by the government or a regulatory agency, there are also private HEIs organized as a for-profit corporation listed on the stock exchange. One example of such an institution is the University of Phoenix (Altbach & Levy, 2005, p. 19). In such institutions, market mechanisms are in place and direction and control depends on the effective operation of the governing body.

2.2.2.1.1.2. Configuration of the governing bodies of HEIs

The governing bodies of HEIs have two main tasks: administrative¹² and academic¹³ (Corcoran, 2004; de Boer et al., 2010; Fielden, 2008; Hogan, 2006; Kretek et al., 2012).

Administrative tasks are:

- Determining the purpose and mission of the HEI and monitoring its activities
- Participating in the formulation and ratification of strategy
- Controlling the utilization of HEI resources
- Protecting HEI assets
- Monitoring and approval of the budget
- Appointment and evaluation of the executive leaders
- Appointment of external auditors.

12 The governing board of an HEI (also called board of trustees, board of governors or board of directors, depending on the legislative and geographic origin of the HEI) is an administrative decision making body that has fiduciary, strategic and monitoring roles in the direction and control of the institution.

13 The academic board of an HEI (also called faculty board, faculty council or senate, depending on the legislative and geographic origin of the HEI) is an institutional body that has a predominantly academic role in the direction and control of the institution. Under some legislations, academic boards are also involved in administrative matters.

Academic tasks are:

- Determining the educational and research policies of the HEI
- Deciding on the curriculum and supervising its implementation
- Establishment of academic departments
- Election and evaluation of faculty members and researchers.

HEI regulations stipulate the configuration of governing bodies in such a way that each governing body is responsible for one or both groups of tasks. Those tasks might be operationalized within a single governing board, within two boards or within three boards involved in the governance of the HEI (Hogan 2006; Lee & Land, 2010; Lombardi et al., 2002; Young, 2004). In the Single board system, HEIs are governed by a single governing body responsible for both administrative and academic matters. When HEIs are governed by two governing bodies, a board of trustees is responsible for administrative matters and the faculty council assumes responsibility for academic issues. In tricameral forms of governance, where universities are governed by three legislative bodies, a board of trustees is responsible for administrative decisions and the remaining two bodies divide responsibility for academic matters.

The most frequent configuration for HEI governance is a Dual board system or bicameral governance, in which HEIs are governed by two governing bodies. In his analysis of global trends in HEI governance, Fielden (2008) compares the division of administrative and academic tasks between two governing bodies across various countries.

Table 8: Division of tasks between HEI governing bodies across countries

Country	Role of the Governing Board	Role of Academic Council/Senate
Australia	Overall responsibility to the funding body for the governance of the University	Supreme academic body, but is accountable to the Board
Canada	Ultimate responsibility for the management of the institution, as well as recruitment or dismissal of the president	Senate is responsible for academic direction, but is accountable to the Board

Denmark	The Board oversees the interests of the institution in its capacity as an education and research institution and provides long term leadership	Academic Council sees to the academic interests of the faculty
France	Governing Board agrees on a four year plan and contract with the State and determines policy, but is still subject to many controls from the Ministry	Scientific Council recommends academic policy changes in teaching and research to the Board.
Germany	Senate carries out resource allocation. Many powers still reside in the Lander.	No central academic body. Instead, faculty or departmental councils decide on all teaching and research matters
Hungary	Senate is the supreme governing body that elects the Rector, but some decisions are subject to approval by the Minister	
Indonesia	The Board of Trustees plays a central role in university governance	The Academic Senate is to be elected
Japan	The Board of Directors considers the most important matters before the President makes a final decision (each university can decide on the powers of its Board)	Councils shall deliberate on academic courses, research, staff appointments and students and advise the President
Netherlands	The Supervisory Board approves the strategic plans and the budget and appoints the Executive Board (3 members)	The University Council is an advisory body able to comment on the strategic plan and proposed new regulations
Norway	The Executive Board has overall responsibility for running the institution	Advisory bodies are created under a new law, containing Deans ex officio.
Pakistan	The Syndicate is the chief executive organ of the university	The Senate decides on academic issues of the university, appoints members of the Syndicate and considers annual accounts
Sweden	The Board of Governors has overall responsibility for all aspects of the Institution	Faculty Boards determine policy in teaching and research in each faculty

Tanzania	The Council of the university is the principal policy making body of the university	The Senate of the university is the decision making body for academic matters
UK	Overall responsibility for managing the institution and appointing the president	Responsible for academic policy and quality, but is ultimately accountable to the Board. Has 25-150 members
US	The Board of Trustees/Regents has overall responsibility for managing the institution, but powers vary by State. Usually selects the President.	University Faculty Senates advise the President and the Board on academic matters. Members are elected and vary in number.

Source: Adapted from Fielden (2008, p. 60-63)

The table above demonstrates that the Dual board system is the most frequently used model for board configuration, where examples of the dual board can be observed in most of the presented countries. Conversely, single board systems are used in Germany and Hungary, both countries with strong traditions of academic governance.

2.2.2.1.1.3. Size and selection of the Board

Traditionally, governing boards of HEIs are large. In the US, the average board size in private HEIs is more than 30 members (Brown, 2013). In American HEIs, the backgrounds of board members are typically non-academic, while European boards traditionally have members with academic backgrounds (Brown, 2013).

Fielden (2008) argues that there has been a general trend towards smaller numbers of governing board members in Europe alongside a growing proportion of non-academic board members. The following table compares the board size and method of selection of board members across different countries.

Table 9: Board size and selection of board members across countries

Country	Size and selection of the board
Australia	Majority of board members are non-academic.
Canada	Average size of the board is 27 members. 25% of the members are appointed by the province, 25% are elected, 25% appointed by the Board and 25% ex officio. Half of the board members are lay members.

Denmark	Maximum 11 members. The Board is composed of external members (the majority) and members representing the technical and administrative staff, as well as students of the University.
France	Members are elected from a number of backgrounds, including external people.
Hungary	Members are elected for three years.
Indonesia	Members are representatives of a number of bodies, including the ministries, academic senate, academic community, and broader society. This also includes the rector.
Japan	Internal and external members.
Netherlands	Five external members appointed by the minister on the advice of the University Council.
Norway	4-5 external members appointed by the minister. Internal members are elected.
Pakistan	Size of the Board is 20-25 persons and includes academic and non-academic representatives; dominated by academics.
Sweden	Members and Chair appointed by the minister (but suggested by the University).
Tanzania	Size of councils must be between 11-21 members; up to 80% of the board members must be from outside the University.
UK	Recommended limit of 25 members.
US	In State universities, Board members are appointed by the State Governor.

Source: Adapted from Fielden (2008, p. 60-63)

According to Fielden (2008), the biggest reduction in board size occurred in Denmark, where the Danish Ministry of Science and Technology recommends a maximum of 11 members. Similarly, the Australian government recommends a maximum of 12 members. In British post-1992 universities¹⁴, regulations state that the size of the

14 This term refers to former polytechnics that were given university status by a regulation under John Major's government in 1992 (Bhopal & Danaher, 2013, p. 89). The aim of the "Further and Higher Education Act 1992" was to prepare the HE sector for the world of competition and

board must be between 12 and 24 members. In addition, regulations in Denmark, England and Norway state that at least half of Board must be external members. The process of selecting board members corresponds with the level of independence of the HEI. In the public HEIs of most countries in continental Europe, external members are appointed by ministers (Fielden, 2008). The exception to this norm is France, where representatives of all stakeholders are involved in the selection process. In the United States, HEI bylaws stipulate the process of selecting board members. Private American HEIs often have “staggering”¹⁵ board selection processes and board members might be elected by all stakeholder groups (Brown, 2013).

2.2.2.1.2. “Soft” regulation of HEI governance

There are many examples of mutually agreed standards and norms within the HEI environment. One of the most recognized approaches is conformity to the codes of governance or codes of “good practice”.

The first countries to have introduced codes of university governance into practice were Australia, Denmark and the United Kingdom (Fielden, 2008).

In Australia, HEIs receive additional funding when they comply with the “Australian National Governance Protocol”. Consequently, most Australian HEIs comply and benefit from this stipulation.

In the UK, each university is expected to possess the policy guidelines assembled in the “Statement of Primary Responsibilities”, which defines the key roles of HEI governing bodies.

In both the Australian and British documents, there are guidelines to governing bodies for the:

- approval of missions and strategic visions of HEIs that meet the interests of stakeholders
- establishment of monitoring systems
- establishment of risk management systems
- development of performance indicators for benchmarking with the competition
- prevention of conflict of interest
- appointment of the head of the institution and principles of delegation of authority

market forces.

15 In “staggering” boards, only a few of the board members are replaced in a given year.

HEIs are often subjected to processes of external standardization. Within the organizational field of business schools, international accreditation granted by agencies such as AACSB¹⁶ or EFMD¹⁷ serve as additional sources of legitimacy.

2.2.2.2. Informal institutional pressures on governance models of HEIs

Organizational practices are also shaped by informal pressures or unwritten codes of conduct, social norms and conventions that cannot be easily changed. Such social norms, attitudes, traditions and moral codes are embedded into the behavior, preferences and perceptions of involved actors. They are the result of national contexts, characterized by the socio-economic environment, culture and traditions.

2.2.2.2.1. National context

HEIs are considered to be key actors in the development, competitiveness and prosperity of national economies. As such, the social and cultural environment and national culture and traditions have a strong impact on the convergent organizational practices of HEIs within specific national contexts.

2.2.2.2.1.1. Social economic environment

In general, national governments define the vision and strategies for higher education systems. This becomes the basis for the observed similarities among HEIs in a particular national context and, at the same time, for the differentiation of HEI governance approaches across different countries.

However, recent global trends (Fielden, 2008) demonstrate a certain level of convergence among national higher education systems. Although history and culture certainly have an influence on the vision of a higher education system, these visions are also strongly influenced by current social economic factors in each particular country. Fielden (2008, p.5) identified a number of social economic trends in the HEI environment that have a convergent effect on higher education systems:

16 AACSB International is an accreditation agency established in 1916, with the purpose to support and assist continuous improvement and development of business schools worldwide.

17 The European Foundation for Management Development (EFMD) is the European equivalent of AACSB. EFMD is involved in the assessment and accreditation of business schools in Europe and worldwide.

- Transitional processes in national economies, such as the transition from a socialist to a market economy
- Crisis of the higher education system because of demographic and public financing trends
- General consensus that higher education systems are key drivers of future growth and development in a particular country
- Decrease in public financing of higher education systems in a developed country.

Another important factor influencing the convergence of HEIs in Europe is the adoption of the Bologna Declaration, whose intention is “to construct a European Higher Education Area to achieve greater compatibility and comparability of the systems of higher education” (Huisman et al., 2009, p. 245).

In contrast, there are also a number of divergent forces in national higher education systems. Within any national context, higher education is organized either as a binary or unitary system. The “binary system” exists when HEIs are formally established either as universities or vocationally oriented institutions or universities of applied science, such as polytechnics, fachhochschulen or colleges of applied sciences. In “unitary systems”, there exists only one type of institution, usually the university. The following table presents an overview of the HEI environment in eight OECD member countries:

Table 10: Higher Education Systems across eight countries

Country	System	Institutional Types
Australia	National/Federal	Public unitary
England	National	Public unitary
Germany	Federal	Public segmented (Uni/Fschulen/olls)
Ireland	National	Public binary (Uni/technical inst)
Japan	National	Public/private Binary

Netherlands	National	Public binary vocational/ research
Sweden	National	Public unitary
United States	Federal	Public/private Carnegie classification

Source: Adapted from OECD (2007, p. 52)

From this table, it is apparent that most of the countries presented possess a binary system. In an aim to promote greater diversity within the higher education system, the United States also introduced the “Carnegie classification”, which classifies HEIs according to type, ranging from institutions offering professional and two-year programs to HEIs granting doctorates (McCormick & Zhao, 2005, p. 52). Arguably, it is more likely that convergence among HEIs will occur within a unitary system than in a system that promotes diversity. However, Witte et al. (2008) argue that recent trends demonstrate increased cooperation between institutional types as a result of stimulation by national governments. Examples of such cooperation include the provision of joint degrees between universities and professional schools in France and increased permeability from professional to university education in Netherlands. In addition, mergers between institutional types have been occurring in Germany, the Netherlands and France. Such developments in a number of national contexts might also contribute to isomorphism, in all of its forms, among HEIs.

2.2.2.2.1.2. *Culture and traditions*

Governance approaches are also under the strong influence of national cultures and traditions. Across different cultures, power, authority and participation in decision making processes might be perceived differently. The influence of national cultures on governance approaches has been the subject of research carried out by Hofstede (2001; 2011), who identified six dimensions through which cultural can influence governance.

According to Hofstede (2011), the cultural dimensions that distinguish members of different cultures are:

- Power Distance
- Uncertainty Avoidance
- Individualism versus Collectivism
- Masculinity versus Femininity
- Long Term versus Short Term Orientation
- Indulgence versus Restraint

In any particular country, Hofstede’s (2011) cultural dimensions might vary from low to high level scores.

Using Hofstede’s (2011) dimensions, differences can be observed within various HEI governance contexts. These differences are presented in the following table.

Table 11: Hofstede’s dimensions within HEI governance

Small Power Distance	Large Power Distance
Student-centered education	Teacher-centered education
Hierarchy means inequality of roles, established for convenience	Hierarchy means existential inequality
Subordinates expect to be consulted	Subordinates expect to be told what to do
Pluralist governance based on majority vote	Autocratic governance based on co-optation
Weak Uncertainty Avoidance	Strong Uncertainty Avoidance
The uncertainty inherent in life is accepted	The uncertainty inherent in life is felt as a continuous threat that must be fought
Teachers may say ‘I don’t know’	Teachers supposed to have all the answers
Dislike of rules - written or unwritten	Emotional need for rules – even if not obeyed
In politics, citizens feel and are seen as competent towards authorities	In politics, citizens feel and are seen as incompetent towards authorities
Tolerance of deviant persons and ideas: what is different is curious	Intolerance of deviant persons and ideas: what is different is dangerous

Individualism	Collectivism
Personal opinion expected: one person one vote	Opinions and votes predetermined by in-group
Purpose of education is learning how to learn	Purpose of education is learning how to do
Task prevails over relationship	Relationship prevails over task
Others classified as individuals	Others classified as in-group or out-group
Femininity	Masculinity
Many women in elected political positions	Few women in elected political positions
Minimum emotional and social role differentiation between the genders	Maximum emotional and social role differentiation between the genders
Sympathy for the weak	Admiration for the strong
Both genders deal with facts and feelings	Men deal with facts, women with feelings
Short-Term Orientation	Long-Term Orientation
Most important events in life occurred in the past or take place now	Most important events in life will occur in the future
Students attribute success and failure to luck	Students attribute success to effort and failure to lack of effort
Social spending and consumption	Large savings quote, funds available for investment
Service to others is an important goal	Thrift and perseverance are important goals
Indulgence	Restrained
Freedom of speech seen as important	Freedom of speech is not a primary concern
A perception of personal life control	A perception of helplessness: what happens to me is not my own doing

Adapted from Hofstede, (2011, p.9-16)

In HEIs, these cultural differences might be reflected in the relationships among faculty members and between various HEI stakeholders.

For example, in countries with a large power distance and teacher-centered education, it is more likely that involved actors will accept a hierarchical order. In contrast, collegial governance might be preferred among involved actors in the student-centered education systems of countries with a small power distance.

In countries with a strong culture of uncertainty avoidance, there are more formal rules aimed at reducing uncertainty, whereas, in societies with a culture of weak uncertainty avoidance, informal rules are more acceptable.

Cultures with high levels of individualism place individual actors at the center of decision making processes, while collectivistic cultures tend to value institutional objectives over the individual.

In countries with a strong feminist culture, governing boards tend to exhibit greater gender diversity. In “indulgent societies”, where freedom of speech is of relatively high importance, the governing board is more likely to develop a “culture of constructive criticism and trust”.

2.2.3. Contingency pressures on HEI governance models

According to contingency theory (Gailbright, 1973; Scott 1992, cited in Gupta et al., 1994, p. 265), every situation requires a particular type of organizational practice. In other words, organizational effectiveness can be achieved in more than one way and contingencies influence the manner by which organizations search for such effectiveness. Because there are many contingency factors influencing organizations, adaptation to these factors leads to organizational diversity. According to the work of Gupta et al. (2007), Huse (2005) and Bradshaw (2009), the contingency variables most cited in the literature include factors such as technology (Woodward, 1958), environmental uncertainty (Burns & Stalker, 1961), environmental complexity, growth rate, organizational size, ownership, organizational climate, stage of development, national culture (Thompson, 1967), management style and strategy (Burton & Obel, 1998).

The central proposition of contingency theory is that organizational processes and mechanisms should correspond to contingency variables in order to achieve effectiveness (Donaldson, 2001; 2008; Van de Ven & Drazin 1985).

The contingences that impact the organizational practices of HEIs may or may not be under the influence of institutional leaders¹⁸ (Gupta et al., 1994). Nevertheless,

18 These contingencies might be internal or external. Internal contingencies, such as organizational

governance models are shaped by these contingency variables. In other words, the governance model might be dependent on the size, age, ownership type or leadership approach of the HEI (Aguilerra et al., 2008; Bradshaw, 2009). In light of the many factors that might influence the behavior of involved actors in HEIs as well as their interaction with the environment, the identification of contingency variables is a complex task.

For the purpose of this analysis, the contingency variables to be examined as factors of governance model divergence were derived from existing empirical research (Blau, 1972; Child, 1975; Rochester, 2003; Cornforth & Simpson, 2003; Dart et al., 1996; Huse, 2005; Whalley, 2010) and are:

- Ownership, where governance arrangements differ in private vs. public HEIs.
- Organizational complexity, where governance arrangements differ in simple vs. complex HEIs
- The selection method of HEI leaders, where governance arrangements differ in HEIs with elected leaders vs. HEIs with appointed leaders

2.2.3.1. Ownership

Ownership of HEIs is not a simple phenomenon. HEIs are rarely established as limited liability companies in which the owners and their interests can be easily identified. Instead, HEIs are generally established as chartered or statutory non-profit entities. Here, their ownership status might be considered from one of two perspectives (Camilleri, 2008):

culture and technology, impact the task environment and are under management influence (Gupta et al., 1994). In contrast, external contingencies are factors arising from the external context and are usually beyond managerial influence. The most frequently researched external contingencies are size and environment (Gupta et al., 1994), where size denotes the number of organizational members. According to Gupta et al. (1994), large organizations are inclined to adopt bureaucratic and centralized modes of control. In contingency theory, environment has been discussed within a two dimensional matrix made up of stability and complexity dimensions (Altman et al., 1985, cited in Gupta et al., 1994; Thompson, 1967). In a complex and dynamic environment, organizations respond with distributed modes of control. Conversely, simple and stable environments are associated with bureaucratic and centralized modes of coordination and control. Within the HEI framework, many factors influence the stability and complexity of the environment. HEIs respond by adapting their governance models to suit these factors and, as a result, increase their diversity.

- The perspective of funding sources
- The perspective of the HEIs themselves

Depending on the perspective taken, different actors, such as government, private founders and funding providers, might play a role in the governance context.

Funding of HEIs might come from public or private sources, where funding sources in public institutions might be private and vice versa. Lyall (2005) argues that American taxpayers became “minority shareholders” of public HEIs with a diversification of funding sources. According to Lyall’s (2005) data, the US government and tuition provided 30 and 20 percent, respectively, of the total funding to American public HEIs while gifts, grants, and contracts constituted 50 percent or more of this funding.

Taken from the perspective of HEIs themselves, HEIs might be established by government or private founders licensed by a regulatory agency.

Regardless of the perspective taken, this private-public dichotomy influences the governance and performance of HEIs. For example, White (2003) suggests that differences exist in the level of commitment exhibited by board members in private and public HEIs and that such differences might have an impact on the financial performance of HEIs. He argues that “[...] private college trustees support the president and contribute money [...] public college president second-guess the president and spend the money” (White, 2003, p. 50).

According to the OECD (2013), the higher education sector in many OECD countries is dominated by public institutions in which central or local governments play a major role. When public, HEIs are established by central or local authorities or are directly established by the Ministry of Education (Fielden, 2008). Consequently, board members in public HEIs are often appointed by political leaders and frequently pursue political interests. As a result, the governance arrangements in public institutions are under strong political influence.

Recently, a large wave of new private institutions has arisen throughout the world (Altbach & Levi, 2005). Private institutions are generally established as a nonprofit institution licensed by government regulatory agencies. Additionally, there are private HEIs organized as for-profit corporations listed on the stock exchange¹⁹. Board members of private HEIs are often large donors or persons with a professional

19 One example of this form of HEI is the University of Phoenix. Altbach and Levy (2005, p. 15-24) identify such institutions as “pseudouniversities” or “for – profit entities seeking to earn money for the owners or shareholders”. Altbach and Levy (2005) argue that, in such institutions, the concept of collegial or shared governance is nonexistent and presidents have all the power.

background. Altbach and Levy (2005, p. 29) also emphasize the emergence of “family universities”, especially in Latin American and Asian countries. These institutions are characterized by charismatic leaders, new and innovative ideas and reforms, and control by family groups. Academic freedom and faculty autonomy in such institutions are generally lower.

2.2.3.2. Organizational complexity

HEIs are complex organizations with diverse elements contributing to this complexity, including the number of students and faculty, faculty backgrounds, and the internal and external environment. In his illustration of the modern university, Skilbeck (2001, as cited in OECD, 2007, p. 5) argues that “the university is no longer a quiet place to teach and do scholarly work at a measured pace and contemplate the universe as in centuries past. It is a big, complex, demanding, competitive business requiring large-scale ongoing investment”. Hilb (2008) summarizes the elements that generate organizational complexity within two determinants, size and stage of development.

2.2.3.2.1. Size

The governance arrangements in small and large HEIs differ. In his discussion of the work of Blau (1972) and Child (1975), Bradshaw (2009) discusses the manner in which size influences organizations, where smaller institutions possess distributed structures and are more organic and flexible while large organizations have bureaucratic structures. Bradshaw (2009) further argues that, while board members in small institutions are more likely to be closely connected with other organizational members, larger organizations are more formal and have more highly structured boards (Bradshaw, 2009, citing Rochester, 2003 and Cornforth & Simpson, 2003). In another depiction of the governance structure in large HEIs, Schofield (2009) argues that the governing body generally consists of 17 to 25 members that are predominantly recruited from outside the institution.

2.2.3.2.2. Stage of development

Within the HEI context, the stage of development of an HEI is related to organizational age. In the literature, it is well established that governance arrangements differ among institutions of varying age (i.e. young vs. mature). For example, Bradshaw (2009, p. 67) cites the work of Dart et al.(1996), who found significant correlations between

the stage of institutional development, the level of formalization and structure of the board and the number of board members. As such, Bradshaw (2009, p. 74) concludes that a newly founded institution in a complex and volatile environment will most easily adapt to the context with flexible governance arrangements²⁰. Conversely, the formal structures and clear roles and responsibilities within the boards of mature institutions are more effective in a stable and simple environment.

Furthermore, the advising and counseling roles, in addition to the “legitimacy role”, of board members might be most important in a young entrepreneurial HEI with scarce resources.. In later phases of development, when funding sources become more diversified and the number of involved actors increases, other board roles (such as strategic or monitoring roles) become more important.

2.2.3.3. System for selecting HEI leaders

In the literature, there is ongoing debate as to whether executive leaders should be elected or appointed (Partridge & Sass, 2011; Whalley, 2010).

An appointed HEI executive leader (rector or dean) is generally chosen by the institutional president or minister (in the case of a public HEI) or by members of the board of trustees. Trustees themselves might also be appointed by the minister, parliament or the board itself.

The alternative method for the selection of HEI leaders is election. The typical protocol in the election process begins with a nomination committee, who narrows the number of candidates eligible for election. Candidates then present themselves to the voters responsible for making a decision about selection, who are often the faculty council.

The appointment vs. election dilemma has implications on the following issues (Partridge & Sass, 2011):

- Qualifications of the executive leaders and
- Influence of voters on the behavior of the executive leaders

Generally, the appointment system ensures a professional selection process and enables the objective evaluation of candidates on the basis of qualifications and experience. Most often, appointed leaders are focused on organizational objectives and the results agreed during the selection process. Partridge and Sass (2011) argue

20 Such an institution is characterized by less formal cooperation between the governing board and other organizational members and more ad hoc committees.

that appointed administrators are more cost efficient in their operations because it is more likely that:

- they have professional competence for the position,
- they are more effective in negotiating labor contracts and other administrative tasks and
- they are more protected from the political process.

In a real life example of this argument, Danish regulators recognized the effectiveness of appointed officials and recently enacted regulation stating that HEI leaders should be appointed by the board (Carney, 2007).

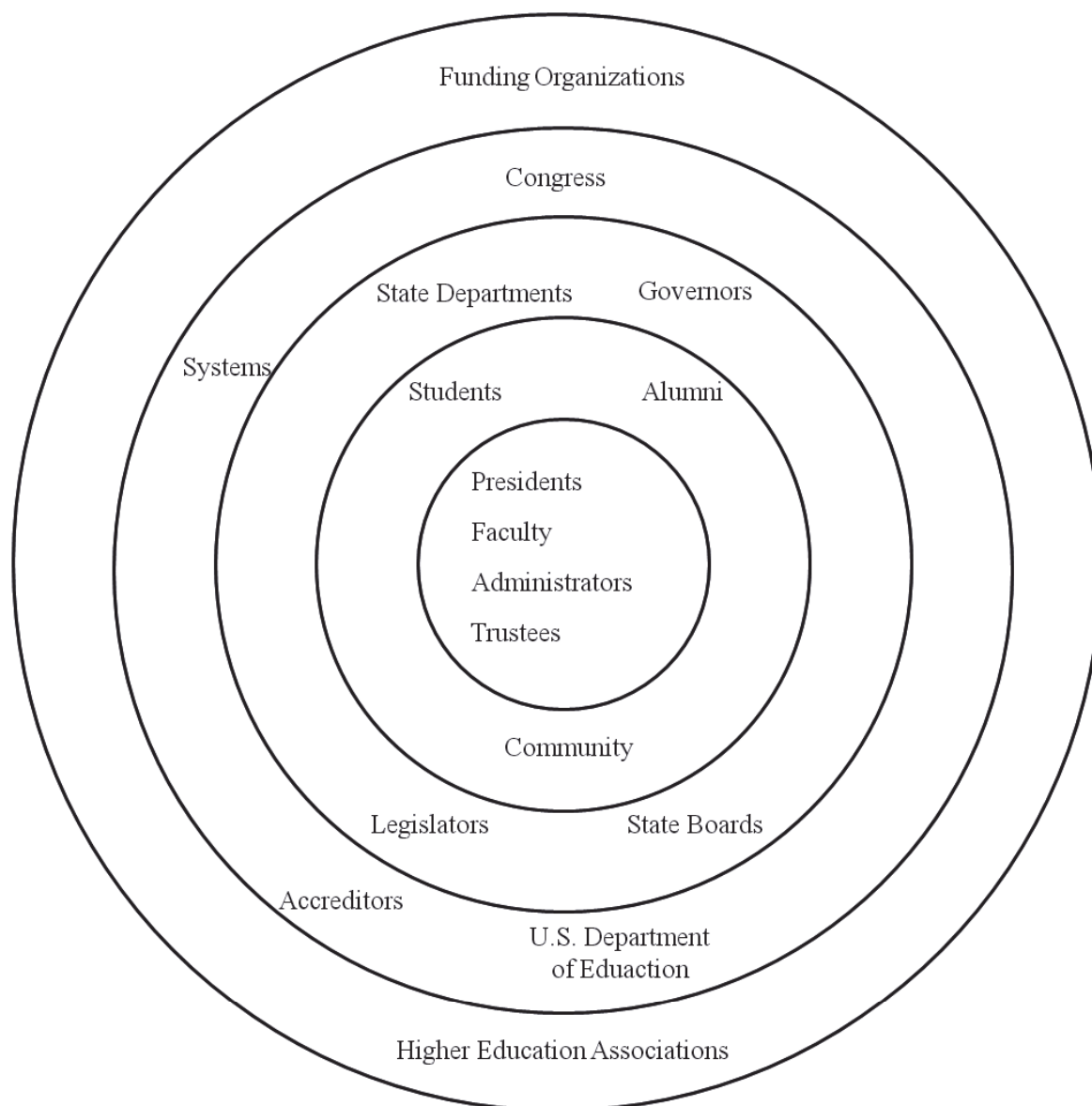
On the other hand, elected leaders are more likely to follow policies that are in line with the preferences of the actors who have voted for them. In general, and especially in the case of European HEIs, deans and rectors are elected by faculty members. Consequently, such orientations make their leadership style more political. Furthermore, voters might elect an individual based on personal interest rather than professional competence.

Undoubtedly, both selection methods impact the behavior of leaders and board members and, as such, shape governance models as well.

2.2.4. HEI actors

According to actor-centered institutionalism (Scharpf, 1997), a governance model is the outcome of the interaction between all involved actors. As such, the governance model of an HEI is shaped by the interaction between faculty, students, administration, trustees, government and government agencies, the corporate community and the general public. Each of these actors possesses their own perceptions, preferences and capabilities that add further complexity to actor constellations and modes of interactions. Gayle et al. (2003, p. 22) used a circular model to rank HEI stakeholders in order of relevancy. The most relevant stakeholders (faculty members, HEI leaders, administrators and trustees) are located at the center of the model. Surrounding this epicenter are stakeholders of mid-level relevance: students, alumni and community. Finally, other external stakeholder including state legislators, governors, ministries of education, accrediting institutions, and higher education associations, are located in the external layers of the model.

Figure 2: Stakeholders of HEIs



Source: Gayle et al. (2003)

All of the actors depicted in the above figure influence the institution either by participating in the governing board or by leading the institution as presidents, deans or rectors. However, Birnbaum (2003) and Gayle et al. (2003) argue that the three main actors in the HEI governance process are:

- members of the governing board (trustees),
- administration (i.e. presidents or HEI executive leaders) and
- faculty.

Each of these actors is focused on different aspects of the institution and has its own “rationality”. Effective governance requires that these “multiple rationalities” need to be jointly considered during decision making processes (Schedler, 2011). Governance arrangements that exclude one or more of the relevant HEI actors from the decision making process “lead almost inexorably to disruptive conflict” in the organization (Birnbaum, 1989a, p. 39).

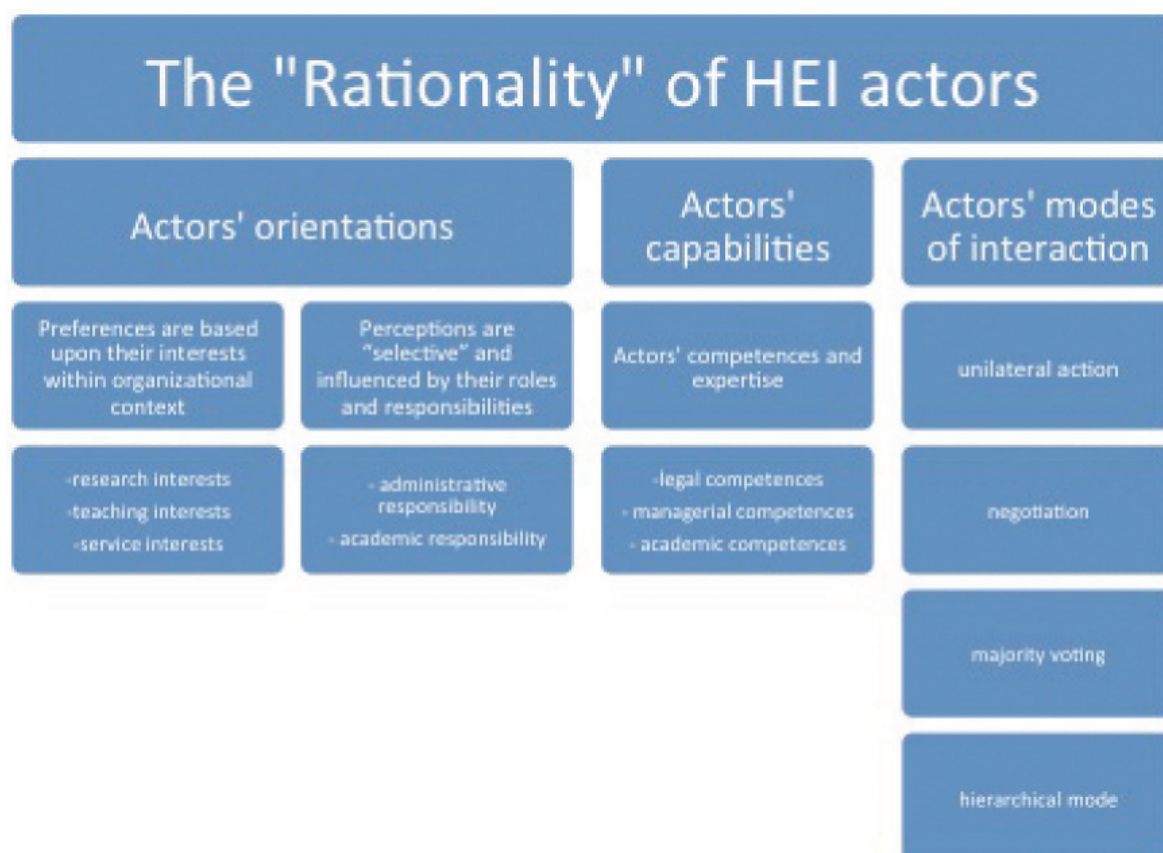
The “rationality” of each group of relevant actors is the combined result of their orientations and capabilities (Scharpf, 1997). Orientations are shaped by the preferences and perceptions of actors. Preferences are based upon the interests of actors within the organizational context, where “trustees are concerned with responsiveness, administration with efficiency, and faculty with academic values” (Birnbaum, 2003, p. 21). Similarly, the perceptions of HEI actors are influenced by their roles and responsibilities (Dearborn & Simon, 1958; Scharpf, 1997; Scharpf, 2000).

The capabilities of involved actors include all the resources that enable actors to influence decision making processes. These capabilities, in the form of competences and expertise in various areas, contribute to the perception of the institution from unique perspectives. In general, faculty should have competencies to deal with academic matters, while trustees should have financial and legal competencies and presidents and senior administrators should have managerial competencies.

The rationality of HEI actors and their corresponding modes of interactions, as they are depicted in Scharpf’s (1997) ACI²¹ model, are presented in the following figure:

21 Actor-centered institutionalism

Figure 3: The “rationality” of HEI actors



Source: Developed by the author, based on Scharpf (1997)

Finally actors’ orientations, together with their capabilities create weights in their interaction and make certain governance models possible. For example, a governance system with an incompetent governing board and a strong president but without an academic body might exhibit decreased faculty autonomy and exclude faculty from decision making processes, resulting in unilateral action and creating adversarial relations in the HEI (Kim et al., 2007).

2.2.4.1. Faculty

Faculty members as central actors of the HEIs are involved in teaching, research and service. They are providing services to the institutions by working in disciplinary departments and participating in academic councils. When considering faculty in the governance context, it is important to understand their preferences and perceptions. Citing the work of Wergin (2007), Leach (2008) argues that faculty members reluctantly accept the hierarchy and executive leadership of HEIs and are more inclined towards their own academic interests and not concerned with

administrative matters. Leach (2008), citing Duderstadt (2004, p. 144), expresses the central governance challenge regarding faculty involvement: “The faculty culture typically holds values that are not necessarily well aligned with those required to manage a complex institution. For example, the faculty values academic freedom and independence, whereas the management of the institution requires responsibility and accountability. Faculty members tend to be individualistic, highly entrepreneurial lone rangers rather than the team players required for management. They tend to resist strong, visionary leadership and firmly defend their personal status quo. It is frequently difficult to get faculty commitment to - or even interest in - broad institutional goals that are not congruent with personal goals”.

As a result of their orientations and capabilities, faculty members can be easily excluded from the decision making process. When they are involved in decision making, it is most often related to academic matters or with full participation in both academic and administrative decisions (Minor, 2003, p. 962, cited in Stensaker, 2012). Nevertheless, such an important actor as faculty cannot be neglected in the direction of the institution. In his emphasis of the importance of faculty in HEI governance arrangements, Birnbaum (2004, p. 5) argues that the involvement of faculty in the governance process is a key element of institutional effectiveness. However, the degree of faculty involvement depends on the particular context. For example, faculty might be involved through participation in governing bodies or via more informal influence within “political governance systems”.

2.2.4.2. Members of the governing board (Trustees)

In general, trustees are engaged in HEI boards on a voluntary basis. According to the Association of Governing Boards (2012), trustees, in addition to exercising their fiduciary responsibility, must ensure the operationalization of the HEI mission by hiring and assessing institutional leaders. The professional background of trustees can strongly influence the manner in which these responsibilities are fulfilled and, as such, this professional background is highly important.

In a study conducted by Callen et al. (2003), which included 123 non-profit organizations in New York state (among which were a number HEIs), it was found that outsiders dominate in non-profit boards. In other surveys examining for-profit organizations (Klein, 1998; Yermack, 1996), it was found that insiders represented up to 36% of board members. While external members of governing boards might be major donors, prominent individuals and renowned professionals, inside members of HEI boards are staff and faculty.

Internal and external members of governing boards have different preferences,

perceptions and action capabilities (Scharpf, 1997), which impact the manner in which the HEI is governed. For example, major donors in the board play a key role in the fulfillment of the monitoring function (Callen et al., 2003, citing Fama & Jansen, 1983). Similarly, the presence of professionals on the board might contribute to effective direction and control by changing the relative distribution of power between the board and the leaders of the institution. Conversely, a lack of professionals on the board might influence the trustees' commitment to the direction and control of an organization in which executive staff control information and decision making processes.

2.2.4.3. HEI executive leaders

HEI executive leaders are senior administrators who take positions of HEI presidents, rectors or deans. They are responsible for the effective daily operation of institutions, taking care of financial activities and managing relations with key external stakeholders.

HEI executive leaders were the subject of a survey cited in Leach (2008) and published in the Chronicle of Higher Education (2007). According to this survey, the operational focus of executive leaders of HEIs is on fundraising, budget and financial management, and community relations. In addition, their preferences also include capital improvement projects.

The preferences of executive leaders are strongly influenced by the method through which they were selected for their position, where they might be selected by appointment or election. Each selection method has a distinctive influence on the relationship of executive leaders with the governing board and with internal and external constituencies. In addition, the selection approach employed strongly influences their leadership style. In general, elected leaders are preferred by faculty while appointed leaders might create adversarial relations with academics (Kim et al., 2007). Leach (2008, p. 11), citing Waugh (2003), argues that in, US institutions where leaders are appointed, presidents “feel less accountable to the faculty and other internal constituencies”. In contrast, Stensaker, (2012, p. 6) cites a Norwegian survey conducted by Bleiklie et al. (2006), which found that “[faculty] experience with appointed leaders is very positive”.

Nevertheless, most academics working in universities support the election process over the appointment of institutional leaders. However, when elected, leaders often demonstrate a political style of leadership that might diminish the effectiveness of the institution because of inherent conflicts between the actors within the political governance model.

2.2.4.4. Modes of interaction among HEI actors

According to Scharpf (1997, p. 17), the modes of interaction occurring between actors in an HEI might be:

- 1) “unilateral action” (implying a lack of cooperation among actors),
- 2) “negotiated agreement”,
- 3) “majority voting” and
- 4) “hierarchical direction”.

In all cases, interaction occurs somewhere along a continuum spanning two endpoints, from a state of “minimal rules” at one end to a situation with complex institutional rules at the other end. In this sense, lack of cooperation among actors is more likely to appear in an “anarchic field” with very little institutional rules, while a hierarchical interaction mode requires a more demanding institutional context in which the behavior of actors is highly regulated.

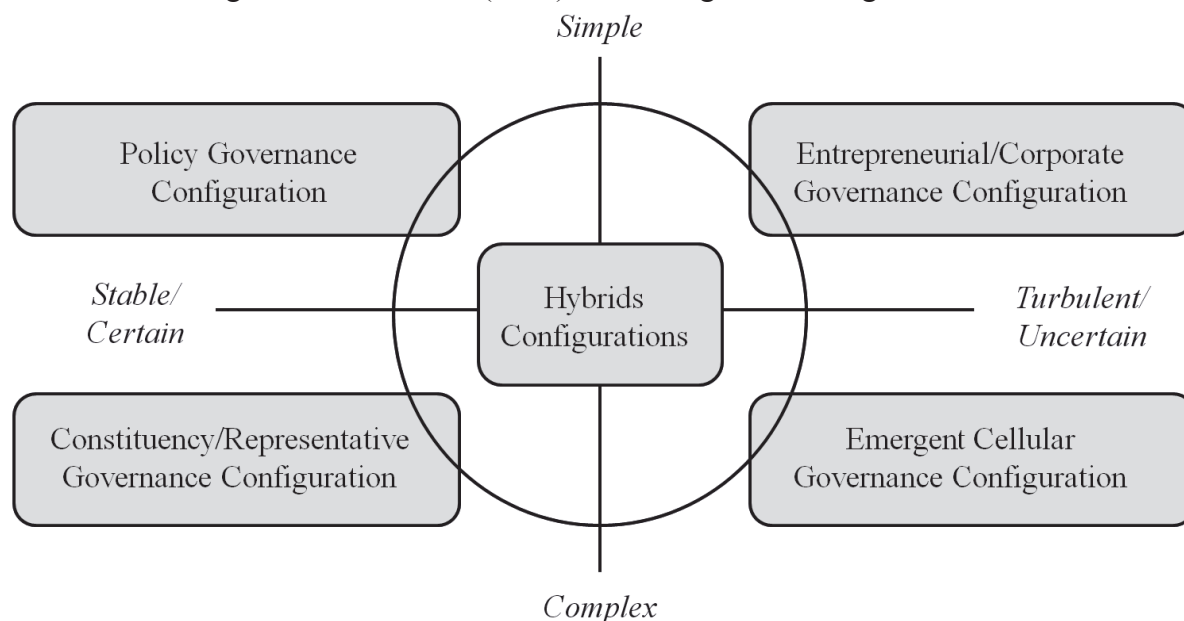
In the institutional context of an HEI, actors might adopt all four modes of interaction. Within the complex, “multiple-actor constellation” of HEIs, each group of actors tends to impose their own orientations and capabilities. These differing orientations and capabilities, in turn, determine the interaction mode, which may be unilateral (implying a lack of cooperation) or hierarchical or collegial (based on negotiation and mutual adjustment). For example, the president or a rector of the HEI might act unilaterally on some strategic decisions or might negotiate with the faculty board or board of trustees. Conversely, he or she might directly participate in the work of the board or receive direct orders from the board of trustees.

2.2.5. Typology of HEI governance models shaped by institutional and contingency pressures

In this section, a typology of HEI governance models is developed on the basis of Bradshaw’s (2009) four non-profit governance configurations. In Bradshaw’s (2009) configurations, governance models originate as the responses of non-profit organizations to the external environment. In this model, the external environment is defined along the two dimensions of environmental stability and complexity. Therefore, non-profit organizations respond to the environment with a governance approach that is an appropriate fit with all possible combinations of the environmental stability and complexity. For example, while a “policy governance configuration” is appropriate for a simple and stable environment, an “entrepreneurial governance

configuration” is more suited to a simple and turbulent environment. Bradshaw’s (2009) model is presented in the following figure:

Figure 4: Bradshaw’s (2009) four configurations of governance



Source: Bradshaw (2009, p. 68)

An analysis of each of these non-profit governance models on the basis of a particular set of governance characteristics suggests that the above four configurations correspond to the following most frequently cited HEI governance models:

- Policy governance = Bureaucratic governance model
- Representative governance = Collegial governance model
- Entrepreneurial governance = Entrepreneurial governance model
- Emergent cellular governance = Network governance model

Additional HEI governance models frequently referenced to in the literature include trustee, corporate, political and anarchical governance models. Arguably, these governance models are “derivatives” of the above mentioned “generic” HEI governance models.

The features of the “generic” HEI governance models presented within Hilb’s (2008) framework of “New corporate governance” are presented in the following table.

Table 12: Generic governance models and their distinguishing features

	Collegial/ academic	Bureaucratic	Entrepreneurial	Network
Board characteristic	Board consists of academic members with divergent backgrounds and interests.	Board consists of members with administrative or professional backgrounds. Decision making processes are highly structured.	Boards are of smaller size. Roles and responsibilities within the board are not clear. Board is less bureaucratic and there is functional overlap between the board and administration.	Smaller board size with informal board practices. Multi-actor constellation connected in a network. Decentralized activities with fluid task forces and temporary committees.
Leadership attributes	Institutional leaders are elected. Academic/ Political leadership.	Institutional leaders are appointed. Bureaucratic and hierarchical leadership.	Strong central decision-making body, either an entrepreneurial leader or “entrepreneurial core” made up of entrepreneurs and ad-hoc committees.	Leaders are “central connectors” acting as mission facilitators and ensuring stability of the network.
Power balance among actors	Academics have prevailing power in governing bodies.	Administrators have a central role.	Power is held by “entrepreneurs”.	Continuous balancing of power among actors based on formal and informal negotiations within the network.
Strategic dimension	Challenging strategic planning process because of the involvement of various stakeholders.	Board’s role is focused on ratification of strategy rather than on participation in the strategic planning process.	Mutual involvement of the board and staff in the strategic planning process.	Contingent strategic planning processes with the involvement of the board, staff and external stakeholders.

Integrated dimension	Weak integration since members are elected representatives with divergent interests.	More homogeneity of board members.	Homogenization around a “strong central decision-making body” and effective and efficient work practices.	Network integration. Commitment to include multiple stakeholders and constituents.
Controlling dimension	Lack of competencies for effective control and risk management.	Formal control and risk management policies. Rules and procedures are the basis for decision-making power (Ambos & Schlegelmilch, 2007).	Centralized control. Decision-making power is held by entrepreneurs. Focus on the “bottom line”. Possibility of neglecting the interests of all involved actors.	Control through Socialization (Ambos & Schlegelmilch, 2007) or Implicit network-based control (e.g. opportunism controlled by reputation (Arruñada et al., 2001)). Informal coordination and (self) control based on mutually agreed purposes, missions and policies (Ambos & Schlegelmilch, 2007).

Source: Developed by the author, based on Bradshaw (2009, p. 70) and Hilb (2008)

2.2.5.1. Collegial or academic governance model

The collegial or academic model is the most traditional of all HEI governance approaches. In such systems, faculty members are highly involved in the decision making process. Their involvement is achieved in two ways (Trakman, 2008); either by (1) granting decision making powers to academic bodies such as university senates and faculty councils or (2) increasing faculty participation on the boards of trustees. In collegial institutions, executive leaders are generally elected and, despite formal decision making processes, leadership style is political. Proponents of the collegial model argue that, because faculty members have the best understanding of HEIs, their purposes and goals, they should participate fully in the direction and control of HEIs.

Because a collegial institution places great emphasis on consensus, the strategic planning process requires the inclusion of various constituents. This might contribute to greater conflict in formulating institutional missions (Baldrige, 1971). Furthermore, integration among the governing actors is weak as a result of their divergent interests. Finally, academics often lack competence for effective control and risk management.

2.2.5.2. Bureaucratic governance model

Bureaucratic governance models are characterized by highly structured decision making processes in which administrators have a central role (Birnbaum, 1988). Within such a formal hierarchy, the executive leaders of the HEI are appointed and not elected (Baldrige, 1971). This, in turn, has an impact on leadership style. The autonomy of the faculty and academic department is minimal, a condition that can contribute to the development of antagonistic employee relations (Hendrickson & Bartkovich, 1986). Hendrickson and Bartkovich (1986) distinguish between bureaucratic-academic institutions and academic-bureaucratic institutions, a distinction based on the group who holds prevailing power to direct and control the institution.

The bureaucratic governance model implies a formal strategic planning process in which boards tend to ratify rather than take part in the creation of a plan. In such institutions, governing board members are generally outsiders and elected on the basis of their competences for achieving organizational objectives. This process of professional selection ensures stronger integration among board members.

Furthermore, because professionals are involved in the board, formal control and risk management policies are put into place through established rules and procedures (Ambos & Schlegelmilch, 2007)

2.2.5.3. Entrepreneurial governance model

Entrepreneurial or market models of university governance have also been frequently cited in the literature. While the entrepreneurial or market labels have often been used as synonyms, Gibb et al. (2009, p. 18) argue that there is clear distinction between these two models. While a market model implies the “marketization” of the know-how or services, an entrepreneurial HEI emphasizes “initiative, empowerment and freedom for action”. According to Gjerding et al. (2006), the concept of the entrepreneurial university was first introduced by Clark (1998), who states that the entrepreneurial university has five elements: “a strengthened steering core (strong central decision-making body), an expanded developmental periphery

(entrepreneurial academic units are crossing organizational boundaries more quickly than traditional academic departments), diversified funding base, an integrated entrepreneurial culture and a stimulated academic base (academic units need to become more entrepreneurial and able to link with external organizations and derive extraordinary income)” (Clark, 1998, p. 5). An entrepreneurial university delivers services in a competitive market (Gjerding et al., 2006; Yokoyama, 2006;). In such a competitive environment, there is high demand for organizational adaptation and readiness for change (Yokoyama, 2006). In other words, a competitive market demands an organization characterized by risk-taking, initiation of new practices and where entrepreneurship is often perceived as a process of commercialization of innovative practices (Gjerding et al., 2006). Entrepreneurial HEIs are concerned with the students’ competencies and qualifications, while also being focused on results and performance (Paunescu, 2007).

As a result of the flexibility of the entrepreneurial model, the board and staff will sometimes mutually participate in strategic planning processes together with task forces and temporary committees. Most often, entrepreneurial institutions are in an early phase of their development. As such, their strategies are aggressive and include plans to expand into new markets and to commercialize new services.

Elements contributing to homogenization in institutions applying an entrepreneurial model include a “strong central decision-making body” (Clark, 1998) and effective and efficient work practices.

In this model, control and decision making power is centralized and held by entrepreneurs. Because the focus is on the “bottom line”, there exists the potential for neglecting the interests of all involved actors.

2.2.5.4. Network governance model

Network institutions are characterized by flexible multi-actor constellations.

In such institutions, actors come from diverse backgrounds and board processes are more informal. Boards are smaller and decentralized, with a structure that is characterized by informal forces and temporary committees.

This governance model requires strong, value-based and charismatic leadership, where leaders act as “central connectors” aiming to ensure the stability of the network.

In addition, actors continuously negotiate their power positions within the network through both formal and informal practices.

In such settings, there is a commitment to including multiple stakeholders and constituents in the strategic planning process. In this way, integration among the

various actors is achieved by the inclusion of the board, staff and, at times, the wider community in the formulation of the mission and strategy.

In a network model, control is operationalized by socialization (Ambos & Schlegelmilch, 2007) or implicit network-based control, e.g. “opportunism controlled by reputation” (Arruñada et al., 2001). Organizational members mutually agree on the missions and shared values that direct the decision making process and, as a result, informal coordination and (self)control are based on mutually agreed purposes, missions and policies (Ambos & Schlegelmilch, 2007).

2.2.5.5. “Derived” governance models

In addition to the “generic” governance models discussed above, there are number of “derived” models described in the literature, so named because they have the basic features of the four “generic” models with some additional elements (Baldrige, 1971; Birnbaum, 1988; De Groof et al., 1998; Trakman, 2008; Young, 2004). These are professional, political, anarchical, cybernetic, trustee, stakeholder, and amalgam models.

2.2.5.5.1. Professional governance model

This model, often referred to as the Corporate, Professional or Business model, is derived from the bureaucratic model, with a greater number of professionals involved in the various governing bodies. Consequently, under the professional model, universities are governed by professionals who have experience in the corporate sector and are able to direct management efficiently (Trakman, 2008). De Groof et al. (1998) characterize the professional model by an enterprise-based authority made up of experts acting in the context of loosely connected institutional units (De Groof et al., 1998). In his review of governance structures across various countries, Young (2004) emphasizes the emergence of the business model of university governance with smaller councils, no internal stakeholders, and a strong emphasis on financial management. However, according to Young (2004), there is little support for such a model within universities because of the inherent complexity of higher education institutions.

2.2.5.5.2. Political governance model

Baldrige (1972) was one of the first authors to introduce the political model of university governance. In general, academic governance models tend to become

political. Such governance models are characterized by antagonistic relations among actors. Political models imply the involvement of various groups in the governance process, with competition for power and resources (Baldrige, 1971). De Groof et al. (1998) argue that competing values, views, and interests are drivers of political conflicts in this model. In such political conflicts, the task of the leaders is to align the interests of various groups and to minimize conflicts in order to realize mutual objectives (Birnbaum, 1988).

2.2.5.5.3. Anarchical model

In the literature, this model has been referred to as the garbage can or anarchical model of university governance (Cohen et al., 1972). In the garbage can model, universities are “organized anarchies” governed primarily by academics who, because of their diverse goals and preferences, exhibit unclear technology and fluid participation. The Anarchical HEI is a “loosely coupled system” with little coordination and control. Goals are rarely clearly defined and leadership is typically more ceremonial without any real ability to influence results.

2.2.5.5.4. Cybernetic model

In contrast, direction and control in cybernetic systems is executed through self-regulation with an emphasis placed on feedback loops (Birnbaum, 1988). Elements of cybernetic systems, such as feedback loops within curriculum management systems²², might be found in all generic models.

2.2.5.5.5. Trustee, Stakeholder, and Amalgam models

In addition to collegial and corporate models, Trakman (2008) describes trustee, stakeholder, and amalgam models. Within the trustee governance model, it is not necessary for stakeholders to be represented on the board. Instead, the board “acts

22 The curriculum management system is an example of a cybernetic system within HEIs. It is a process encompassing the development, monitoring, assessment and improvement of educational programs within a feedback loop. Such a process requires inputs from all relevant actors of the HEI, including faculty, administrators, students, alumni, and the business community, in defining program goals. Learning goals derived from program goals are measured and analyzed. The assessment data of student learning outcomes is then used for continuous improvement of the educational programs in the next iteration.

in trust for, and on behalf of, trust beneficiaries” (Trakman, 2008). In contrast, the stakeholder governance model includes a broad combination of stakeholders, including students, faculty, alumni, the business community, government and its agencies and the general public, in decision making processes. The amalgam governance model creates mechanisms that combine elements of academic, corporate, trustee, and stakeholder governance.

In reality, all of the above models might co-exist in a given institution, with differing elements and features balanced in a single governance approach. From the above overview of HEI governance models, it seems reasonable to suggest that the prevailing factor influencing the origination of a particular governance approach is context, determined by variables such as the characteristics of involved actors, regulation, traditions, ownership types, organizational complexity, and methods of selecting the executive leadership.

2.3. The Strategic Dimension of HEI Governance

The strategic role is fundamental for all governance arrangements. Chait et al. (2004) emphasize that boards, by working in partnership with senior management, should ensure a proper strategy for the organization. As such, a significant part of the responsibility for strategic development is held by the individual members of the board. According to Chandler (1962), who argued that “structure follows strategy”, the purpose of the organizational structure is to form a basis for the implementation of a given strategy. In contrast, Hilb argues that “strategy follows people”, where a given strategy depends on the targeted selection of board members responsible for the formulation and implementation of the strategy. In other words, because strategy depends on individual board members, these members should be carefully selected in order to ensure proper strategic development. In addition, the strategic dimension of governance incorporates various success factors that enable the effective fulfillment of the strategic role.

Using the frameworks of stewardship (Davis et al., 1997) and role (Biddle, 1986; Neuberger, 2002) theories, Hilb (2008, p.7) identifies four success factors for the effective development, implementation and control of organizational strategy. These four factors are:

- Selection of individual board members
- Culture of constructive criticism and trust
- Networked structures and processes among the board members
- Proper success measures for all stakeholders

The above success factors correspond with individual, group and organizational levels. At the individual level, the central purpose is to ensure the selection of individual board members that will represent all stakeholders. At the group level, the interaction between board members should be based on a “culture of constructive criticism and trust”. At the organizational level, a “culture of constructive criticism and trust” is promoted and implemented through the rules and policies of the board and finally, appropriate success measures are set for all stakeholders.

2.3.1. Selection of an exemplary board

In its guidelines for board members, the Association of Governing Boards of Universities and Colleges²³ (2012, p. 75) emphasizes the importance of the selection of the governing board by stating that “[...] an institution is as good as its board [...]”.

The relationship between board composition and organizational success has been a widely researched topic, particularly in the corporate sector. In general, such research has been directed towards identifying the manner in which the composition of corporate boards, expressed as the insider-outsider ratio, impacts corporate performance (Daily & Dalton, 1992; Kesner et al., 1986). To date, findings from such studies have been “inconsistent and conflicting” (Nicholson & Kiel, 2007, p. 587).

In an alternative approach, empirical research of non-profit boards has been focused on the occupational characteristics and demographic diversity of board members (Erhardt et al. 2003; Siciliano, 1996).

Siciliano (1996), in his examination of the diversity of board members in terms of occupational background, gender and age using data from 240 YMCA organizations²⁴, demonstrates that occupational background and gender diversity might lead to higher levels of social performance. In addition, and perhaps more importantly for non-profits, boards with high diversity in occupational backgrounds were shown to be more effective in fundraising. Similarly, the results of a study conducted by Erhardt et al. (2003) demonstrate that higher demographic diversity generates a broader range of opinion to be considered, which in turn strengthens the board’s monitoring function. The resulting social dynamics of such diversity also supports controversial discussions and lower levels of CEO influence.

23 The Association of Governing Boards of Universities and Colleges is an American membership organization whose purpose is to improve the practice of governance in American HEIs.

24 Young Men’s Christian Association

Hilb (2008) also emphasizes diversity as a central element in the composition of the board and argues that diversity among members, in terms of know how, team roles and demographic data, is something that should be targeted in the selection of a board (Hilb, 2008, p. 78).

2.3.1.1. Know-how based diversity of the Board

In general, factors influencing the know-how of board members are educational and occupational background.

In his analysis of the educational and occupational backgrounds of bank board members, Bantel (1993) concludes that banks with functionally and educationally heterogeneous boards made better strategic decisions.

Mahadeo et al. (2012) further argue that a diverse knowledge and occupational base becomes even more important in a complex business environment, where boards are involved in various functional areas of business decisions.

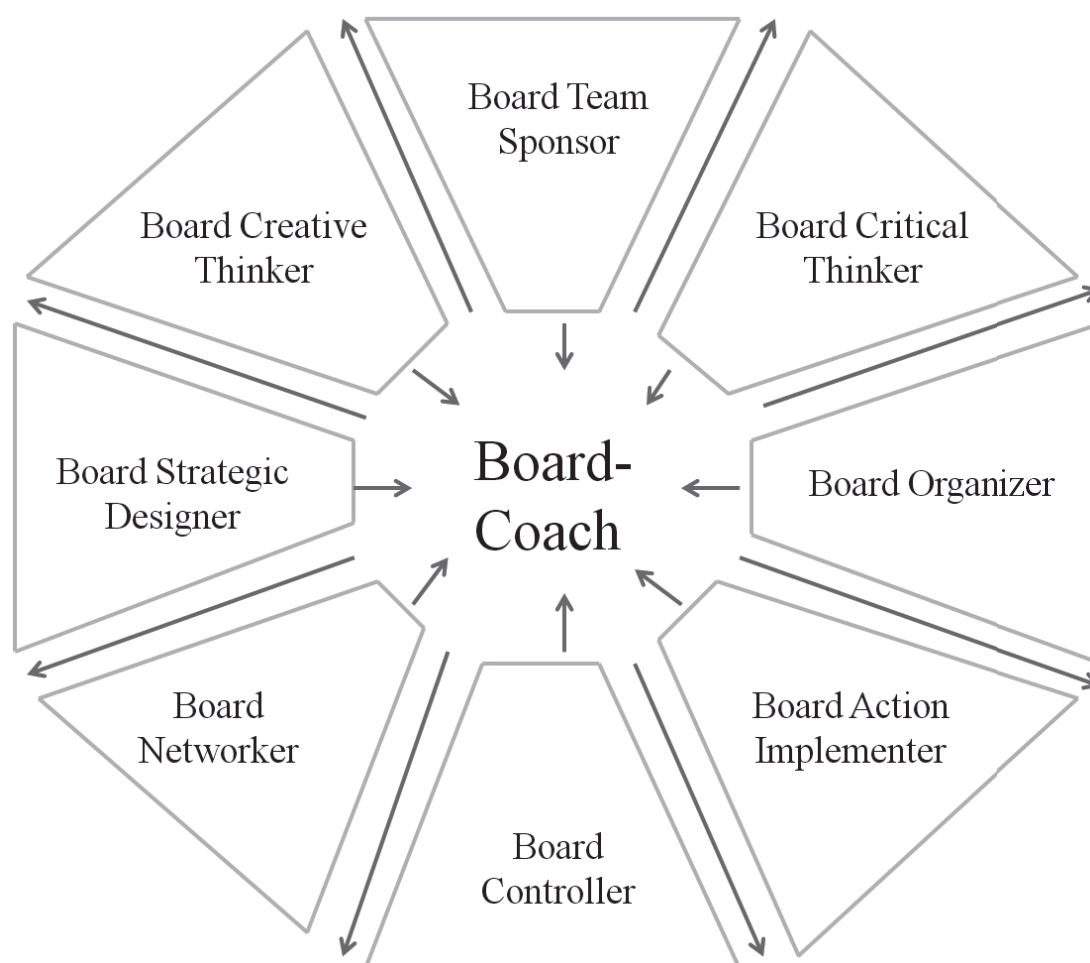
Similarly, Hilb (2008) argues that such diversity has to match the organizational environment and that, in order to effectively direct and control the organization, the competencies of the Board should correspond to the competencies of the top management team. For effective governance practice, there is also a need for a balanced and complementary know-how in the board (e.g. members with entrepreneurial know-how vs. risk management know-how or members with HRM know-how vs. compliance know-how).

2.3.1.2. Team role diversity of the Board

In the literature, there is a great wealth of research examining the effectiveness of the team. Perhaps the two most cited approaches for selecting a team and improving team effectiveness are Belbin's (1981) theory (which arose from his research examining teamwork at Henley Management College) and Margerison and McCann's (1985) approach.

In his model for achieving targeted board composition based on team roles, Hilb (2008) applies both Margerison and McCann's (1985) and Belbin's (1981) approaches. In his model, Hilb (2008) developed a conceptual framework specific to board-team roles, which he calls “targeted diversity” of the board team. This approach is illustrated in the following figure:

Figure 5: “Targeted diversity” of the board team



Source: (Hilb, 2008, p. 83)

This approach is a tool for the selection of missing board roles through the identification of existing roles among board members. In a board with such ‘targeted diversity’, team roles should be complementary (e.g. creative thinker vs. implementer or designer vs. organizer).

2.3.1.3. Demographic diversity of the Board

In his literature review, Zhang (2012, p. 686) states that board diversity based on gender and race/ethnicity creates new perspectives and ideas through the acquisition of new critical resources for the organization. Such boards typically possess wider social networks and therefore have greater impact on the strategic decision making process of the organization. Demographically diverse board members are also more independent, which influences the effectiveness of direction and control.

In the American corporate sector, demographic diversity is a growing trend. Miller and Triana (2009), citing the Alliance for Board Diversity (2005) and Catalyst (2008), state that 14.9 % of board members in US Fortune 100 companies are minorities. Similarly, women constitute 14.8 % board members in Fortune 500 companies, a figure representing a 5.2 % increase over a period of 13 years.

However, Miller and Triana (2009) also discuss the sometimes conflicting results of studies examining board diversity and organizational performance. For example, while Erhardt et al. (2003) demonstrated that demographic diversity improves the performance of organizations, Shrader et al. (1997) identified an unfavorable impact of gender diversity on company results. Other studies have demonstrated inconclusive results, such as the work of Randoy et al. (2006) in which the boards of the 500 largest companies from three Nordic countries were analyzed. In this study, gender, age, and nationality diversity in the boards of Danish, Norwegian, and Swedish companies did not have a significant effect on organizational performance. In light of these findings, Hilb (2008) suggests a balanced approach in which demographic or “traditional diversity” has to be managed. For example, experienced board members with “crystallized intelligence, life experience, helicopter view and calm composure” should be combined with young members with better “physical performance, retentiveness, short term memory and mental agility” (Hilb (2008, p. 85). Similarly, Houle (1990, p. 34) argues that, while older and more experienced board members provide wisdom and economic resources, a middle group brings key positions in the corporate sector and society and younger executives are typically more energetic and motivated.

While board diversity might improve effectiveness, it also increases its complexity. Hilb (2012, p.76) suggests that the “[...] diversity of a board team should never be more complex than the reality”. Indeed, a diverse board is more complex and creates greater potential for conflict between board members. As such, the role of the chairperson becomes essential.

2.3.1.4. Role of the Chairperson

The chairperson must be competent in acting as a homogenizing factor in managing potential conflicts among diverse board members (Appelbaum & Shapiro, 1998). The chairperson, as the “team leader” of the board, enables effective governance by influencing the social dynamics of a diverse board in order to prevent conflicts. In the literature, the specific competencies of leaders necessary for managing conflict and diversity have been carefully considered. For example, Appelbaum and Shapiro (1998, p. 232) emphasize that leaders facing diversity should be able to align

individual board members with the overall strategy of the organization. In addition, leaders should develop relationships among board members and, in turn, help them to understand various perspectives. As an organization strongly committed to the improvement of governance in American HEIs, the Association of Governing Boards of Universities and Colleges (2012) suggests the following roles of an effective chairperson of an HEI board:

- To plan board meetings with strategic agendas which include focused discussions and engagement.
- To ensure controversial discussion at meetings and, at the same time, an appearance “with a single voice” in public.
- To communicate the work of the board, i.e. to regularly meet with faculty leaders and inform university stakeholders about the work of the board.
- To have a good working relationship with the president.
- To become a buffer or bridge between external and internal stakeholders in the case of an escalation of important public issues, such as concerns about the quality of higher education, spending policies on endowments and the value of a college degree.

In his report on the effectiveness of HEI governing boards in the United Kingdom, Schofield (2009, p. 28) also outlines the following roles of the chairperson:

- Highly active role in the board with strong motivation, a distinctive approach and leadership style.
- Effective style of chairing and conducting meetings.
- Effective communication with the head of institution and the board secretary.
- Influencing interpersonal dynamics among board members, thus creating an appropriate atmosphere and potential for team work.
- Contribution to the authority of the board by influencing institutional leaders.
- Informal role of ‘critical friend’, fostering team work among board members.

Closer consideration of the above required competencies and roles suggests that the chairperson needs to be the “central connector” within a diverse and networked board structure, taking care of both internal and external relationships while also possessing a personality that is well-suited to the organizational culture.

2.3.2. Culture of constructive criticism and trust among board members

Diverse cultural backgrounds among board members have the potential to influence the social dynamics within a governing board. This was demonstrated by Hofstede et al. (1990), who examined cultural practices in twenty organizations in Denmark and the Netherlands. One of the 6 dimensions considered in this study was the level of openness versus closeness of the groups. According to the findings, Danes exhibited an outward looking culture favoring openness to outsiders and newcomers, while the Dutch culture tended to be more inward-looking and traditional, preferring closed groups.

Hilb's (2008) “managed diversity” approach might prevent the impact of such cultural biases on the social dynamics of board members, which can in turn contribute to more effective board function. Hilb (2008) argues that only a properly managed and diverse team can create a “culture of constructive criticism and trust”. The development of such a context is an essential prerequisite for the effective fulfillment of the board's strategic role.

Other sources from the literature similarly emphasize openness, directedness, involvement, criticality and trust as important elements in the working cultures of governing boards (Gabrielsson et al., 2007, p. 26). For example, according to the Association of Governing Boards of Universities and Colleges (2012, p. 6), governance is effective when “[. . .] the board operates in a culture of cohesiveness, candor, transparency, and high ethical standards”. In other words, an effective working culture is one that harmonizes the work of the board and that emphasizes fairness and directedness in board interactions.

In addition to the “managed diversity” of the team, Hilb (2008) argues that another prerequisite for such working cultures are well-tested board processes. Typically, board processes are stipulated in the regulations on the roles and responsibilities of the board. Furthermore, achieving an effective working culture also requires that meetings practices, conflict resolution practices and communication policies are regulated (Cornforth, 2001, p. 10).

Hilb (2008) presents the results of an empirical study conducted by Filkenstein and Mooney (2003), who suggest that the working culture of the board will become effective when board members are ready to be engaged in constructive conflict while avoiding destructive encounters. In addition, board members should work as a team and understand their level of strategic involvement.

2.3.3. Networked board structure

The work of the board is operationalized through its structure. Abruz (1996), as cited in Bradshaw et al., 2007, p. 3) argues that there is “no one best way to structure and compose a board of directors”. Nevertheless, board structure should enable effective communication within board members and prevent a “free rider problem” (Bradshaw et al., 2007; Hilb, 2008).

In addition, board structure should fit with the strategy and size of the organization. For example, in their study of board structure patterns in non-profit institutions with different strategic styles²⁵, Brown and Iverson (2004, p. 378) argue that institutions that “seek to serve a broader community and expand services to new areas will have more board level committees and more stakeholder involvement in those committees”.

The work of Iecovich (2005) further indicates that organizational characteristics such as age, number of employees, and revenues have implications for board structure. Specifically, larger and more active institutions have more structured boards with various committees. This structure enables board members to be more highly involved and accomplish a larger volume of tasks. Iecovich (2005, p. 55) argues that “the purpose of various bodies of the board is to address and facilitate the division of labor among board members and to ensure that the board is able to carry out its duties and responsibilities”.

Furthermore, board structure may depend on the method through which board members are selected, where members might be selected either as direct representatives of stakeholders or selection might be targeted on the basis of the competences of board members. In general, representative boards are larger, ranging from fifteen to over forty members (Bradshaw et al., 2007). In contrast, boards selected on the basis of competences are professional boards and generally have fewer members.

For nonprofit institutions with multiple stakeholders and a commitment to innovation and flexibility, Bradshaw et al. (2007) propose the “emergent cellular board”. The advantages of the emergent cellular board are (Bradshaw et al., 2007, p. 13):

- Organic, flexible and adaptable structures
- Ability to quickly form and dissolve ad-hoc committees
- Enables networked communication within the board

25 This study applied the typology of strategic styles developed by Miles and Snow (1978), which includes prospector, reactor, defender, and analyzer styles.

- Power sharing and consensus in decision making
- Supporting alliances, networks and innovative relations
- Balancing local and global issues in the strategic planning process

Bradshaw et al. (2007) argue that this type of board requires strong, values based and charismatic leadership that is able to balance relationships in a situation of unequal power. Across the entire spectrum of possible board models, bounded by two endpoints representing representative and professional boards, Hilb (2008) proposes a “small, accountable, directing and controlling board” with only two integrated committees and the same members in each committee. In his argument for this structure, Hilb emphasizes the trade-off between the intimacy problem of small boards and the “free rider problem” of big boards and suggests the networked structure as a solution. He argues that such a networked structure, with overlapping committee membership, homogenizes the board and improves mutual communication.

Based on the above discussion, it might be concluded that an effective board structure has the following features:

- Board structure should be in alignment with the institutional mission and strategy (Brown & Iverson, 2004).
- Board structure should fit with the organizational size (Iecovich, 2005).
- Board structure should reflect the interests of all relevant stakeholders (Brown & Iverson, 2004; Hilb, 2008)
- Board structure should achieve a balance between representative and professional members (Hilb, 2008).
- Boards should be integrated by combining membership in committees (Hilb, 2008).
- Board structure should enable communication, creating networking relationships among board members (Bradshaw et al., 2007; Hilb, 2008)

2.3.4. Stakeholder oriented success measures

There is an expression that states “if it cannot be measured, it cannot be managed”. The purpose of a board’s success measures is to enable the quantification of the efficiency and effectiveness of board actions, both individual and as a team (Gimzauskiene & Klovienė, 2011; Neely et al., 1995).

The individual and team roles of a governing board can be grouped into three areas: fiduciary, strategic and monitoring. The strategic responsibility of the board has direct implications on the competitive position of the institution. The assessment

of the strategic role of the board includes the identification and relative change of the competitive position of the institution. In addition, it is necessary to identify eventual underperformance in order to update strategic objectives (Gimzauskiene & Klovienė, 2011).

In exercising strategic responsibility, which includes the strategic planning process, Hilb (2012, p. 96-99) proposes the following steps:

- Value creation
- Strategy development
- Approval of strategy
- Implementation of strategy
- Monitoring strategy implementation

Hilb (2012) discusses the division of roles among the key actors within the strategic planning process using the “W” approach, which assigns roles as follows:

- Board of Directors – sets the values and vision
- Top Management Team – develops a strategy
- Board of Directors – approves the strategy
- Top Management Team – implements the strategy
- Board of Directors – controls the implementation

Table 13: “W” approach to the process of strategic planning

	Sets the values and vision	Develops a strategy	Approves the strategy	Implements the strategy	Controls implementation
BoD	×		×		×
TMT		×		×	

Source: Hilb (2012, p. 96)

A clear division of roles and responsibilities between the board and management is a prerequisite for the development of success measures. When roles and responsibilities are clearly defined, board results become measurable and transparent to the stakeholders.

Quigley and Scott (2004, p. 15) present a detailed overview of the roles and responsibilities of the board, which is summarized in the table below.

Table 14: Overview of the roles and responsibilities of the board

Role	Description
Defining Ends	Establish the vision, mission and core values, taking into account the interests of key stakeholders; participate in the development and approval of the strategic plan; defining and formulating key operating goals; monitoring performance against the plans; maintaining overall accountability for results.
Providing for Excellent Management	Select of the leaders of the institution; establish measurable annual objectives; define responsibility and authority of management; assess managerial performance; ensure succession planning.
Ensuring Program Quality and Effectiveness	Develop and approve quality goals and performance indicators; monitor performance against expectations.
Ensuring Financial Viability	Approve key financial objectives, indicators and annual operating plan; monitor performance against objectives.
Ensuring Board Effectiveness	Measure individual and group level effectiveness of the board with clearly stipulated policies and processes; enable succession planning of directors and officers.
Building Relationships	Coordination and integration of the institution with external stakeholders.

Source: Adapted and summarized from Quigley and Scott (2004, p. 15-16)

Clearly defined board responsibilities (as a team) enable the evaluation of performance at the board level. However, individual board members have assignments as well and their individual performance should be similarly assessed. Specifically, individual board members are required to have individual skills and expertise for the job, to participate in individual development programs and board evaluations, to have authority and accountability, to be able to work in teams and to regularly participate at meetings (Quigley & Scott; 2004, p. 17).

In addition to a clear division of roles between the board and management and the assignment of board responsibilities (as a team and for individual members), effective performance measurement systems should not neglect the interests of stakeholders (Atkinson et al., 1997).

In other words, board members should understand and coordinate stakeholders' interests and objectives. The fulfillment of the interests and objectives of

stakeholders should also be measured and reported at the board and individual level. Finally, drivers of success should be identified and understood. Together, a performance management system should be designed in such way that it fulfills three essential roles: coordinating, monitoring and diagnostic (Atkinson et al., 1997). The “coordinating” role of a performance management system ensures the alignment of involved actors with the institutional mission and strategy. The “monitoring” role ensures the evaluation of performance and the “diagnostic” role ensures continuous improvement of institutional performance.

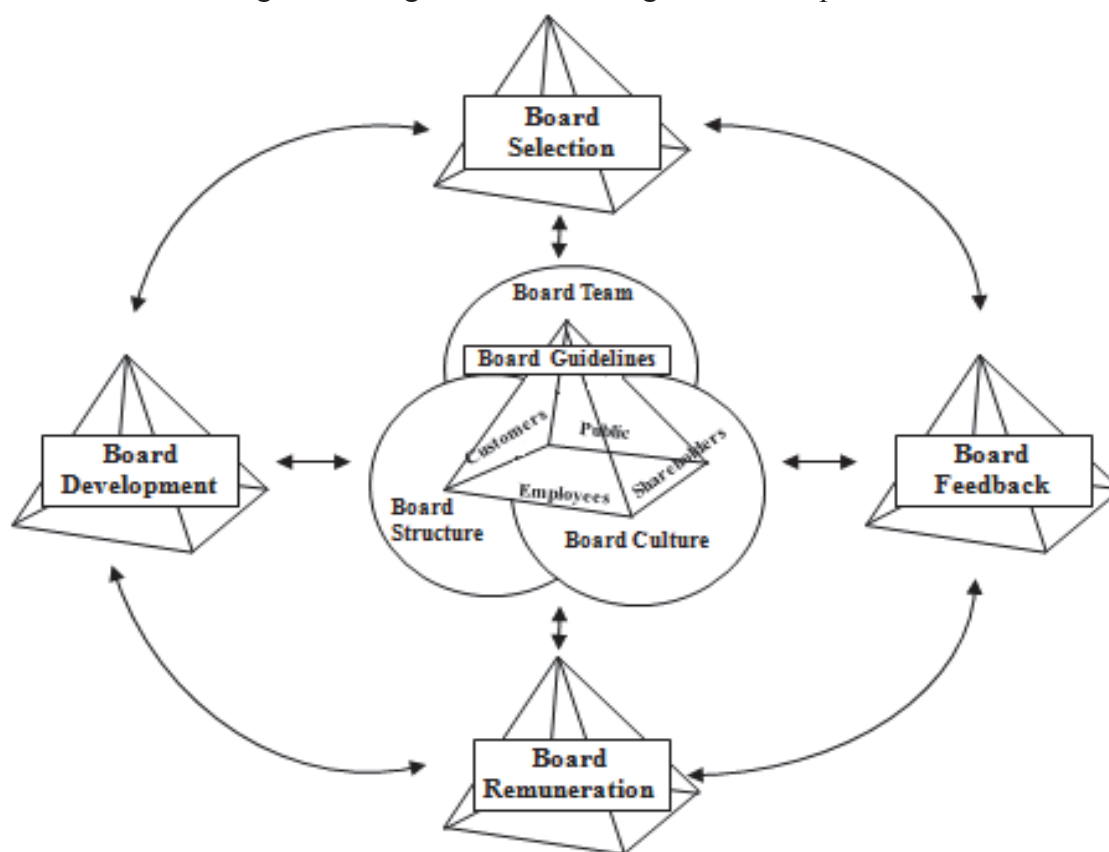
2.4. The Integrated Dimension of HEI Governance

Together with executive leadership, governing boards should be involved in the strategic direction and control of institutions. For effective direction and control, HEIs must have sufficient resources at the board level. A problem arises when the required resources are absent or when governing board members lack the expected competences. To ensure effective governance, board members should be equipped with the skills, know-how and personal characteristics necessary for a position on the board. However, ensuring an appropriate combination of competences among board members is also important. For example, HEI board might have members with backgrounds in various academic fields, but lack individuals with backgrounds in practical disciplines such as finance or law. With this type of composition, the expected level of accountability and effectiveness may not be reached by the board. Similarly, over- or under-diversity might also pose a problem. Indeed, every context has a unique set of requirements for the selection of its board members. Besides selection of the board members as a key criterion for effective governance, the evaluation, remuneration and development of board members are topics that are rarely discussed in non-profit boards.

In his recognition of these problems, Holland (1991) suggested several reasons for reduced effectiveness in non-profit boards. Firstly, these boards rarely monitor their own job design, structure and performance. Secondly, there are rarely any transparent criteria for the evaluation of the skills, knowledge and abilities of individual board members as well as the of the collective board. Thirdly, there is no clearly defined set of competences for board members and, as a result, individuals seeking a position within the board might perceive his or her responsibilities and expectations to be too vague. Finally, board development is simply not a priority in many institutions. In his research, Hilb (2008) also identified such weaknesses and proposed the concept of integrated board management as a solution. In integrated board management, Hilb applies resource dependence theory, which asserts that effective governance depends

on the resources of the involved actors (Hillman et al., 2000). Hilb (2008) argues that, in order to mobilize actors' resources, actors should be selected, reviewed, remunerated and developed in an integrated and targeted manner appropriate to each particular context. As such, the “integrating element” in the appropriate mobilization of actors' resources is the professional human resource practices exercised at the individual level. and according to Hilb's (2008) integrated board management concept, boards should be selected, evaluated, remunerated and developed in the targeted manner for each particular context.

Figure 6: Integrated board management concept



Source: Hilb (2008, p.109)

2.4.1. Targeted selection of board members

According to resource dependence theory, individual board members should be selected on the basis of their human and social capital (Eminet & Guedri, 2010). Human capital includes the knowledge and competences acquired through work experience and education. Social capital is defined through the individual's relationships with his or her social network of peers, managers and friends (Huse,

2007). One's position within a social structure or network is considered to be an important resource of the board member (Harris & Helfat, 2007), while his or her human capital is the basis for creating value for the organization (Eminet & Guedri, 2010; Huse, 2007).

For the effective identification and utilization of the human and social capital of board members, an appropriate selection process is essential (Hermalin & Weisbach, 1988). However, empirical studies demonstrate that, in practice, the president or institutional executive leader typically has a prevailing role in the board selection process, thus creating an opportunity for suboptimal board composition (Hermalin & Weisbach, 1988; Mace, 1971; Vancil, 1987). A possible motive for the involvement of the president in the board selection process might be the avoidance of social interaction with unfamiliar members or the fulfillment of compensation expectations when the board is comprised of members from his or her own social network. When board members openly criticize a president, the major concern of that president is to remove such directors from the board (Zhu & Chen, 2011). Furthermore, presidents tend to select demographically similar board members which, in turn, produce more generous compensation for the president (Westphal & Zajac, 1995).

Another factor influencing the biased selection process of board members is the power dynamics among key stakeholders. For example, Kim et al. (2007, p. 298) present an interview with a faculty member of a private Korean university who states: “At our university, the president, also the founder, has absolute control over the school administration. Most board members are his sons and relatives”. Undoubtedly, the potential consequence of this apparent bias in the selection process is the recruitment of governing board members that lack the expected competences. Sometimes even in a multi-stakeholder environment with a structured selection process influence of the president or CEO cannot be easily neglected. For example, the In research conducted by Lorsch and MacIver (1989, as cited in Burke, 1997), show that almost all of the directors identified and evaluated in the study were selected in a process consisting of four steps: identification, evaluation, nomination, and election. In most of cases, candidates were identified by the president in the first step of the selection process.

One solution that might serve to decrease the president's influence on board selection and increase opportunity for more effective board composition is the “staggered” board selection process²⁶. For example, at Hahnemann University Hospital in Philadelphia, the staggered board selection process starts with determining the required competencies of new board members (Haltier, 2009). Afterwards,

26 In a staggered board process, only a few of the directors are elected in a given year.

candidates are identified, interviewed and selected based on the alignment of the candidate's skills with the required competencies. Because it is a staggered selection process in which only a few directors are replaced at any one time, the nominating committee identifies whether the competencies of outgoing board members are still necessary or if there is need for new competencies. In interviews, board members pose competency based questions to the candidates. Following the interview phase, the nominating committee discusses the qualifications of candidates and makes a selection.

Hilb (2008) argues that the selection process should also be “targeted” to match the required competences of board members with the organizational context. In addition to producing committed board members, this targeted selection process should prevent the “free rider problem” and reduce the prevailing influence of the executive president. Therefore, Hilb (2008) proposes a ten-step selection process that coordinates the requirements of organizations and the profiles of candidates. This process consists of the following steps:

1. Determining the tasks of board members
2. Determining the tasks of the new chairperson
3. Optimal distribution of the know-how and roles in the board
4. Determining the chairperson's job profile
5. Development of the recruiting process
6. Systematic structuring of the selection process
7. Processing candidate information by the selection committee
8. Analyzing references of the candidates
9. Introduction of the candidate to the members of the board and management
10. Formal introduction of the new chairman

Board tasks and the distribution of know-how and team roles are defined at the individual board member level. Tasks are also defined at both the committee and full board levels, with a planned timeframe allocated to every task. This form of selection process should result in the selection of candidates with the commitment, competencies and assigned team roles required of board members.

In this process, special attention is also placed on the replacement of the chairperson. Here, the outgoing chairperson and the nominating committee participate in defining the new chairperson's involvement in the governance process.

2.4.2. Targeted feedback of board members

An important tool for the motivation and development of board members is providing feedback. Cruz and Naficy (2005, p. 8) argue that, following regular feedback, board members become more focused on long-term objectives and strategy and their own roles and objectives become more aligned with organizational objectives. With feedback, board members are also more committed to effectively fulfill their monitoring function and improve overall performance. Regular feedback of board members also improves succession planning and the selection process. In general, board feedback is carried out via formal and informal assessments and self-assessments with the purpose of evaluating performance and identifying areas for improvement (Rubinstein & Murray, 2010). Boards might be evaluated at the individual level or at the level of the whole board (Orlikoff & Totten, 2005; Rubinstein & Murray, 2010). The various types of board evaluation are presented in the following table.

Table 15: Board evaluations

Board evaluation	
Individual member assessment	Board level assessment
Peer evaluations Individual self-assessment Third party assessment	Self-evaluation Third party assessment

Source: Adapted and summarized from Cruz and Naficy (2005)

The assessment of individual members is typically conducted in the form of peer evaluations, where board members evaluate one another, or through individual self-evaluations, where board members evaluate themselves.

At the board level, self-assessment aims to evaluate the effectiveness of the entire board without focusing on individual board members.

In their description of the standards required of boards to evaluate their own performance (introduced by the Joint Commission on Accreditation of Hospitals²⁷), Orlikoff and Totten (2005) provide a detailed outline of the steps involved in board assessment at the individual and group level.

27 The Joint Commission on Accreditation of Hospitals is an independent American health care accreditation agency.

Table 16: Steps in board assessment

Board evaluation	
Assessment at the individual level	Assessment at the group level
<ol style="list-style-type: none"> 1. Assessment process is performed by board officers or a designated board committee 2. Every board member should be assessed at least once during his term. In order to avoid overly-frequent comprehensive assessment, the actual process can be staggered to avoid all board members being evaluated in the same year. 3. For every individual board member, two surveys are typically used. One is completed by the board member, and the other by a committee. 4. The CEO or chairperson of the board also gives feedback about an individual board member's performance. 5. After completion of the surveys, conversation is scheduled between the board member and the lead evaluator to communicate feedback. 6. The result of the assessment process is a productive exchange of performance feedback and a development plan for the board member. 7. Progress of the development plan has been periodically monitored. 8. Feedback from the assessment forces should be used as part of the board member's reappointment decision. 	<ol style="list-style-type: none"> 1. Frequency of board self-evaluation is at least once every two years. 2. The self-evaluation process starts with a confidential written questionnaire. 3. The self-evaluation questionnaire continuously improves from one cycle to the next. 4. The aggregate results are used for open discussion between the board members, which should be held outside of a regular board meeting. 5. The outcome of the self-evaluation process is a governance improvement action plan spanning a period of one or two years. 6. During that period, the governance improvement action plan is implemented and monitored by the board. 7. For the next cycle of self-evaluation, the board assesses the action plan and makes necessary modifications 8. The self-evaluation process leads to better governance.

Source: Adapted and summarized from Orlikoff and Totten (2005)

Rubinstein and Murray (2010) argue that board performance assessment has benefits as well as risks. Indeed, it is a delicate process that has the potential to endanger collegiality among board members or cause adverse relationships.

For example, while peer evaluations provide in-depth information, they may also negatively influence collegiality and openness. Conversely, group level assessment will not threaten collegiality among board members, but might not produce in-depth responses. Finally, while individual self-assessments are non-invasive and promote openness, they create a potential for biased answers.

In their consideration of the features of various forms of assessment, Rubinstein and Murray (2010) suggest that boards should, at the very least, conduct an evaluation at the group level. They further recommend that individual self-assessment, through interviews, group discussion and surveys, should be conducted as a supplement to group level evaluation only in the case where the personalities of board members are appropriate for such a process.

While interviews enable in-depth responses and an opportunity for thorough discussion, they are generally time-consuming. In addition, the lack of anonymity might threaten the participants' willingness to speak openly. In contrast, group discussions are more time-effective and enable the sharing of different viewpoints between board members. However, there is a risk that a poorly facilitated discussion becomes counterproductive. Written surveys, by ensuring that all planned topics are covered, are the most structured approach. In addition, the anonymity of written surveys increases the likelihood of frank responses. However, this approach typically prevents the in-depth responses enabled by other methods.

In addition to individual and peer review self-assessment, Cruz and Naficy (2005) also emphasize third-party assessment of board performance. Third-party evaluation typically combines a structured questionnaire with discussion that might conclude with the creation of detailed suggestions for improvement of the board member's performance. A final factor important to consider in board assessment is whether feedback is being provided by an individual or group. The purpose of feedback is to assist board members to improve their performance in identified areas. Rubinstein and Murray (2010) suggest that assessment results should be summarized and presented during a follow-up discussion in order to provide board members with an opportunity to ask questions and discuss areas for improvement.

Hilb (2008) argues that, while performance assessments can be formal and informal, self-assessment and the provision of informal feedback is preferable in situations where boards are selected in a targeted and professional manner.

Hilb (2008) further emphasizes the two objectives in his feedback-loop process of board member assessment:

1. To support the commitment of board members to the organization and
2. To improve their professional and role competences.

Following the provision of feedback, it is possible to identify whether there are any new competences that need to be developed. In addition, the outcome of the feedback process provides information about the need for additional motivational factors in the form of remuneration.

2.4.3. Targeted remuneration of board members

There exists a certain level of diversity in approaches to the compensation of trustees and executive leaders of HEIs. In the first instance, the national context and local tradition are important determinants of remuneration. While European universities are generally governed by insiders or academics, American HEIs are directed and controlled by boards made up of outsiders. In general, members of the boards of American non-profit HEIs are wealthy individuals that have made large contributions to institutional endowments and often act as volunteers (Brown, 2001).

This voluntary nature of board membership typical in the US context is illustrated in the bylaws of the Board of Trustees of Michigan State University (2003), which state that trustees should not receive any compensation for their service and that they are only entitled to reimbursement of any necessary expenses.

In contrast, in a European example, the Code of conduct for universities published by the Netherlands Association of Universities (VSNU) (2012) states that trustees are entitled to remuneration that is not dependent on university results, with an obligation to publish all details regarding their remuneration in the annual report.

However, because HEIs are generally non-profit organizations that have difficulty measuring their own performance, there is ongoing debate as to whether HEI board members should be compensated at all.

According to Glabman (2006), there are two perspectives concerning the best approach for attracting, retaining and motivating competent trustees in non-profit institutions. One approach contends that the work of non-profit boards should be compensated because such compensation will attract skilled and competent people that are able to respond to a competitive environment. From a resource dependence perspective, the advisory role of board members is even more valuable for the university than for corporations, where presidents, despite being forced to operate in a business environment, are generally academics that do not necessarily have any experience in administrative and business matters. In HEIs, boards must approve institutional strategy and budgets as well as participate in decisions regarding the management of endowment funds and physical infrastructure. Consequently, the business experience and competence of board members become even more valuable for such an institution.

A second perspective concerning board member compensation argues that most non-profit board members are wealthy individuals who would return any remuneration to their institution as a donation. Furthermore, some have argued that giving remuneration to non-profit board members will not ensure the recruitment of the most highly qualified people in governance roles (Balgobin, 2012).

In for-profit HEIs, where board members are in a different professional and legal position and are paid for their services, this dilemma does not exist. According to Field et al. (2011), for-profit directors have a stricter legal responsibility and the ever-present risk of being prosecuted by shareholders. This situation is illustrated in the case of the University of Phoenix where, in 2010, shareholders of the parent company of the university requested an investigation against the company's directors when a government regulator identified and reported possible deceptive and unfair student-recruiting practices. To cover such risks of fines or other penalties, most directors of for-profit HEIs pay insurance costs from their remuneration. In the parent company of the University of Phoenix, nine board members earned a total amount of \$3.6-million in 2009, or about \$400,000 per member (Field et al., 2011). In the for-profit educational sector, total compensation is similar to that found in the corporate sector and includes cash fees, stock awards, and stock options.

For a better understanding of the context of director remuneration, it is important to consider the compensation of university presidents, which is approved by the board of trustees. At times, there is a significant discrepancy between the remuneration of board members and the compensation of American university presidents. For example, according to a study conducted by Ehrenberg et al. (2001) examining presidential compensation data from over 400 private colleges and universities, more than 5% of presidents earned an annual income in excess of \$500,000 between 1997 and 1998. In the period between 1999 and 2000, the median compensation of presidents of private HEIs amounted to \$176,800 whereas the total annual compensation of presidents of public institutions was \$132,098. Furthermore, the compensation of HEI presidents is apparently on the rise. This is supported by more recent data demonstrating that median annual earnings for HEI presidents between 2009 and 2010 amounted to \$375,442 (Stripling & Fuller, 2011). The largest compensation was given to the president of Ohio State University, who earned more than \$1.3-million in 2009-10 (Stripling & Fuller, 2011).

In such circumstances, the fiduciary responsibility of the board might be questioned. Ehrenberg et al. (2001, p. 2) report that “[. . .] the New York State Board of Regents ruled in 1997 that the pay and benefits of Adelphi University's president Peter Diamandopoulos was excessive and then disbanded the Adelphi Board of Trustees for failing to exercise adequate fiduciary responsibility”.

In a confirmation of Ehrenberg et al.'s (2001) results, Monks (2004) demonstrated that the compensation of the presidents of public HEIs, with an annual average income of \$243,457, were considerably lower than those of their peers in private institutions, who earned on average \$476,680 annually. Interestingly, Ehrenberg et al. (2001) identified that one fourth of the private presidents in their sample were

former presidents of public HEIs, suggesting that public university presidents utilize their positions as springboards to better paid positions in the private sector.

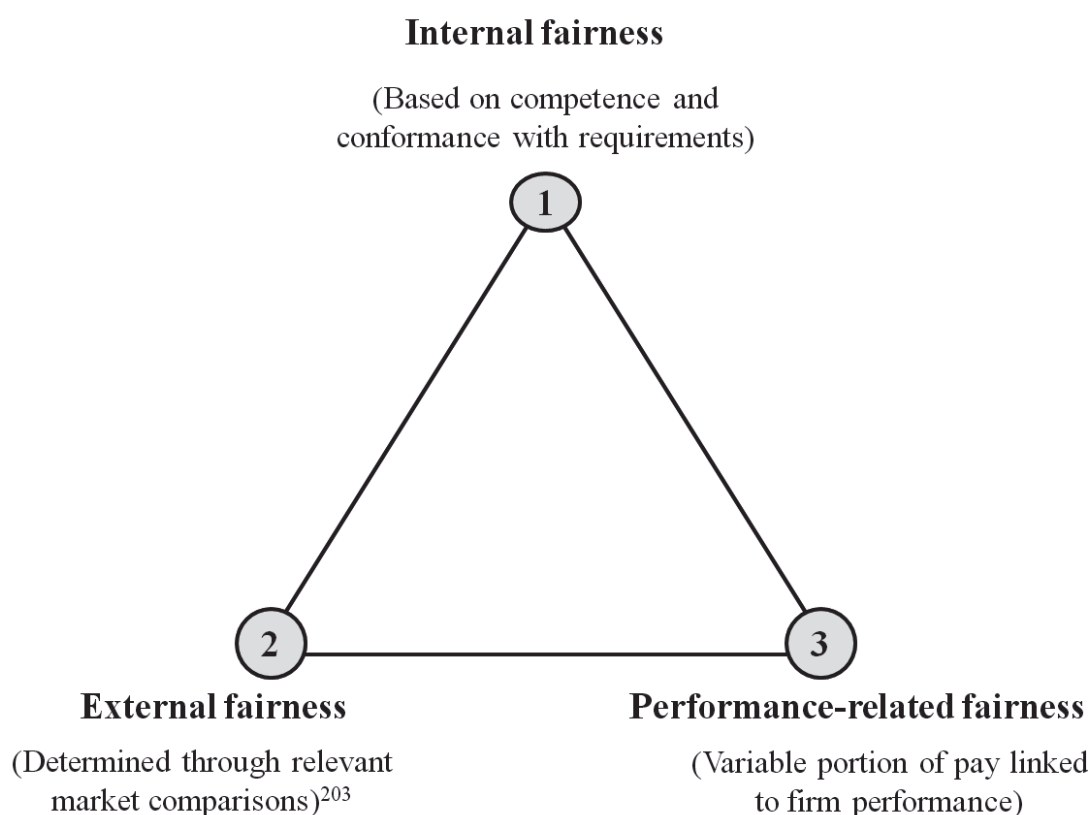
The variability in board and presidential compensation schemes and approaches may have implications on the motivation and commitment of both board members and HEI presidents, which can, in turn, contribute to reduced effectiveness and performance. As such, a perception of compensation fairness becomes a critical topic for all involved individuals and relevant stakeholders.

Magnan et al. (2010, p.39) demonstrate that it is possible to develop a fair and transparent approach to remuneration. In their work, they propose the following recommendations to practitioners and academics:

1. The level of compensation should match the competence and responsibilities of individuals.
2. Excessive compensation might impair the objectivity, judgment and independence of the compensated individual.
3. A compensation scheme should be transparent and benchmarked.
4. A significant part of total compensation should be deferred.
5. Compensation should be based on long-term objectives.

Similarly, in his solution for fair compensation management, Hilb (2008, p. 133) developed the “magic triangle” concept for board compensation.

Figure 7: Hilb's (2008) model of compensation fairness



Source: Hilb (2008, p. 133)

Hilb's (2008, p. 133) compensation triangle consists of "internal fairness" (based on individual competencies and responsibilities), "external fairness" (determined through appropriate benchmarks) and "performance related fairness" (encompassing the part of compensation linked to performance).

According to Hilb (2008), all three parts of the "magic triangle" should be taken into account when developing a fair compensation scheme for board members.

2.4.4. Targeted development of board members

HEI board members require special skills and competencies in order to perform their individual tasks. In addition, they must work as a team and understand the overall responsibilities of the board. By achieving and maintaining skills and competencies, board members became an important resource of the organization (Pfeffer & Salancik, 1978). To ensure their development as an organizational resource, they must also actively participate in structured orientation programs.

Davis (1997), citing a study conducted by Vaughan and Weisman (1995), reports

that only 14 % of American community college boards have structured orientation programs for new board members. Among the remaining college boards, formal orientation was either absent (16%) or conducted on a voluntary basis only (70%). Typically, orientation is conducted by the college president and administration (86% of time). A further 47% of orientations were provided by board chairs and 36% were provided by outside specialists.²⁸

In his review of the literature concerning board development practices, Brown (2007) argues that board orientation and training are essential because they:

- Prepare board members to address the changing organizational environment and provide guidance for new members (Roberts & Connors, 1998)
- Influence board and organizational performance (Jackson & Holland, 1998)
- Improve volunteer performance (Heidrich, 1990)
- Make succession planning smoother (Inglis & Dooley, 2003)

When developing a professional orientation program for board members, it is important to define specific learning objectives that will produce the appropriate competencies needed by board members for fulfilling their governance function. The table below summarizes the various elements needed in a board development curriculum, as suggested by Davis (1997).

28 The percentages presented here add up to more than 100 % because, in some cases, orientation programs overlapped.

Table 17: Elements of a board development curriculum

Topic	Description
Board Culture	To effectively participate in the work of the board, every new board member should understand the working culture of the board.
Context of the HEI	Because they make strategic and long term decisions, board members should be acquainted with the history of a particular HEI, key stakeholders and summaries of recent performance.
Performance orientation	Board members should accept that their work will be evaluated and that, in order to perform, they need to develop an appetite for education and continuously participate in professional development programs.
Effective Group Processes	Board members should understand key elements of effective group process, such as efficient and effective discussion before reaching a decision, parliamentary procedures, understanding different working styles among board members and conflict management procedures.
Analytical Decision Making	Research and analysis should be the basis for every board’s decision.
Stakeholder management	Awareness of the interest of all relevant stakeholders, as well as proper communication with key constituencies of the HEI, contribute to better decision making process and public support.
Strategic Planning	The board should develop competences to identify the competitive position of the HEI and to understand threats from competitors. Its final aim is to participate in strategy, ensuring the competitive advantages of the HEI and protecting the institution’s viability.

Source: Adapted and summarized from Davis (1997, p. 26-30)

Hilb (2012, p. 137) emphasizes that board development occurs on three levels. Firstly, board members should be developed as individuals. Secondly, the board should be developed as a team and, finally, development should occur in coordination with senior management in the context of the whole organization.

A targeted orientation plan of individual board members includes a strategy for the development of “integrated success intelligence”. According to Hilb (2012, p. 137-138), “success intelligence” integrates analytical intelligence (a “cool head”), emotional intelligence (a “warm heart”) and practical intelligence (“working hands”). With “integrated success intelligence”, the individual board member has

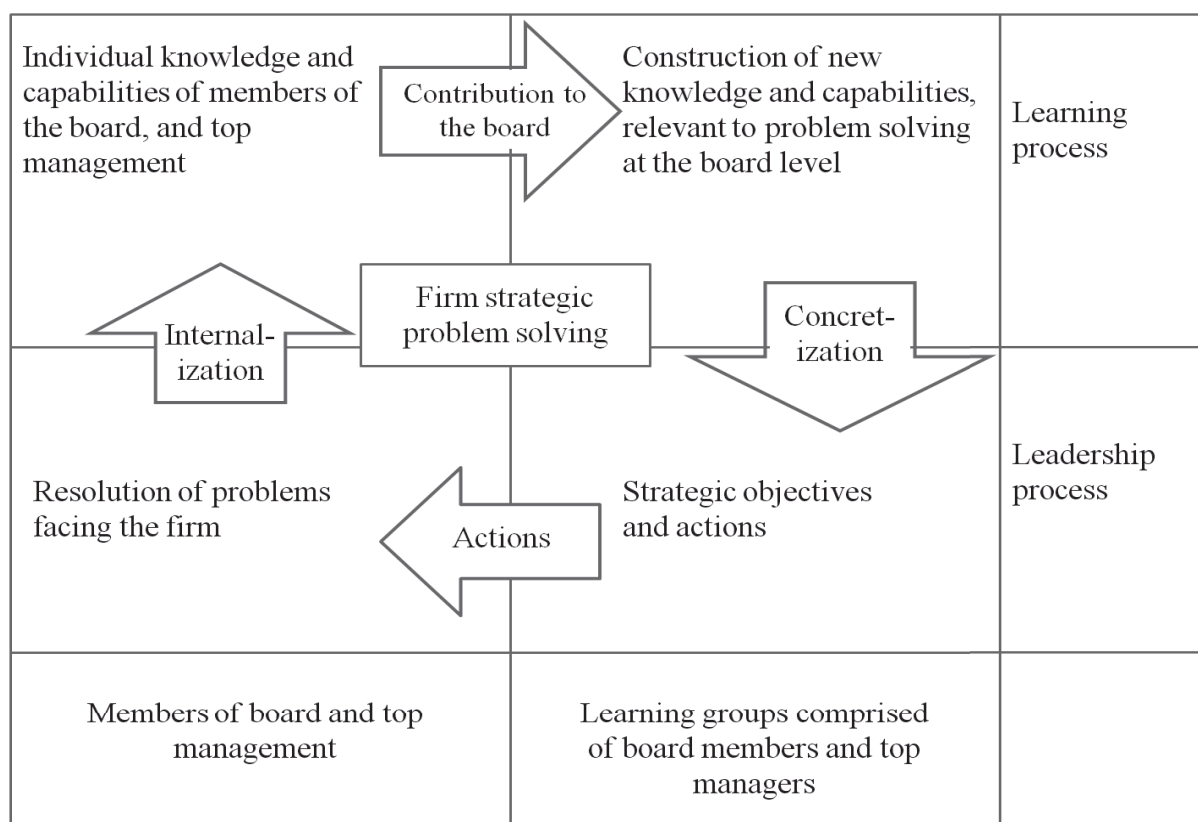
the required competences and moral standards to actively participate in the effective direction and control of the organization.

To be effective at the team level, board members must understand their own role and respect the roles, strengths and weaknesses of other team members (Belbin, 1993; Margerison & McCann, 1985). Consequently, the board effectively fits into an entire organization when:

- Members are selected in a targeted way that takes into account competence, demographic and team role diversity
- Board members understand their own and other members’ strengths and weaknesses.

According to Dubs (2003, as cited in Hilb, 2008, p. 148), development in the context of the entire organization requires coordination between the board and senior management in “learning and leadership processes”. The learning and leadership processes of the learning organization are presented in the following figure:

Figure 8: The board and management team as part of a learning organization



Source: Hilb (2008, p. 148)

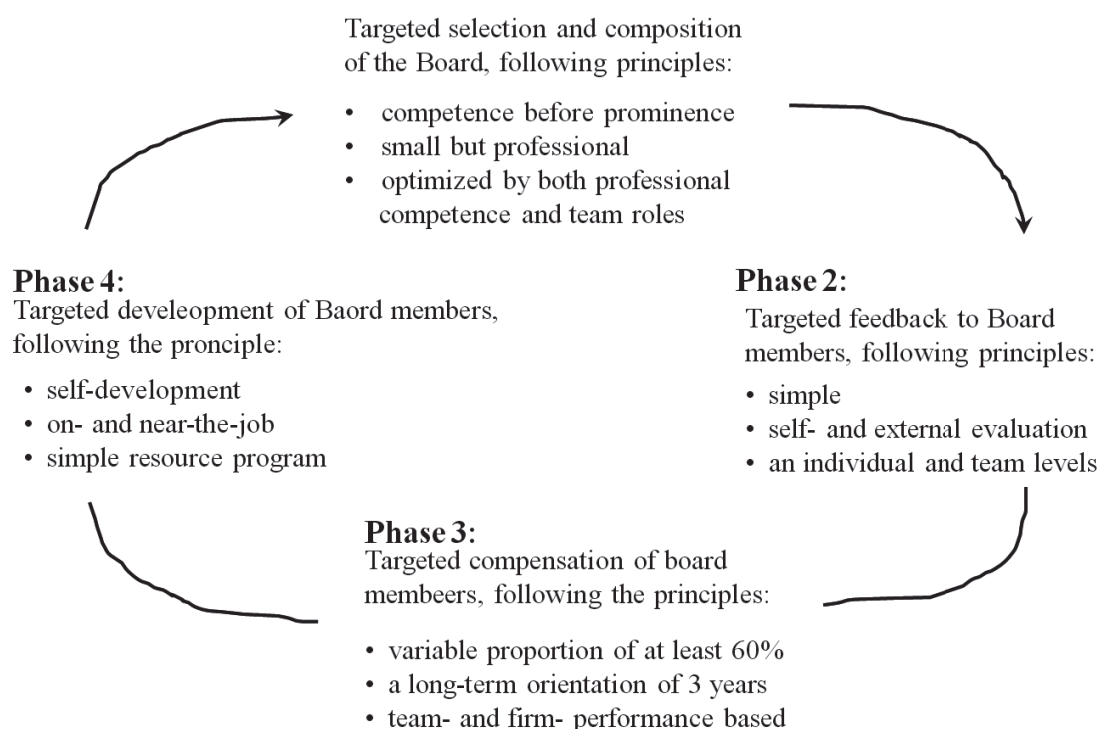
The “learning process” implies that the role of the board is oriented towards active direction and control, working in coordination with senior managers. In this way, the board has the opportunity to utilize the knowledge of its members and, in collaboration with managers, new knowledge is created. This new knowledge, in turn, can be used for the resolution of organizational problems in the leadership process.

2.4.4.1. Integrated board development function within the board

Because board members bring key resources to an organization, constructing a competent and capable board is essential. Achieving such a board becomes an even more challenging task in the HEI context because of the voluntary nature of nonprofit governance. In order to ensure that board members possess the required competences, Hilb (2008, p. 152) proposes the establishment of an “integrated board management committee” that is involved in the selection, feedback, remuneration and development of board members.

The cycle integrating these four functions of board management is presented in the following figure:

Figure 9: Cycle integrating the four functions of board management



Source (Hilb, 2008, p. 153)

In support of the integrated board management committee, Hilb (2008, p. 153) argues that the operation of such a committee in the “integrated selection, evaluation, compensation and development” of board members should ensure processes that locate, retain, motivate and develop appropriate board members for every particular context.

2.5. The Controlling Dimension of HEI Governance

In his model, Hilb (2008) uses agency and stakeholder theories as the theoretical framework for the controlling dimension of governance. Both agency and stakeholder theories assume that managers act in their own interest or in the interest of chosen stakeholder groups. As such, they utilize their position to filter and reinterpret information that is then communicated to owners and other stakeholders.

From the agency theory perspective, a board is established in order to align the interests of owners and managers. Therefore, as the “ultimate internal monitor”, the board has a responsibility to control and evaluate managerial performance (Fama, 1980. p. 294).

Conversely, stakeholder theory focuses on stakeholder relationships and expectations (Donaldson & Preston, 1995). Accordingly, managers should recognize who are the relevant stakeholders, acknowledge their interests and ensure that stakeholders receive fair treatment. In stakeholder theory, control encompasses mechanisms of “law, government regulation, economic sanctions, organizational incentives, moral suasion, interpersonal behaviors and the individual internalization of rules and norms” (Agle et al., 2008, p. 160-161). For example, the establishment of risk management rules and procedures that involve identifying environmental trends might help HEI administrators recognize the expectations of faculty and students and to act in their interests.

Unlike corporations, HEIs generally have multiple objectives and multiple stakeholders with divergent interests. Brown (2001, p. 130) argues that key stakeholder groups (such as trustees, faculty and students) should monitor administrators. Because stakeholders of non-profit entities cannot easily withdraw the administrators’ “stakes” from an institution, there is always a risk that these administrators might abuse their position. This type of agency problem should be solved primarily through the effective execution of the monitoring role of HEI governing boards. However, any board-level disagreement concerning institutional objectives, such as providing high quality education and research vs. placing more weight on innovation, might reduce the effectiveness of the board and its monitoring function (Bowen, 1994). Apart from the potential for disagreement over

HEI objectives, other reasons for ineffective oversight or poor control function in governing boards of HEIs might include a lack of expertise and competencies of lay trustees, a lack of time to devote to the job, the “free riding” problem of big boards or excessive power of the board president (Hermalin, 2004)..

As a solution to the agency problem arising from the high bargaining power of the president, the problem of asymmetric information between administrators and other stakeholders and the problem of deficient expertise, Hilb (2008) proposes the following board functions within the controlling dimension of the governance:

- Auditing function
- Risk management function
- Communication function
- Evaluation function

2.5.1. Auditing function

In general, HEIs operate under a specific combination of public and private funding. As such, providers of financial resources to an HEI have the right to financial information and a need for assurance of the fairness of financial statements. Accordingly, the auditing function of board becomes essential. In the first instance, HEI boards and audit committees have a responsibility to appoint external auditors and negotiate their fees. In addition, HEI boards should ensure the auditors’ independence and assure appropriate cooperation with both external and internal auditors (Adams, 1994; Pearson & Ryans, 1982; Reinstein & Weirich, 1996).

2.5.1.1. Cooperation with external auditors

In selecting the auditor and negotiating audit fees, the central task of the board is to ensure the auditor’s independence. In addition to auditor competence, objectivity, transparency and integrity, this independence is an important quality that protects the organization from fraud and financial mismanagement. Mellet et al. (2007) argue that, according to the UK Audit Code of Practice, the audit committee of an HEI should establish a subcommittee that defines criteria for the selection of the auditor and the scope of its work. In the selection process, up to three potential external auditors should be proposed by this subcommittee.

However, Reinstein and Weirich (1996) emphasize the potential for bias among board members when selecting auditors. In their study, they demonstrated that formerly established relationships between audit firms and audit committee members have

a strong impact on the selection process. In other words, audit committee members tend to select audit firms with whom they already hold formal relationships. As a solution to this potential bias, Hilb (2008) recommends that audit firms be changed every three years. This strategy also serves to strengthen the independence of external auditors.

2.5.1.2. Cooperation with internal auditors

The involvement and acquaintance of governing boards with internal audit processes is essential for effectively monitoring the HEI administration. In general, the board's statement on internal control systems is part of the audited financial statement (Lewington, 1996, p. 6). In order to obtain accurate information for issuing such a statement, it is necessary that the board understands the tasks and roles of internal auditors.

The basic tasks of internal auditors are (Dittenhofer, 2001):

- Assuring the credibility of financial statements
- Assuring compliance with regulations and institutional bylaws
- Assessment of efficient and effective operations in the accomplishment of goals and objectives
- Safeguarding of the physical, intellectual and cultural assets of the organization

In addition, Wilson et al. (2010) emphasize the importance of the risk management role of internal auditors of HEIs. Accordingly, internal auditors should prepare a detailed internal audit plan that takes into account the risks to which the HEI is exposed.

2.5.2. Risk management function

In order to manage risks more effectively, many HEIs have gradually started to implement Enterprise Risk Management²⁹ (ERM) processes in their operations. For example, the Risk committee at Emory University in Atlanta conducted an extensive risk assessment program that identified 50 risks that required monitoring (Gurevitz,

29 According to the Casualty Actuarial Society, the association of insurance and risk management professionals, Enterprise Risk Management (ERM) is the integration of all risks facing an organization (i.e. hazard, financial, strategic, and operational) into a single, holistic framework.

2009). For HEIs, the major concern is reputational risk, where any unwanted event might seriously affect institutional reputation.

Wills (2011) outlines the following risks that should be identified, analyzed, and monitored in HEIs:

- Risks of mismanagement of accounts payables.
- Risks of intrusion into IT systems, loss of data, and inappropriate use of social network data.
- Risks of falsification of intellectual contributions and research.
- Risks of loss of valuable assets.
- Risks related to student safety.
- Risks of natural disasters.
- Risks of employees' pension schemes.
- Risks related to health services.

As such, Enterprise Risk Management (ERM) has an important role in the identification, assessment and monitoring of HEI risks. Gurevitz (2009, p. 40) argues that specific Enterprise Risk Management for HEIs includes strategic, operational, financial and compliance based dimensions. In other words, ERM must ensure that institutional missions are in alignment with strategic goals, that management processes are in place, that the institution's assets are protected and that the institution complies with applicable laws and regulations. Wilson et al. (2010) argue that HEI boards should be strongly involved in the assessment and improvement of university ERMs by encouraging a risk management culture and involving themselves in the wide scope of activities involved in risk management, including approving risk tolerance levels and monitoring internal control and compliance processes.

Within HEI boards, risk management is usually the responsibility of a risk committee. According to Deloitte (2012), the first task of the board's risk committee is to meet the needs of all relevant stakeholders. For example, an HEI risk committee should be able to understand and meet expectations and trends related to faculty, students and other important stakeholders. Furthermore, the committee should ensure the alignment of risk management with institutional strategy. Neglecting this alignment might result in the use of overly diverse approaches to risk management across academic units of the HEI. Finally, the committee should monitor the entire risk management infrastructure including people, processes, and resources.

2.5.2.1. Integrated audit and risk management committee

Both risk assessment and internal audit teams should be involved in risk management of HEIs (Wilson et al., 2010). However, the involvement of both teams in risk management activities might result in overlapping activities among team members. In order to optimize the activities of both teams, Hilb (2012, p. 152) proposes the establishment of an “integrated audit and risk management committee”. Such a committee should:

- Supervise and assess internal and external audit and control systems,
- Supervise and assess the competence and independence of involved professionals,
- Analyze and discuss periodical reports,
- Ensure the establishment of a risk management system within the institution and
- Foster effective communication between all constituencies including committees, external and internal auditors, risk management professionals and institutional leaders.

Hilb (2008) argues that this type of integrated committee would contribute to the effectiveness of both risk management and internal audit function.

2.5.3. Communication function

Scholes (1997, p. 18, as cited in Welch and Jackson, 2007, p. 182) defines organizational communication from a stakeholder approach as the “[...] professional management of interactions between all those with an interest or - a stake - in a particular organization”. In HEIs, the main challenge to effective organizational communication is stakeholder diversity, where the heterogeneity among board members often creates a problem of information asymmetry. This information asymmetry among stakeholders, and the resulting power struggles, further contributes to the communication problems within heterogeneous HEI boards.

The communication function of the board is a tool for solving the problem of information asymmetry among stakeholders³⁰. Conversely, informational diversity

30 Information asymmetry among stakeholders arises when one party has more or better information than another, thus creating information diversity in a heterogeneous group. As such, the communication function becomes essential for effective decision making.

may also be seen as an opportunity. Using a resource-based view³¹, Zhang (2010) argues that the effective utilization of diverse information among board members might serve as a source of competitive advantage for an organization. The central challenge posed by board heterogeneity is overcoming the “information bias”³². However, this “information bias” might be prevented altogether through practices of “open discussion, effective leadership and active search” (Zhang, 2010).

“Open discussion” involves the willingness of board members to share unique information and professional opinion with others through discussion and debate, while accepting the risk of being wrong. “Effective leadership” is the task of the chairperson, who is expected to stimulate discussion, formulate conclusions and balance the personal interests of board members. Finally, an “active search” is the detailed preparation for board meetings that involves searching for additional relevant information as well as formal reports. In order to be effective, these principles of overcoming information biases must be implemented in all communication exchanges within all stakeholder groups. In the HEI context, communication participants representing different stakeholder groups are: (1) board members, (2) institutional leaders (Deans, Rectors and senior administrators) and (3) external stakeholders (students, the business community, regulators and the general public). Patterns of communication between the above stakeholder groups can be observed within the following three dimensions of communication:

31 The resource-based view (RBV) argues that unique resources bring a competitive advantage to organizations. Therefore, an organization is motivated to prevent the “imitation, transfer, or substitution” of resources (Barney, 1991; 1995).

32 Zhang, citing Brodbeck et al., (2007), argues that “information bias” is the result of suboptimal communication between members of a heterogeneous board.

Table 18: Communication dimensions of the board

Dimension	Direction	Participants	Content
Internal communication between board members.	Two way	Board member to board member.	Discussion and decisions regarding strategy and forward looking issues.
Internal communication between board members and senior administrators.	Two way	Senior administrators to board members and vice versa.	Timely, relevant and accurate information about all stages in the strategic planning process.
External communication between board members and relevant stakeholders.	One way	Board members to external stakeholders.	Informing stakeholders about the future perspectives of the institution in order to build public influence. Educating the general public and regulators about the organization’s contributions to the community.

Source: Adapted from Welch and Jackson (2007, p.185)

In order to take into account all relevant stakeholders, the board needs to develop a communication policy “at the board level and between board and management” as well as an external information policy (Hilb, 2012, p. 166).

2.5.3.1. Communication policy at the board level

In general, the frequency of board meetings in nonprofit institutions is rather low. For example, the trustees of the Californian Orange County’s St Joseph Hospital have only eleven meetings annually (Perrine, 2003). Consequently, effective communication is of utmost importance at board meetings (Walker, 2012). In order to enable the assessment of effective communication at the board level, Walker (2012, p. 9) suggests that boards develop a list of statements as a benchmark for effective board communication:

Table 19: Sample checklist for an effective board communication policy

Action Agendas	Critical Conversations	Culture of Discovery	Rapid Cognition
<ul style="list-style-type: none"> ✓ Primary focus is on discussion and decisions regarding strategy. ✓ Reports are distributed prior to meetings. 	<ul style="list-style-type: none"> ✓ The rule is to “listen first and talk later “ to avoid miscommunication and misjudgment. ✓ Critical conversations are encouraged to improve relationships, openness and participation. ✓ Decisions are made by considering all alternatives and challenging assumptions. ✓ Organized, deep and meaningful dialogue is utilized as a tool for resolving disagreements and creating consensus. 	<ul style="list-style-type: none"> ✓ Readiness to discuss difficult issues and to express thoughts and feelings openly. ✓ Decision-making and governance culture includes active involvement, openness to alternative views and constructive criticism of conventional wisdom. ✓ Every board member has a “voice” in the decision making process. 	<ul style="list-style-type: none"> ✓ Existence of early warning system that detects issues before they become problematic. ✓ Looking deeply below the surface of issues, and ensuring board-wide understanding before taking actions. ✓ Full utilization of experience and skills of each board member. ✓ Encouraging new insights and new ideas at every board meeting.

Source: Adapted and summarized from Walker (2012, p. 9)

Communication policy should include rules about agendas, communication culture, and decision making that enables the effective operation of the board and information dissemination within the time constraints of board meetings. In order to continuously improve board meeting processes, Walker (2012) recommends the assessment of every meeting.

Similarly, Perrine (2003) describes a one day retreat in which trustees of Californian Orange County’s St Joseph Hospital focused on redesigning the work of the board. The outcome of this retreat was the identification of 10 meeting practices for board members:

1. Focus agenda topics on limited goals that are important for the board.
2. 80% of the topics should be related to forward looking issues
3. Minimize involvement of staff at board meetings
4. Avoid repetitions and focus on the dialogue
5. Ensure discussion and briefing before voting
6. Avoid conflicts of interest
7. Support consensus and safeguard confidentiality
8. Distribute minutes of meeting to all members

9. Evaluate the board meetings and ensure feedback
10. Keep track of all board decisions

According to Perrine (2003), the implementation of the above practices resulted in more open communication and increased trust among board members.

2.5.3.2. Communication policy between board and management

Given the asymmetry of information, senior administrators have an advantage over board members in that they control the flow of daily information from financing, investing, and operating activities. This control imbalance creates a need for clear communication policies between board and senior management.

Generally, senior management provides financial information to the board. Because this financial information focuses on historical data, there is always a risk that the board might not have sufficient information for making forward looking strategic decisions.

Roy (2011, p. 775, citing Epstein & Roy, 2007) argues that, in addition to receiving regular financial information packages, boards should also be informed of non-financial data by receiving a complete information package containing “situation analysis, strategy formulation, implementation, evaluation, and control”. Furthermore, because the value of information depends on the time at which it is received, information packages should be reliable, relevant, accurate and prepared on time (Maltz, 2000; Roy, 2007; Rutherford & Buchholtz, 2007; Zaremba, 2006). The timely receipt of reliable and relevant information would help ensure that board members formulate coherent strategy and implement control mechanisms.

2.5.3.3. External communication policy of the board

Boards are important resources for HEI institutions. Generally, board members are influential individuals who can attract funding and donations. In addition, they can be important information channels to employees, government agencies and other stakeholders. The effectiveness of the board in attracting funding and advocating for the institution among stakeholders is strongly dependent on its’ external communication ability. In his analysis of more than 150 healthcare board retreats, Weiss (2002) concludes that boards generally underutilize their communication potential. Accordingly, Weiss (2002) suggests the following strategies for how board members might effectively utilize external communication

1. Ensure continuous education and briefing of board members about the institutional environment and future trends.
2. Enable formal and informal meetings between board members and important internal and external stakeholders
3. Involve board members in community activities and networking
4. Involve board members in public and regulatory activities
5. Involve board members in volunteer teaching, guiding, and advising activities
6. Ensure that the media follows the work of the board.

Sometimes, information technology can support the effective dissemination of information among board and management members. For example, Ruck (2008) describes the establishment of an online portal for managing board communication at an American hospital. This portal compiles and updates board materials and provides trustees and management with immediate, online access to new board documents.

2.5.4. Evaluation of board effectiveness

The final pillar of the controlling dimension of governance is the evaluation of board effectiveness. Performance evaluation of the board is the basis for continuous improvement in board governance. From the perspective of agency theory, it is presumed that board members have the necessary competences for evaluating the performance of the management (Kosnik, 1987). Accordingly, a board's effectiveness should be primarily evaluated against its ability to execute its control function (Minichilli et al., 2012).

2.5.4.1. Controlling function of the board

Consistent with an agency framework, Hilb (2008) argues that board performance should be primarily evaluated against its fulfillment of its controlling function. In addition, Hilb suggests that general governance policies and practices should be assessed through both self and external forms of evaluation.

In the context of agency theory, boards control the financial performance of an organization. Since HEIs are generally nonprofit organizations, a problem arises when developing an appropriate method for measuring financial performance.

Brown (2005) describes several empirical studies measuring HEI board effectiveness against financial performance using an agency theory perspective. For example, Olson (2000) identified that the experience and knowledge of board members

positively impacts the financial performance of HEIs, as measured by total revenue and fundraising income. Similarly, Callen, et al. (2003) demonstrated that the proportion of major donors in a board contributed to organizational efficiency. However, Brown (2005) argues that, using a framework of agency theory, studies examining non-profit boards demonstrated mixed results. As such, the author suggests that, in addition to adhering to financial indicators, the performance of non-profit organizations might be best explained by the degree to which it aligns with the institutional mission or purpose. Consequently, the evaluation of the controlling function of an HEI board should take into account:

- Whether the board is effectively monitoring financial performance and
- Whether the board ensures the connection of the institutional mission with decision making processes in all areas of operation.

In other words, monitoring and controlling the fulfillment of the institutional purpose or mission is a more appropriate evaluation approach in the context of non-profit HEI boards.

2.5.4.2. Contextual expectations of the HEI board

Financial or mission based controls are not the only board member expectations that might be evaluated. Indeed, in any evaluation of an HEI board, the context should be taken into account. This is supported by Kezar (2006, p. 969), who argues that variables such as the private/public dichotomy, layers of governance (single, two or three cameral governance) and the nature of the selection process (election vs. appointment) have to be taken into account before defining elements of board success. For example, while the expectation for a public board might be balancing the interests of various stakeholders, the expectation of a private board might be monitoring the execution of strategy.

2.6. General Theoretical Section Conclusion

This dissertation explores the effective direction and control of higher education institutions through the empirical case study of a Croatian private business school. The questions that often arise are: what is effective direction and control of higher education institutions and what are the appropriate governance approaches, models, and mechanisms?

HEI governance, including its definition and approaches, differs depending on

multiple factors. As such, the answers to these questions are diverse rather than uniform. Factors influencing the definition and approach applied to HEI governance might include the theoretical frameworks applied, institutional contexts and forms, types of leadership and management, and the objectives and purposes of the HEI. In light of this diversity, the interest of the researcher from the very outset of the research process was to understand the manner in which different HEI governance approaches originate and to understand the features of these diverse approaches.

As an object in governance research, HEIs are particularly interesting because of their unique public purpose and combination of stakeholders. From an organizational perspective, they are also a special type of institution. HEIs are often described as “loosely coupled systems” (Weick, 1976) or “organized anarchies” (Cohen et al., 1972), terms which imply the challenging nature of the direction and control of such organizations.

Nevertheless, throughout history, models and approaches to HEI governance have evolved. According to Middlehurst (2004, citing McNay, 1995), the governance model used in HEIs have progressed over the past few decades from a primarily collegial governance approach, through bureaucratic and corporate models, to a predominantly enterprise-oriented governance model. The literature also emphasizes the presence of entrepreneurial (Clark, 1998; Gibb et al., 2009; de Groof et al., 1998; Gjerding et al., 2006; Paunescu, 2007; Yokoyama, 2006), political (Baldrige, 1971; Birnbaum, 1988; de Groof et al., 1998) and cybernetic (Birnbaum, 1988) governance models. Arguably, changing environments and different contexts have impacted the manner in which HEIs have been governed.

To date, these governance models have been predominantly studied in the literature from the perspective of a single theoretical framework using a structural approach emphasizing institutional and legal structures, lines of responsibility and roles of various bodies in the decision making process (Kezar & Eckel, 2004).

To address this gap in the literature, Hilb’s (2005; 2008; 2012) multi-theoretical “New corporate governance” approach will be used as the theoretical framework in this dissertation.

Under this approach, governance is considered through four dimensions:

- Situational –emphasizing that each context requires a different approach. Accordingly, board members should recognize this contextual specificity and act as a change agents.
- Strategic – emphasizing the often neglected strategic direction of the institution from the board level. Integrated – encompassing tools for the integration of the board as a team.
- Controlling – emphasizing the monitoring function of the board.

Hilb’s theory is a normative theory, in that it provides prescriptions and guidelines for the manner in which a board should behave.

It is also meta-theory, where each of the above dimensions is based on several underlying theories:

- The situational dimension is based on Institutional and Contingency theories
- The strategic dimension is based on Stewardship and Role theories
- The integrated dimension is based on Resource dependence theory
- The controlling dimension is based on Agency and Stakeholder theories

In this thesis, HEIs have been analyzed in relation to all dimensions and their underlying theories.

In particular, the “General theoretical section” of this thesis has been focused on the situational dimension of governance, based on institutional and contingency theories. Institutional and contingency theories offer contrasting explanations of how organizations respond to their environments. On one hand, institutional theory emphasizes the social and cultural context as key determinants of organizational forms, behaviors and processes. Conversely, task and technical elements are identified as forces that shape organizational processes within the contingency framework (Gupta, 2007). While institutional theory predicts the convergent behavior of organizations as a result of institutional pressures, contingency theory posits that organizations diverge because of the unique context within they have to operate. Despite these nearly opposing approaches to understanding the factors that impact organizational processes, these two frameworks have been combined in a number of previous empirical studies (Gupta et al., 1994; Tucker, 2010).

The institutional-contingency framework has been valuable in this research, where a model for the origination of governance approaches has been developed on the basis of these two theories. In this model, HEI governance approaches originate as outcomes of their institutional and contingency adaptation.

More specifically, HEIs tend to adapt to their institutional context, which is comprised of formal and informal institutional rules. By adapting to fit their institutional context, the structures, policies and practices of HEIs converge towards each other. Variables that constitute the institutional context and which therefore influence the convergent behavior of HEIs include “hard” and “soft” norms, the social economic environment and culture and traditions. According to institutional theory, a governance model that is suited to the institutional context reaps the benefits of legitimacy and resources (Donaldson, 2008; Scott, 1995).

However, according to the contingency approach, there is no governance model that

is suitable for all situations and circumstances (Gailbright, 1973; Scott 1992, cited in Gupta et al., 1994, p. 265). Therefore, a contingency approach begins with the specification and analysis of contingency variables in order to develop a governance model that is in congruence with the identified contingency factors. Various contingency variables, such as ownership, size, purpose, organizational complexity, and leadership styles, can impact the manner in which HEIs are organized.

Additionally, both the institutional context and contingency variables impact the behavior of the involved actors. HEIs are pluralistic organizations (Schedler, 2012) characterized by the involvement and interaction of various actors, such as faculty, students, administration, trustees, the corporate community and the general public. According to actor-centered institutionalism (Scharpf, 1997), HEI actors can be characterized by their orientations, capabilities, and modes of interaction. Their orientation, i.e. preferences and perceptions, are conditioned by their contextually “bounded” rationalities (Schedler, 2012; Scott, 2001). Actors’ capabilities include all the resources, capacities and competences that enable them to influence the decision making process. Finally, these orientations, capabilities and modes of interaction are “influenced but not determined” by the institutional context within which they interact (Scharpf, 1997; Scharpf, 2000, p. 770-771). In other words, this framework of formal and informal institutional rules creates the playing field for the interaction between actors.

To summarize, an HEI governance model represents a balanced adaptation of the HEI to the institutional context and contingency variables. It also encompasses the roles, constellations and modes of interaction of involved actors, which are also influenced by both institutional and contingency pressures.

On the basis of this review of theoretical approaches, a two-group typology of HEI governance approaches– “generic and derived models” - has been proposed. Generic models are developed on the basis of Bradshaw’s (2009) four governance configurations, defined according to the type of environment in which they originate. Here, the environment is described along two variables: stability and complexity. Therefore, the four generic models are:

- Bureaucratic (originating in stable and simple environments),
- Collegial (originating in stable and complex environments),
- Entrepreneurial (originating in turbulent and simple environments) and
- Network (originating in turbulent and complex environments).

In addition to these “generic” governance models, there are a number of “derived” models in the literature. These derived models have the basic features of the four

“generic” models with some additional elements (Baldrige, 1971; Birnbaum, 1988; De Groof et al., 1998; Trakman, 2008; Young, 2004) and include corporate, political, anarchical, cybernetic, trustee, stakeholder, and amalgam models.

In the final part of the “General theoretical section”, HEIs were analyzed using the strategic, integrated and controlling dimensions of the New Corporate Governance framework.

Under the strategic dimension, Hilb (2008, p.7) uses the theoretical frameworks of stewardship (Davis et al., 1997) and role (Neuberger, 2002; Biddle, 1986) theories and identifies four success factors for the effective development, implementation and control of organizational strategy. These four success factors are:

- The selection of individual board members
- A culture of constructive criticism and trust
- Networked structures and processes among board members
- Appropriate success measures for all stakeholders

Under the integrated dimension of governance, Hilb applies Resource dependence theory. In this framework, effective governance depends on the resources of the involved actors and the ability of the organization to mobilize these resources (Hillman et al., 2000). In his integrated board management concept, Hilb (2008) argues that, for the effective mobilization of actor resources, board members should be selected, reviewed, remunerated and developed in an integrated and targeted manner that is appropriate to each particular context. The “integrating element” of the appropriate mobilization of actor resources is the professional human resource practices at the individual level. and according to Hilb’s (2008) integrated board management concept, boards should be selected, evaluated, remunerated and developed in the targeted manner for each particular context.

Hilb’s (2008) controlling dimension refers to the strategic control and risk management roles within organizations. Using the perspectives of agency and stakeholder theories, Hilb emphasizes the need for the “holistic monitoring of results” from the perspectives of all involved actors and argues that strategic control and risk management should be performed at the board level.

In Hilb’s (2008) four-dimensional approach, the unit of analysis is the Governing Board, where individual board members are actors in the processes of adaptation to new contexts, strategic development, resource integration and holistic control. In contrast, the unit of analysis in the “Specific empirical section” of this dissertation is not only the governing board but rather the entire constellation of all relevant actors involved in the processes of organizational change, strategic development, integration and holistic control.

3. Specific empirical section

3.1. Empirical Objectives

In the specific empirical part of this dissertation, there are two objectives: to conduct research and to solve a real life problem.

- a. The first objective is to identify how institutional and situational variables, together with actors’ constellations and modes of interaction, shape the entrepreneurial governance model of the studied school.
- b. Secondly, because the founders of the school are aware that the existing entrepreneurial governance model represents phase in the development of the institution, they are considering a transition to a more mature governance model in the next phase. Accordingly, an additional goal of this study is to provide recommendations regarding the necessary elements of an appropriate governance model for the next developmental phase of the school.

The object of research, the Zagreb School of Economics and Management, is a privately owned higher education institution established in 1995 as an entrepreneurial project.³³ According to the Self Evaluation Report³⁴ (2012, p. 1), “ZSEM’s establishment was initiated by the current Dean as a reaction to the transitional situation in the education sector seen in the 1990’s, where education was predominately delivered by public higher education institutions. ZSEM’s vision was to become recognized as the leading higher education institution delivering programs of economics and management in Croatia”. Despite many challenges during the initial phase of development, the school managed to effectively strategize and achieve its vision by

33 Although formally established in 1995, the school enrolled its first generation of students in 2002 in an undergraduate program in economics and management. This delayed enrollment occurred as a result of the engagement of the school’s founders in the Croatian Parliament and government administration in the period between 1995 and 2000. In 2007, the school began providing graduate MBA programs in various disciplines of business administration and management.

34 The Self Evaluation report is a key document in the AACSB international accreditation process that includes the assessment of institutional operations and academic programs against AACSB standards.

mobilizing all stakeholders with its “entrepreneurial governance model”.

The unique history of this institutional setting enabled the researcher, as a participant-observer, to take advantage of this case – in order to study the process of entrepreneurial governance over time. To do, the study had as its empirical objective to identify the institutional and contingency forces that shaped such a governance model. The study period, occurring from 2007 to 2014, corresponds with ZSEM’s international accreditation process, which allowed the researcher to observe and participate in many important strategic decisions of the school.³⁵

However, because the key stakeholders of the school were aware that the entrepreneurial governance model represents phase in the development of the institution, they had been considering a transition to a more mature governance model in the next developmental phase. Accordingly, an additional goal of this study was to provide recommendations regarding the necessary elements of an appropriate governance model for the next phase of development.

3.2. Empirically Targeted Participants

Several individuals and groups were included as empirical participants in this study. As a participant-observer holding the professional position of the school’s Managing Director, the researcher (APPENDIX III) aimed to identify patterns in entrepreneurial governance as well as any discrepancy between actual practice and theoretical norms. The researcher had access to all data sources, which enabled an “enquiry from the inside” that produced both subjective and experience-based material. In addition, the researcher performed an “enquiry from the outside”, by retrospectively examining data generated by the school (e.g. statutes, institutional accreditation plans and reports, financials, minutes of meetings, etc.) (Evered & Louis, 1981, p. 385).

The primary informant was the school’s Dean, Dr. Đuro Njavro, who was the key stakeholder and one of the founders of the school. During the study, the researcher had numerous personal conversations and informal exchanges with the Dean that resulted in many insightful viewpoints. Throughout the study, the founding dean was both a “key actor” in the entrepreneurial governance process and a “silent observer” in the research process. Dr. Njavro earned his PhD from the Faculty of Economics at the University of Zagreb, where he was a faculty member from 1988 to 1995. From 1993 to 1995, he was an economic advisor to the President

35 ZSEM formally entered the AACSB accreditation process in 2008 and achieved international accreditation in June, 2013. During this process, the school achieved various objectives related to strategic management, faculty development and student learning goals.

of Croatia, after which he was a member of the Croatian parliament, in which he served until 2003. During this time, he was an active lawmaker, initiating legislation which introduced building societies and private pension funds into Croatia's legal framework. In 1989, he founded MATE, a leading publishing house of economic and business administration literature in Croatia. In 1999, he became the Director of the Zagreb Institute of Economics and in 2002, as Dean and one of the founders of the Zagreb School of Economics and Management, enrolled the school's first generation of students. In addition to being ZSEM's Dean, he is also a member of Croatia's National Council for Higher Education, which is appointed by the parliament and is the highest advisory body for the development of the Croatian educational system. He is also member of the AACSB's (Association to Advance Collegiate Schools of Business) European Advisory Council.

As part of the study, the researcher also interviewed the chairman of the Board of Trustees of the school³⁶, Dr. Davorin Rudolf. Dr. Rudolf is the former dean of the Faculty of Law at Split University and a full member of the Croatian Academy of Sciences and Arts. He has a long and distinguished career in academia, publishing, and politics. As a professor emeritus in the Faculty of Law at the University of Split, he played an instrumental role in the development of this Faculty. He was appointed as the first Croatian Minister of Maritime Affairs and later became Minister of Foreign Affairs. He was also appointed the ambassador to Italy, San Marino, Malta and Cyprus, and later became the ambassador to the Food and Agricultural Organization of the United Nations. He also served as president of Croatia's national commission for UNESCO, and is the current president of the Scientific Council for Peace and Human Rights of the Croatian Academy of Arts and Sciences.

An interview was also conducted with the former Dean of the Faculty of Philosophy of the Society of Jesus, Reverend Anto Mišić S.J. Rev. Mišić completed a doctoral program at Pontificia Università Gregoriana in 1994, with the topic “Metafisica della luce in ‘Nuova de universis philosophia’ di Franciscus Patricius”³⁷. He is former Dean (2001 to 2007) and Associate professor at the Faculty of Philosophy of the Society of Jesus in Zagreb. In addition to philosophical disciplines (general metaphysics,

36 The Board of Trustees has five members, consisting of the founders' representatives. Four members are “external”, which includes the chairman of the board and two other “external” members representing an important stakeholder, the Faculty of Philosophy of the Society of Jesus, who provides campus facilities to ZSEM. Specifically, ZSEM has a long-term rental contract for 3000 m² in the campus buildings of the Faculty of Philosophy of the Society of Jesus, as well as for 2000 m² of the yard and 1600 m² of parking space.

37 The metaphysics of light in the “New Philosophy of Universes” of Franciscus Patricius.

philosophy of nature - cosmology and Croatian philosophy), Rev. Mišić teaches “Early Christian literature”. He is the author of a “Dictionary of Philosophical Terms” (2000) and editor of several books and proceedings. He has also published several articles about philosophy and early Christian literature. Occasionally, he writes popular articles and participates in radio and TV shows.

In addition, interviews were conducted with members of the “Accreditation task force” consisting of leading faculty and administration members. This task force is an important ad-hoc committee that developed and implemented ZSEM’s strategic plan. In interviews, team members were asked to give a judgment of their own roles in the team and the roles adopted by their colleagues during the strategic planning process.

3.3. Empirical Methodology

3.3.1. Theoretical paradigm

Guba & Lincoln (1994) suggest that, before committing to a research strategy and methodology, researchers should select a theoretical paradigm for their study. According to Guba and Lincoln (1994, p. 105), a theoretical paradigm is a “basic belief system or world view that guides the investigation”. For this study, a constructivist theoretical paradigm was chosen because of the specific circumstances in which this study has been conducted. The “basic beliefs” of constructivism are:

- There is no single reality. Reality is “constructed” in the social process and may change over time. Furthermore, cognition has meaning only within a given situation or context.
- Knowledge is co-produced or constructed throughout the research process within the interaction between researcher and empirical participants.

The constructivist paradigm directs the researcher to be a “passionate participant” (Guba & Lincoln 1994, p. 112) during the research process. In other words, he has to look deeply into the researched phenomenon in order to develop knowledge in interaction with respondents.

Mir and Watson (2000) outline the following widely shared assumptions of constructivism:

- It is “theory-driven”, meaning that an applied theoretical framework guides the construction of reality and the creation of new knowledge. Therefore, researchers should clearly express their “a priori theoretical position” in

order to make research processes and related research outcomes more transparent (Mir & Watson, 2000, p. 942- 943).

- There is no separation between the researcher and the object of research. As such, the researcher co-creates organizational reality in the social process (Mir & Watson, 2000, p. 943).
- Consequently, theory and practice are interlinked in a recursive process where “pre-theoretical praxis leads to formalization of theory“. Afterwards, in the next iteration, formalized theory guides new practices (Mir & Watson, 2000, p. 943).
- Researchers are not objective. Because the researcher’s observation impacts the observed phenomenon, the subjectivity of the observer cannot be eliminated³⁸ (Mir & Watson, 2000, p. 943).
- Research outcomes originate as a consequence of interactions or “conversations” among communities of scholars (2000, p. 943-944).
- Finally, Mir and Watson (2000, p. 944) argue that “constructivism constitutes a methodology”, i.e. a doctrine or platform for methods or “tools” and “techniques” that are subsequently going to be used in the research process.

The constructivist approach is an appropriate fit with this study for several reasons. First, the study is based on a theory that guided both the research problem and data analysis. Furthermore, there has not been an attempt at separation between the researcher and the research object. Instead, the researcher has been deeply involved in the governance of the institution. Also, the outcomes of the research process have been co-produced or constructed throughout numerous interactions with the empirical participants. Finally, the research outcomes have meaning primarily for the actors involved in the studied situation.

3.3.2. Research strategy

The research strategy used in this dissertation is the case study. Yin (1981, p. 59) argues that the case study as a research strategy is appropriate when the researched phenomenon is observed in its “real-life context, especially when the boundaries

38 To illustrate this viewpoint, Von Glaserfeld (2001, p. 37) quotes his conversation with Heinz von Foerster, who stated that “objectivity is the delusion that observations could be made without an observer“.

between phenomenon and context are not clearly evident”.

Case study as a research strategy relies on the availability of data sources such as “documents, archival records, interviews, direct observation, participant-observation and physical artifacts” (Yin, 1994, p.83).

In addition, Stake (2005, p. 445) suggests that case study should be selected when an investigation is conducted in order to gain a “better understanding of the particular case”.

In his discussion of the selection of cases, Pettigrew (1988), as cited in Eisenhardt (1989a, p. 537), suggests that “it makes sense to choose cases such as extreme situations and polar types in which the process of interest is transparently observable”. Accordingly, case study as a research strategy has been selected in this thesis for the following reasons:

- a. Firstly, the objective of the research was to investigate the institutional and contingency forces that shape the entrepreneurial governance model and to identify an appropriate governance model for the new context. Since the phenomenon of governance has been observed in real life and could not be isolated from its context, case study as a research strategy has been appropriate choice.
- b. The second reason for the use of a case study methodology was one of convenience and availability of data. In the ZSEM case, the researcher’s role as participant observer served to increase the availability of sources of evidence and enabled the triangulation of data sources that, in turn, contributed to the credibility of the research (Leininger, 1994; Lincoln & Guba, 1985).
- c. Thirdly, because an objective of the dissertation was to solve a real life problem (i.e. to provide recommendations for the future governance model of the institution), case study became an appropriate methodology for gaining a “better understanding” of a specific case (ZSEM) and, as such, formed the basis for its future organizational development (Stake 2005, p. 445).
1. Finally, the ZSEM case was selected as an “extreme case” because of the comparative simplicity of its governance structure in relation to a number of other potential cases which might have been studied. As such, ZSEM’s context, as well as the strategic, integrated and controlling dimensions of its governance, was “more transparently observable” than in other cases in which there exists a more typical HEI governance structure of complex committees and role divisions between administrative and academic bodies.

3.3.4. Data collection

To ensure a more complete picture, a combination of data collection methods was employed for this study. The main goal of data collection was to identify sources and obtain “thick” descriptive data for answering the research questions (Stake, 1995, p. 42). Stake (1995) argues that the role of the case study researcher is to interpret rather than to discover external reality. In this way, “thick description” provides readers with the “raw material for their own generalizing” (Stake 1995, p. 102). The following table presents an overview of the data collection methods used in this study:

Table 20: Overview of data collection methods

Method	Source
Document analysis	“Accreditation plan” (AP) “Self-evaluation report” (SER) Power point slides presented at a meeting with the AACSB “peer review team” ZSEM’s Strategic plan Board of Trustees, Faculty Board and “Accreditation task force” minutes
Participant observation	Participating in formal conversations, interviews and events such as board, faculty and administration meetings. Participating in informal exchanges with the founder of the institution Participating in formal conversations with colleagues from partner business schools, faculty members and board members during the normal course of business or at industry events and various conferences.
Semi-structured interviews	The president and vice-president of the Board of Trustees Members of the “Accreditation task force”

Source: Developed by the author

Two key sources of data were ZSEM’s “Accreditation plan” (AP) and “Self-evaluation report” (SER). The Accreditation plan is a “gap analysis” in which the institution must identify and disclose “gaps” between actual organizational practices and the standards imposed by the accreditation agency. The Accreditation plan also includes a detailed outline of the actions that need to be conducted in order to comply with accreditations standards. The Self-Evaluation report (SER) is the final document in the AACSB International accreditation process, which is submitted to the evaluation committee for the final assessment. In the SER, all aspects of the

school should be described in detail. The processes involved in the preparation of the AP and SER were of utmost importance for this study and the collection of data. The AP was prepared during the period from January 2009 to December 2009, while the SER was prepared in the period from January 2010 to December 2010. Both documents were developed during weekly meetings of the “Accreditation team”, which was made up of members of the ZSEM administration and faculty. The outcome of every meeting included conclusions arising from the discussion and mutual agreement on key topics, such as the strategic management of ZSEM, faculty engagement, curriculum development, assessment of learning objectives, etc. All conclusions were recorded in the minutes of meetings and finalized in the texts of the AP and SER. It was in this the process of “institutionalization” where organizational realities were co-constructed through the work of the team and disseminated to all segments of the organization. As such, the researcher considered this source of data to be the most important for the findings.

Data was also derived from various internal documents, such as Power point slides presented at a meeting with the AACSB “peer review team” and ZSEM’s Strategic plan. The content of the power point slides included performance related data about the school and the outcomes of key strategic decisions made during the process of international accreditation, such as data about faculty development. The strategic plan contains a description of expected strategic outcomes and utilized performance measures.

Minutes of various institutional meetings were also used as a source of data. These minutes include those from meetings of the Governing and Faculty boards in the period between January 2008 and January 2014. In addition, data from the minutes of Accreditation team meetings in the period between January 2008 and January 2013 were analyzed.

Conversations and informal exchanges between the researcher and the founding Dean were also used as a source of data. In addition, the researcher participated in meetings of the Board of Trustees and the Faculty Board. Informal exchanges with colleagues from partner business schools, faculty members and board members during the normal course of business or at industry events and various conferences provided additional insight.

During 2014, two interviews (APPENDIX I) were conducted with members of the Board of Trustees (the president and vice president). In these interviews, participants were questioned about the current governance approach and the potential for improvement. The president of the board was interviewed on March 3rd, 2014 and the vice president of the board was interviewed on July 25th, 2014. The questions included in the interview schedule were related to the four dimensions of

governance (situational, strategic, integrated and controlling) and aimed to identify the various contingency and institutional forces that shaped ZSEM’s governance model. Interviewees were also asked to identify potential areas for improvement in developing a governance model for the new context.

In August 2014, members of the “Accreditation task force” were asked to conduct a self-assessment of their own team roles and an assessment of the team roles held by their colleagues during the strategic planning process (APPENDIX II). Team members have been asked to give judgment about their roles and the roles their colleagues took during the strategic planning process, based on Margerison and McCann’s (1985) and Belbin’s (1993) theories of team roles. The results show the number of “votes” received by each member from both the self-assessment and the assessment of other members for each particular role.

3.3.4. Data analysis

According to Yin (2014, p. 127), the “analysis of case study evidence is one of the least developed and most difficult aspects of doing case studies”. In a qualitative case study, data collection and data analysis are processes that mutually support each other in a way that the analysis of existing data help and guide further collection of data. In fact, Eisenhardt (1989) argues that data collection and data analysis might often take place at the same time.

Yin (2009; 2014) outlines four general strategies for analyzing case study data:

- Relying on theoretical propositions, where underlying theory directs the literature review, propositions, research questions and data collection plans.
- Case description, including the development of a descriptive framework for presenting the case. In general, this includes the collection of a large amount of data before having a clear idea about the research questions or propositions.
- Using both qualitative and quantitative data, where additional statistical techniques supplement qualitative analysis.
- Examining rival explanations, where rival explanations might be compared and discussed within each of the previous three strategies.

In the development of a general data analysis strategy, the researcher relied on the theoretical propositions of the “New corporate governance theory” that directed both the literature review and research question development. As such, the case has been analyzed by comparing the applied theoretical framework with the observed empirical data.

Within the theoretical framework, the researcher additionally developed a model for the origination of governance approaches (p. 46). This model was used to compare and analyze empirical evidence, to generate findings and to develop conclusions. In other words, the model served as a “map” that directed the reporting of empirical findings as well as the development of conclusions and recommendations for future development of the governance approach.

More specifically, the first step in data analysis began with the application of the model to the development of conceptual categories, which have been named on the basis of the theoretical framework used and participant-observer reflections. The conceptual categories to emerge were “Institutional context”, “Situational context”, “Governance model”, etc.

This phase of the study also included the recording and analysis of all interview data. Following this initial analysis of all compiled data, a number of follow-up questions were additionally discussed with respondents. This strategy is consistent with Hartley’s (1994, p. 220; 2004, p. 329) (as cited in Kohlbacher, 2005, p.8) argument that, in case study research, phases of data collection and analysis are “developed together in an iterative process”.

Finally, a process of theoretical triangulation and data source triangulation supported data analysis. Because the “New Corporate Governance” approach is a multi-theoretical framework, data analysis was conducted using multiple theoretical lenses and, as such, enabled theoretical triangulation. Furthermore, data from various sources were analyzed, compared and subsequently triangulated and interpreted to draw final conclusions. According to Yin (2003), triangulation of data sources in case study research is used to confirm the validity of the research findings.

Finally, a comparison of the findings with existing theoretical and empirical literature strengthened the validity of the data analysis approach.

3.4. Limitations of the Empirical Study

There are two potential limitations to this empirical study that could potentially influence the findings and, as such, the answers to the research questions.

- Limitations of qualitative research
- Limitations of the research object

3.4.1. Limitations of qualitative research

All qualitative case studies are “human centered” and, as such, are limited by the potential for researcher biases and perceptions. Because the researcher determines the research protocol and the approaches for collecting and analyzing the data, there is always a risk that the findings will be based on the researcher’s personal considerations of the research questions rather than on any empirical “truth”.

Furthermore, the mere presence of the researcher might influence the behavior and responses of the research participants. However, this limitation might not have a critical impact on the quality of findings, where reality is perceived from the constructivist paradigm where the answers to the research questions have been co-constructed during the research process.

A final limitation arises when the researcher acts as both participant and observer at the same time. In this situation, issues of confidentiality might influence the manner in which findings are presented.

3.4.2. Limitations of the research object

ZSEM is a simple case and, as such, it is “more transparently observable” than some complex cases (Eisenhardt, 1989a). Nevertheless, the observation of a more complex case with additional organizational elements and processes might result in different research outcomes. For this reason, the outcomes of a case study of ZSEM are more likely to be meaningful to subjects of ZSEM alone. However, because one of the objectives of the study was to better understand the case and to provide recommendations for future development, this limitation might also be viewed as an advantage in this particular study.

3.5. Empirical Results

The Zagreb School of Economics and Management is a privately owned HEI, formally established in 1995 under the initiative of the academic and entrepreneur Dr. Đuro Njavro. Before establishing the school, Dr. Njavro had already accumulated substantial academic and entrepreneurial experience. In the late 1980’s and early 1990’s, he established MATE, a publishing company that specializes in the publication of modern economics and business textbooks. Today, MATE is a leading publisher of specialized business literature in Croatia. In addition to his entrepreneurial career, Dr. Njavro was a faculty member at a public university - The Zagreb Faculty of Economics - and economic advisor to the first Croatian president.

In the late 1980's and throughout the 1990's, Croatia underwent a transition process from a socialist to market economy. During this period, Dr. Njavro proposed and advocated for changes in the business and economics curriculum in the faculty in which he was a member. However, public HEIs in Croatia have been reluctant to introduce the modern approach to business education necessary for globalized free-market economies.

This motivated Dr. Njavro to initiate a process for the establishment of the Association for the Promotion of Education in the Field of Social Sciences (hereafter referred to as the Association). In 1995, the Association founded the Zagreb School of Economics and Management.

The first generation of students was enrolled at ZSEM in 2002. This delayed enrollment was due to the engagement of Dr. Njavro and other co-founders from the Association in the Croatian Parliament and government administration in the period between 1995 and 2000.

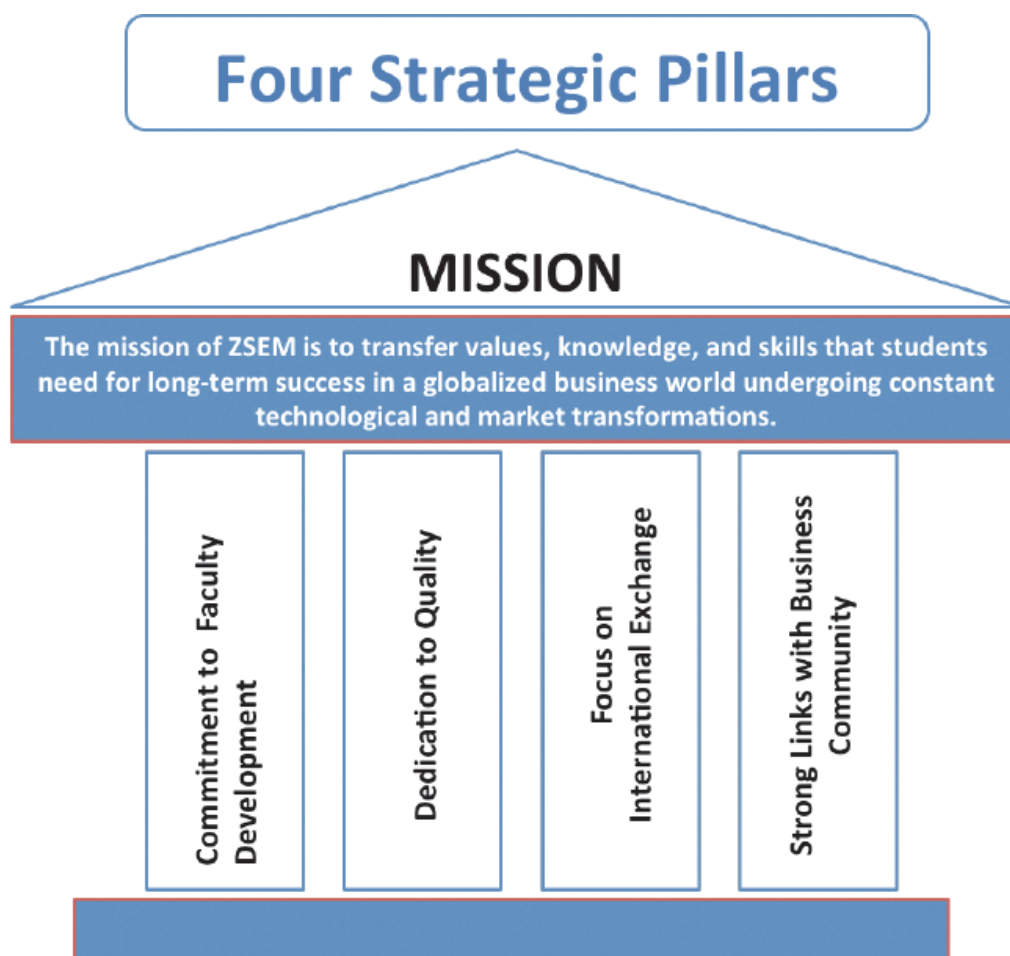
Initially, the publishing company MATE provided basic infrastructure, including offices and computers, to the School. As the school has grown, additional infrastructural support has been provided by the Croatian Province of the Society of Jesus and its Faculty of Philosophy, who leases all necessary teaching, library and office facilities to ZSEM.

From its establishment, the entire operation of ZSEM has been financed through tuition fees. The Association and the social networks of the Association's founders have formed the basis for ZSEM's future faculty and administration.

In the beginning, the central challenge for the key stakeholders of the school was to establish a private business school and to achieve recognition among student, academic and business communities in a transitional higher education market dominated by public higher education institutions.

In order to ensure long-term sustainability, the school developed an overall strategy of differentiation in relation to all other business schools in Croatia. ZSEM's strategy stemmed from its mission and has been operationalized under four strategic pillars. These four strategic pillars are presented in the following figure:

Figure 10: ZSEM’s “four strategic pillars”



Source: ZSEM Accreditation team (March, 2013)

ZSEM’s first “strategic pillar” is “a strong commitment to faculty development”. Since its establishment, ZSEM has focused much of its attention on the education and development of its faculty. Over time, ZSEM has invested significant amounts of funds in faculty development, which has resulted in an increasingly academically qualified and internationally competitive faculty.

The second “strategic pillar” is “dedication to quality”, which encompasses the school’s efforts dedicated to international accreditation processes and the continuous assessment of student satisfaction.

The focus on international exchange as a “strategic pillar”, in which ZSEM has signed over 120 agreements with partner institutions around the world, also distinguishes ZSEM from its environment. Specifically, while the Croatian average for student participation in an exchange program is 0,3%, more than 6% of ZSEM students participate in the international exchange program.

In its last “strategic pillar”, ZSEM’s stakeholders are focused on the development of strong links with the business community. The school has established an Advisory Board that is made up of respected and well-established individuals from the Croatian business community. In addition, many managers and business people from the corporate sector are actively involved at ZSEM, either as faculty or guest lecturers. The members of ZSEM’s Advisory board are presented in the following figure:

Figure 11: ZSEM's Advisory board

ZSEM ADVISORY BOARD



Anton Kovačev
Croatian Bank for Reconstruction
and Development
CEO



Zdenko Adrović, Ph.D.
Raiffeisenbank Austria
CEO



Ljubo Jurčić, Ph.D.
Faculty of
Economics, Zagreb
Professor



Ivan Koprek, Ph.D.
Faculty of Philosophy
Society of Jesus
Professor



Ivica Todorić
Agrokor
Agrokor Group President



Dolly Predovic, Ph.D.
Universita Bocconi,
Professor



Franjo Luković
Zagrebačka banka,
UniCredit Group
CEO



Mirko Barišić
Siemens



Božo Prka, M.Sc.
Privredna banka Zagreb,
Intesa San Paolo Group
CEO



Stjepan Šafran
Entrepreneur



Velimir Šonje, M.Sc.
Arhivalitika/Zagreb
School of Economics
and Management



Josip Glaurdić, Ph.D.
Cambridge University,
Research Fellow



Dragutin Drk
Vindija
CEO



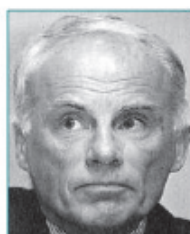
Emil Tedeschi
Atlantic Group
CEO



John D. Branch, Ph.D.
University of Michigan,
Lecturer



Edward Altman
Stern School of
Business, NYU
Professor



Branko Salaj
Former Croatian Minister,
Ambassador and PR Expert



Đuro Gavrilović
Gavrilović d.o.o.
CEO

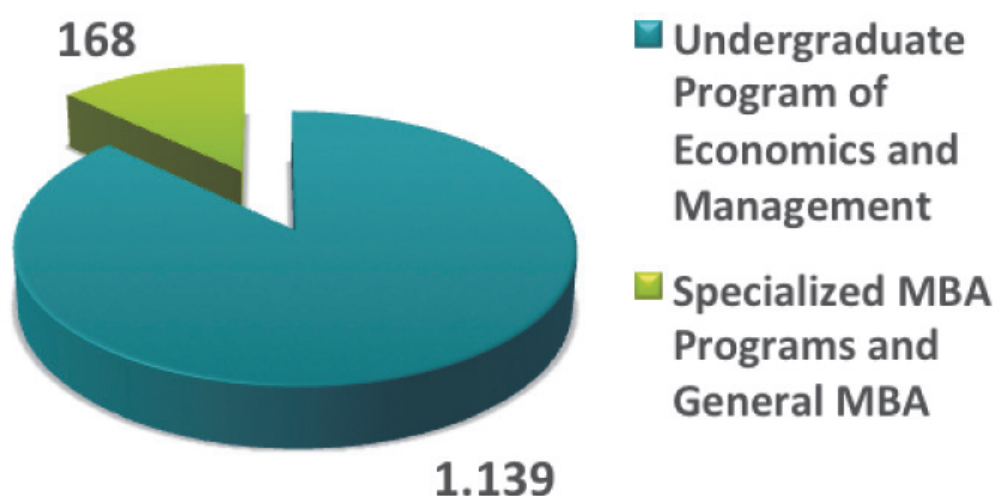


Željko Perić
Caper
Consultant

Source: ZSEM Accreditation team (March, 2013)

From the beginning, this strategy of differentiation has contributed to the continuous growth of the school. In the academic year 2002/03, 113 students enrolled into ZSEM’s undergraduate program. In 2007, a graduate program was also introduced. The following figure presents the distribution of the student body in the academic year 2012/13.

Figure 12: ZSEM’s student body in 2012/13



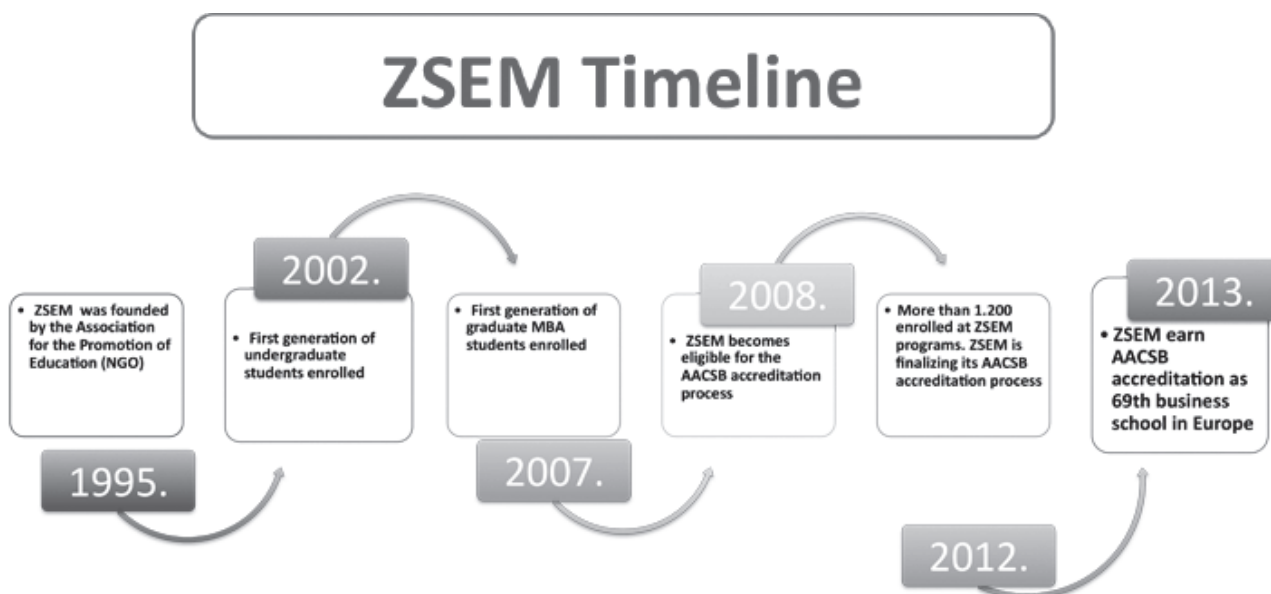
Source: ZSEM Accreditation team (March, 2013)

In the academic year 2012/13, the ZSEM student body was made up of 1021 students in the undergraduate program and 168 students in graduate programs.

In contrast to other HEIs in Croatia, an important element of ZSEM’s strategy of differentiation has been the international accreditation process. In an environment dominated by public HEIs, ZSEM recognized that one of the key sources of competitive advantage is the legitimacy granted by international accreditation. Therefore, from its establishment, the school decided to become a member of AACSB International and to initiate the accreditation process as soon as it fulfilled all necessary conditions. In 2008, the school became eligible for the accreditation process. After a five-year process, international AACSB accreditation was granted to ZSEM in June 2013.

The most important events in ZSEM’s history are presented in the following timeline.

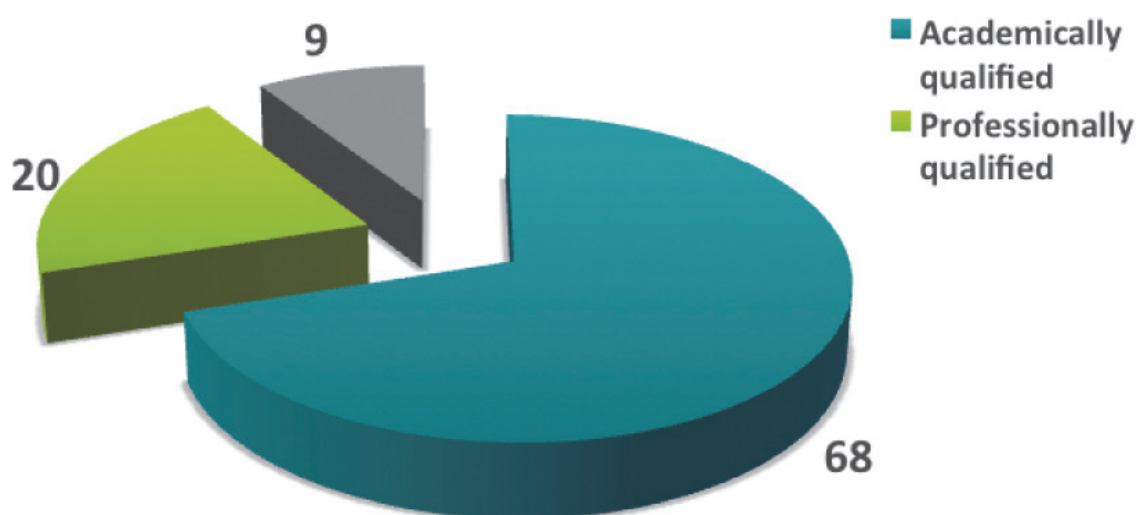
Figure 13: ZSEM's timeline



Source: ZSEM Accreditation team (March, 2013)

As a result of the accreditation process, the school managed to develop a high quality faculty. At the end of the international accreditation process, ZSEM had a total of 97 faculty members, 68 of whom had a doctoral or related degree.

Figure 14: ZSEM’s faculty



Source: ZSEM Accreditation team (March, 2013)

According to the AACSB standards, academically qualified faculty are those with academic and research backgrounds, while professionally qualified faculty are generally faculty members who hold relevant positions in the corporate sector.

The International standards of the AACSB additionally emphasize the use of the institutional mission as a guideline in all decision making processes. By setting its mission as a cornerstone for decision making, ZSEM has managed to mobilize and unite faculty members and other stakeholders towards the fulfillment of the mission and create a mechanism for continuous improvement. All ZSEM stakeholders invest significant efforts into the continuous improvement of all activities and processes by using the mission as a foundation for defining strategic pillars, goals and objectives. The results of these efforts are confirmed in all segments of the school's operation and are similarly reflected in the successful careers held by ZSEM alumni, both in academic fields and in the business world.

In the following sections, the findings arising from the case study of the Zagreb School of Economics and Management are presented. The discussion will be configured using the four dimensions of the “New corporate governance” approach as a structure from which to present the empirical results generated from the research process.

3.5.1. The situational dimension of ZSEM’s governance

The situational dimension of ZSEM’s governance encompasses the institutional and contingency variables that influence and shape its governance model.

For the identification of the institutional and contingency variables that influence and shape ZSEM’s governance approach, “the theoretical model of the origination of governance approaches” was applied (Figure 1: Origination of HEI governance models, p. 46). This model is a template against which the empirical results have been analyzed and reported and encompasses the institutional and contingency forces that shape the behavior of the involved actors and, eventually, the governance of HEIs.

Institutional pressures on the governance models of HEIs can be formal or informal (North, 1990). Formal pressures arise from constitutions, statutes and other regulations that are part of a wider normative framework encompassing both “hard” and “soft” norms. Informal pressures stem from the customs, values and other norms of behavior of governing actors or stakeholders. Informal pressures are also embedded in the national context, characterized by the social economic environment, national customs and culture.

In this discussion, the contingency variables to be considered as factors shaping governance models are: (1) Ownership - governance arrangements differ in private vs. public HEIs, (2) Organizational complexity - governance arrangements differ in simple vs. complex HEIs and (3) the Selection method of HEI leaders - governance arrangements differ in HEIs with elected leaders vs. HEIs with appointed leaders.

Both institutional and contingency forces influence actor constellations and modes of interaction which, in turn, result in the governance model of the institution.

Based on this framework, the various forces that play a role in the origination of ZSEM’s governance model will be presented in the following sections.

3.5.1.1. Institutional pressures on ZSEM’s governance model

The institutional context of ZSEM is comprised of both formal and informal institutions (North, 1990). Formal pressures arise from the normative framework and are comprised of “hard” and “soft” norms such as laws, constitutions, statutes, and other regulations. Informal pressures stem from customs and values as well as the national social economic environment.

In the following text, the “hard” and “soft” norms and the national context that impose institutional pressure on ZSEM will be analyzed. In this analysis, the manner in which ZSEM adapted to these institutional pressures through organizational

processes and mechanisms will also be considered. Finally, the manner in which ZSEM gained legitimacy and support in the wider academic community through this process will be demonstrated (Scott, 1995).

3.5.1.1.1. Formal institutional pressures on the governance models of ZSEM

Formal institutional pressures include the “hard” and “soft” standards and norms shaping governance models. While it is mandatory for HEIs to comply with “hard” norms, “soft” norms are voluntarily adopted by HEIs in order to gain additional legitimacy.

“Hard” norms are found in the formal laws regulating the operation of HEIs in a particular context. In Croatia, the two important acts regulating the operation of ZSEM are the Croatian Higher Education Act and the ZSEM Statute. While the Croatian Higher Education Act regulates the governing bodies of HEIs in a broad way, all important topics are stipulated in ZSEM’s Statute in more detail.

In general, “soft norms” include codes of good governance for HEIs. However, in the absence of any generally accepted HEI governance codes in Croatia, the stakeholders of ZSEM elected to comply with international accreditation standards with the objective to establish the institution as an “elite” business school in the region. Achieving international accreditation would also result in additional legitimacy.

For the purpose of this analysis, the “hard” and “soft” norms that influenced ZSEM’s governance model will be analyzed from the following perspectives:

- legal status,
- configuration of governing bodies,
- size and composition of the governing board and
- international accreditation standards for business schools.

3.5.1.1.1.1. Legal status of ZSEM

According to ZSEM’s Self Evaluation Report (2012, p. 1), ZSEM is a privately owned higher education institution, established in 1995 by the Association for the Promotion of Education in the Field of Social Sciences as a non-profit entity. ZSEM was established under the terms of the Croatian Higher Education Act, which regulates the establishment and operation of the institution.

ZSEM was established as a fully independent institution with no government participation and control and without any dependence on public funding. All

funding for ZSEM is private, where the main funding source is tuition fees. With this high level of autonomy, the ZSEM stakeholders can independently make decisions regarding its approach to governance.

An additional fact illustrating the autonomy of ZSEM is its “resilience” to changes in “hard” norms. For example, the composition of the governance board and governance approach remained stable despite changes to legislation relating to institutional governance. The most recent legislative change appeared in a revision of the Croatian Higher Education Act in July 2013. In this revision, two main changes to governance legislation were made: an employee representative must be appointed to the Board of Trustees and the authority for the appointment of the Dean was shifted from the Faculty Board to the Board of Trustees. Both changes have not had any effect on the institutional governance approach at ZSEM. Such “resilience” to changes to “hard” norms mitigated the “regulatory risks” to which ZSEM had been exposed during its development and ensured the realization of a long-term strategy.

3.5.1.1.1.2. Configuration of ZSEM’s governing bodies

The formal governance system in place at ZSEM is a “Dual board system” or “bicameral governance”, where the institution is governed by two legislative bodies: a Board of Trustees and a Faculty Board. The Dean is the chief executive who represents the institution to third parties.

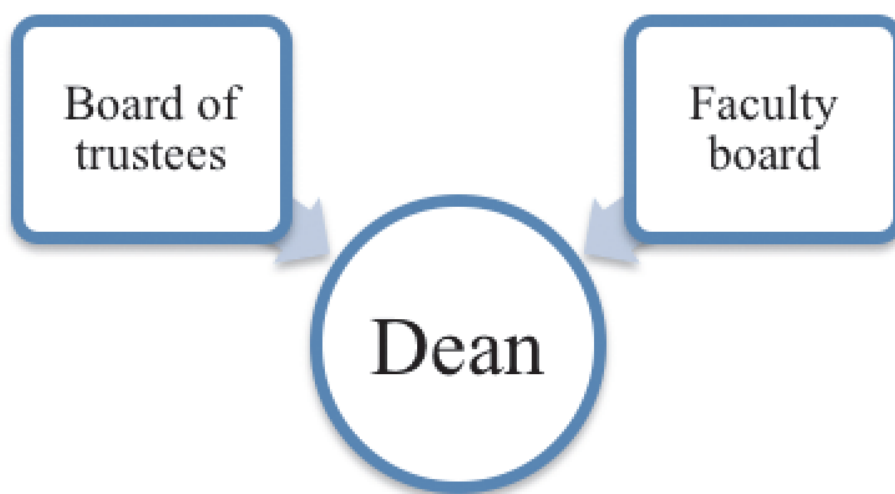
The operation of ZSEM’s Board of Trustees is regulated by the Croatian Higher Education Act and the Statute. The main tasks of the Board of Trustees, as defined by the Statute, include:

- defining the purpose and mission of ZSEM
- appointment, evaluation and dismissal of the Dean
- monitoring of ZSEM activities
- ratification of the strategy
- overseeing the effective and efficient use of ZSEM’s resources.

In contrast, the ZSEM Faculty Board is concerned only with academic matters, such as curriculum development, the establishment of academic units and departments and the election and evaluation of faculty members and researchers.

The Dean represents ZSEM to third parties and holds two main channels of responsibility. For all administrative matters, the Dean reports to the Board of Trustees, whereas for academic affairs, he is responsible to the Faculty Board.

Figure 15: Dean’s dual responsibility



Source: Developed by the author

3.5.1.1.1.3. Size and composition of the governing board

The size and composition of the governing board of all independent Croatian HEIs is stipulated by law. According to previous law, the Board of Trustees must have five founder-appointed members. However, according to a recent revision to the Scientific Activity and Higher Education Act (2013, article 68, paragraph 4 – 5), the composition of the Board of Trustees has been changed. Of five trustees, three should be appointed by the founder, one is appointed by the Faculty Board and one member is appointed by the employees. The Chairman of the Board of Trustees is elected among its members. This composition enables the involvement of all relevant stakeholder groups, including founders, faculty and employees, in the governance process.

At the time of writing this thesis, the selection process of a new board had not yet been completed. Therefore, the members of ZSEM’s Board of Trustees were the following:

Figure 16: ZSEM’s Board of Trustees



Source: ZSEM Accreditation team (March, 2013)

All members of the Board were selected by the founders and four members have an academic background. Four of the trustees, including the president of the Board, are external members. In his discussion of the composition of the Board during an interview, Rev. Mišić emphasized that: “[...] the board of such an entrepreneurial institution should be “A Council of Wise Men” rather than some operative body, [...] and the key asset that board members bring to the board is their dignity and professional reputation [...]”.

3.5.1.1.1.4. International accreditation standards as a “soft” norm

In the context of Croatian higher education, there are no generally accepted standards and norms, such as codes of governance “good practice”, developed exclusively for HEIs. However, ZSEM’s stakeholders identified several advantages to compliance with standards that additionally prescribe guidelines for effective institutional governance and, as such, elected to pursue the process of international accreditation with AACSB International. In general, such professional or industry standards of conduct have been used as sources of legitimacy. For example, Deephouse and Suchman (2008) explain that the major source for legitimacy in the US healthcare sector is the JCAHO³⁹, the organization that accredits healthcare organizations and programs in the United States.

In the “organizational field” of business schools, one source of legitimacy is the alignment with international accreditation standards as a “system of norms and values” that promote quality in business education. In this way, ZSEM used AACSB International accreditation as a source of additional legitimacy for the institution.

AACSB International is an accreditation agency established in 1916, with the purpose to support and assist continuous improvement and development of business schools worldwide.

For ZSEM, international accreditation would provide a competitive edge in a local market dominated by public higher education institutions.

In such circumstances, international accreditation can serve to significantly distinguish an institution on the HEI market. As such, ZSEM entered into the accreditation process with great commitment and, from the outset, decided to use the framework developed by the AACSB accreditation standards as a governance model for the institution. In this way, the international accreditation agency becomes an informal⁴⁰ but relevant stakeholder within the network of all ZSEM stakeholders. In this particular environmental contingency, international accreditation created an opportunity for the school to diversify the quality on the current higher education market. As such, the accreditation agency became an important ZSEM stakeholder that strongly influenced the direction of the school. In a network such as that of ZSEM, it is more important to understand actors and processes than the formal

39 Joint Commission on Accreditation of Healthcare Organizations.

40 Jones et al. (1997, p. 911) emphasize the informal relationships within networks, defining network governance as a “coordination characterized by informal social systems [...] in uncertain and competitive environments”. Such governance is based on “implicit and open-ended contracts to adapt to environmental contingencies” (Jones et al. 1997, p. 914).

structure. Consequently, the formal governance structure may differ from the real model of direction and control that is in place.

3.5.1.1.2. Informal institutional pressures on the governance models of ZSEM

The predominant informal institutional pressure influencing the governance model of ZSEM is the national context, characterized by a transitional state moving from a socialist to a market economy. However, institutional pressure arising from culture and traditions has also been reflected in the behavior of the faculty as well as in the behavior of the administration and institutional leadership.

3.5.1.1.2.1. National context

The Croatian national context was the key factor driving the establishment and development of ZSEM as an entrepreneurial project. A detailed explanation of the establishment of ZSEM within the context of a transitional economy was presented in ZSEM's Self Evaluation Report (2012). According to this report, “in the late 1980's and early 1990's, Croatia was going through several changes at once. After nearly half a century as a part of socialist Yugoslavia, Croatia opted for independence and was blocked at every turn, leading to the War for Independence. At the same time, transformation of the economic system was taking place. The Croatian economy was changing from a socialist to a market economy. In the midst of that process, it became obvious that the Croatian higher education system also desperately needed a reform in order to cope with a free market system [...] That motivated the [current] Dean to initiate the process of establishing the Association for the Promotion of Education in the Field of Social Sciences. The Association founded the Zagreb School of Economics and Management in 1995. The first generation of students enrolled in 2002 because of the engagement of the main stakeholders in the Croatian Parliament and government administration in the period between 1995 and 2000” (2012, p. 5).

The establishment and ongoing development of ZSEM confirms Fielden's (2008, p. 5) argument that the development and operation of HEIs is strongly influenced by social economic factors such as major transformations at a national level, a crisis of the HE system and the inability of governments to finance HE systems.

3.5.1.1.2.2. Culture and traditions that have impacted the ZSEM governance model

Culture and traditions have the potential to strongly influence governance practices. Using Hofstede's dimensions, Shinnar et al. (2012) examine the impact of national cultures on entrepreneurial activities. Hofstede's dimensions enable the identification of the effects of national cultures on the development of a social phenomenon such as entrepreneurship. These dimensions are: “power distance”, “collectivism/individualism”, “femininity/masculinity”, “uncertainty avoidance”, “pragmatism” and “indulgence” (Hofstede, 2001; Hofstede et al., 2010). For each dimension, a particular national culture will achieve a score ranging between 0 and 100. Shinnar et al. (2012) (citing Busenitz and Lau, 1996 and Mitchell et al., 2000) argue that cultures with a high power distance are favorable for entrepreneurial activities. This is true in the case of Croatia, which achieves a score of 73 on the power distance dimension. Other dimensions that support the development of entrepreneurialism are individualism, low uncertainty avoidance and masculinity (Gupta et al., 2010; Heilman, 2001, as cited in Shinnar et al. 2012; Kreiser et al. 2010; Shane, 1993).

With a score of 73, Croatia is a country with a large power distance. As such, under the entrepreneurial leadership of the founding Dean, there was fertile ground for creating a centralized “entrepreneurial core” in the mobilization and direction of involved actors. However, with low scores on individualism (33) and masculinity (40) dimensions and high levels of uncertainty avoidance (80), the likelihood that Croatia will demonstrate high rates of entrepreneurial activities is reduced (Shane, 1993). Despite these conditions, the involved actors at ZSEM managed to embrace an entrepreneurial “ethos”. This adoption of an entrepreneurial culture at ZSEM might be explained by Hofstede's “Pragmatism” dimension, where a national score of 58 suggests that Croatians are a pragmatic people with an ability to adapt their traditions according to contextual requirements.

Furthermore, as a collectivistic society, the involved actors at ZSEM tend to value institutional objectives over individual objectives. This collectivism might explain why ZSEM has been successful in establishing a “mission based governance model” that promotes the institutional mission first and then linking it with individual objectives of faculty and administration.

According to Hofstede's dimensions, Croatia is also a feminine country. While governing boards in feminine countries tend to have higher gender diversity, this is not the case at ZSEM where the board consists only of male members. This might be explained by the fact that, in this entrepreneurial institution, board members are selected primarily from candidates derived from the founders' social network and gender diversity has not been a central consideration in the selection process. This

reduced diversity in the composition of the Board might be further explained by a strong hierarchy and centralized entrepreneurial control.

Croatians tend to avoid uncertainty. Such uncertainty avoidance, in which a society acts to avoid unknown and unstructured situations, is a cultural feature that diminishes entrepreneurial intentions. However, actors in cultures with high levels of uncertainty avoidance more readily adopt stipulated codes, standards and rules. Within the ZSEM context, this cultural feature might have played a role in the swift implementation of international accreditation standards by faculty and administration.

3.5.1.2. Contingency pressures on ZSEM’s governance model

While institutional forces promote institutional homogeneity, contingency pressures explain why organizations differ from one another.

In the case of ZSEM, the contingency variables analyzed were ownership, organizational complexity and the selection method of ZSEM leaders. A discussion of the manner in which the organizational processes and mechanisms of ZSEM have been adapted to these contingency variables in order to achieve effectiveness will also be presented.

3.5.1.2.1. Ownership

ZSEM is a privately owned accredited higher education institution, established in 1995 by the Association for Promotion of Education in the Field of Social Sciences (the Association). The Association is a non-governmental organization (NGO) founded by individuals with a common interest to establish ZSEM. Established as statutory non-profit entity, ZSEM is fully private and independent from the perspective of both funding sources and state influence on institutional governance. As such, ZSEM is able to independently decide on its governance model, organizational strategies and funding policies.

The governance approach at ZSEM is “mission based”, where the mission statement is a critical element linking all relevant stakeholder groups. Various stakeholders of the institution, including administration, faculty and students, have been homogenizing around this mission and, as such, the particular objectives of each stakeholder group stem directly from the mission.

The funding base of the institution comes exclusively from the market. School operations are financed by tuition fees for undergraduate and graduate studies as well as by fees for executive education programs. There are no alternative sources of financing.

This unique combination of a “mission based governance model” and market funding approach distinguishes ZSEM from other similar institutions within the “organizational field”.

Private ownership has been one of the important determinants of the entrepreneurial model. The funding approach described above created awareness among involved actors of the competitive environment and market dependency. In addition, the school’s relationship with faculty became flexible and performance driven and agreements between faculty and institution retained a nature of entrepreneurial cooperation. As such, all actors have been unified around organizational sustainability and the institutional mission.

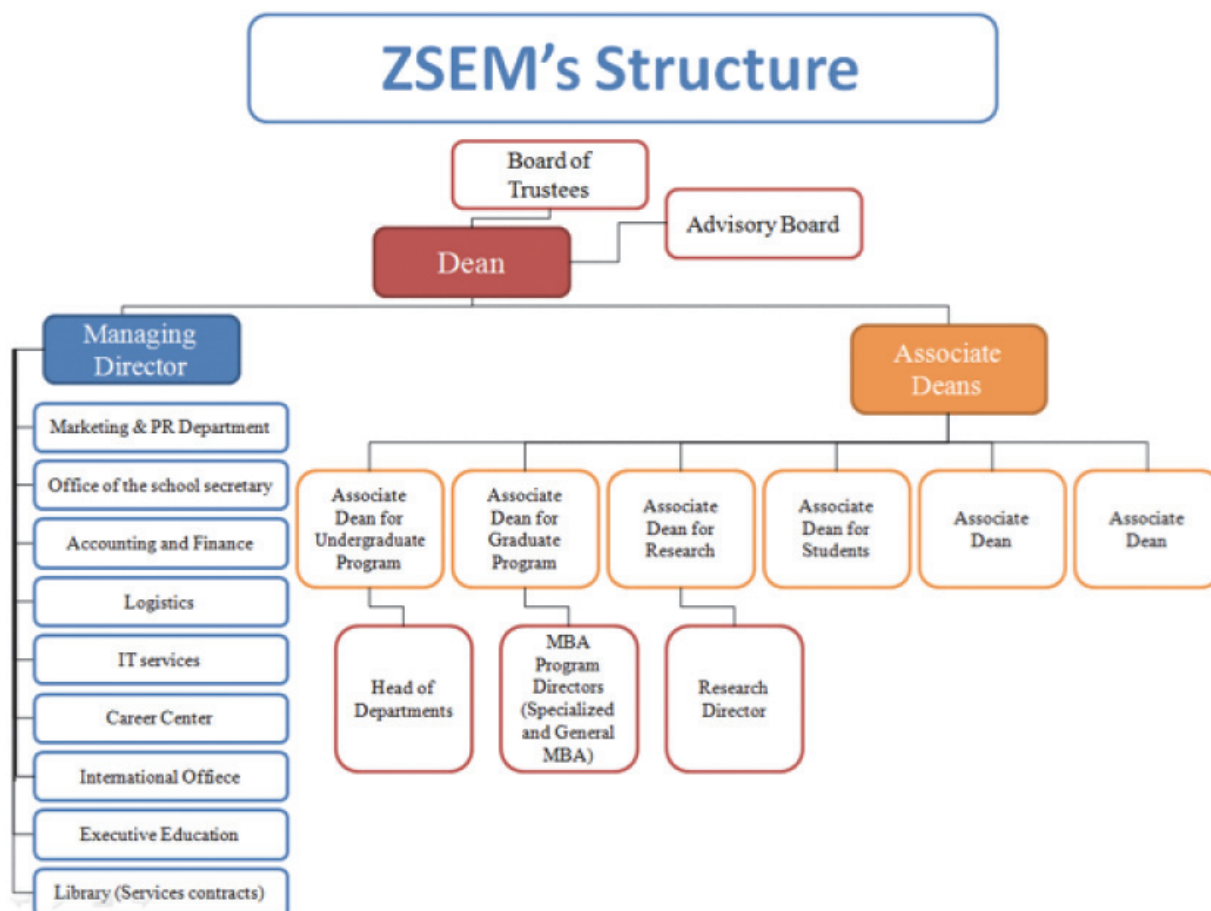
3.5.1.2.2. Organizational complexity

According to Hilb (2008), organizational complexity can be considered under the variables of size and stage of development.

3.5.1.2.2.1. Size

According to data from the Self Evaluation Report of 2012, ZSEM had 1,2 thousand students and 97 FTE faculty members within 2 academic programs and 6 departments. The school is administered by 20 administrative staff members and is governed by a Board consisting of 5 members. ZSEM’s structure is presented in the following figure:

Figure 17: ZSEM’s structure



Source: ZSEM’s Self Evaluation Report (2012, p. 1)

For an institution of this size, it is common to find less differentiation between faculty and staff. Furthermore, it is not unusual for some faculty members to be deeply involved in administrative matters. A unique feature to ZSEM’s structure is the formation of flexible ad hoc committees (e.g. the “Accreditation task force”⁴¹) that hold important roles in the governance of the institution, including the preparation of the Strategic plan.

41 The “Accreditation task force” was organized at the outset of the international accreditation process and was made up of representatives of all relevant stakeholders, i.e. administrators, faculty and students. Its central role was to prepare a “gap analysis” and the Self Evaluation report. However, during this process, the “Accreditation task force” additionally played a key role in the governance of the institution by designing and implementing the “mission based governance model”.

3.5.1.2.2.2. Stage of development

In 2002, ZSEM enrolled its first generation of students. From its establishment, ZSEM made use of the advantages of being a young institution operating within a complex and unstable environment. In order to make real progress, the founding Dean understood that the school had to be different from older institutions. With this in mind, his approach was to introduce flexible governance arrangements with blurred boundaries between board and staff, a network of relationships among key stakeholders and more ad hoc committees. In such an environment, the institution has been effectively governed under predominantly informal practices through a multi-actor constellation connected by a network.

Indeed, a small institution in an early phase of development can afford such blurred board roles and responsibilities, informal board practices and a contingent strategic planning process.

In such an environment, the entrepreneurial Dean of ZSEM acted as a “central connector” and established “an entrepreneurial core” made up of senior administrators and various ad-hoc committees. This entrepreneurial core took responsibility for all strategic and monitoring roles.

3.5.1.2.2.3. Selection system of ZSEM leaders

The system for the selection of leaders, which influences both leadership style and tenure, is a situational variable that can have a strong impact on organizational practices. In general, institutional leaders can be appointed or elected. Appointed HEI leaders are chosen by the institutional president or board and usually have a longer tenure. Alternatively, leaders and directors are elected by the board in an election process and typically have a shorter tenure, usually 2-3 years.

In general, appointed leaders are more oriented towards the fulfillment of organizational objectives and results agreed upon during the selection process. In contrast, elected leaders are more likely to follow policies that are in line with the preferences of the actors who are voting for them, while sometimes neglecting organizational effectiveness. At ZSEM, the Board members have been appointed by the founding NGO (the Association). The Dean has been appointed by the Board of Trustees. As a member of the founding NGO, the Dean has been a key actor in the Board selection process. Such “recursion” in the selection process has ensured his position as Dean from the time that ZSEM was established. The end result of this structure is overall stability in the leadership, which has enabled the formulation and execution of long-term strategies and, in turn, the achievement of key organizational objectives.

3.5.1.3. ZSEM’s actors

Because of the high number and complex nature of the involved actors in HEIs (including faculty, students, administration, trustees, government and government agencies, the corporate community and the general public), HEI governance is a complex and dynamic phenomenon. The diverse influences and weights of the various actors in the decision making process additionally contribute to HEI complexity. Each of the above actors has their own “rationality” comprised of their unique orientations and capabilities. These rationalities should be recognized in the decision making process (Scharpf, 1997).

Orientations are shaped by the actors’ preferences and perceptions (Scharpf, 1997). Preferences are based upon actor interests within an organizational context. For example, “trustees are concerned with responsiveness, administration with efficiency, and faculty with academic values” (Birnbaum, 2004, p. 19). Furthermore, actors’ perceptions are “selective” and influenced by their roles and responsibilities (Dearborn and Simon, 1958, as cited in Scharpf, 2000, p. 8). For example, because faculty mostly deals with academic matters and trustees are generally involved in financial and legal issues, faculty members might perceive the same phenomena differently than the Board of Trustees.

Capabilities encompass the “action resources that may be employed to affect the outcome” (Scharpf, 1997, p. 11). In other words, capabilities are key competences and resources that determine the level of an actor’s influence in the decision making process.

The perceptions and preferences of actors, together with their capabilities, create varying weights in their interaction and, in turn, shape a particular governance model. In order to perform an analysis of the involved actors at ZSEM, the researcher followed Birnbaum’s (2004) approach that recognizes three main actors in the HEI governance process:

- members of the governing board (trustees),
- administration i.e. presidents or HEI leaders and
- faculty.

Using this framework, ZSEM’s governance model is shaped by the interaction between ZSEM’s Board of Trustees, the Dean and the faculty. The orientations and capabilities of these actors will be analyzed in the following text.

3.5.1.3.1. ZSEM’s faculty

One of ZSEM’s strategic pillars is a commitment to Faculty development. The central reason for such a strategic orientation is that qualified faculty for a modern business school has not been available in the Croatian transitional higher education labor market. Therefore, ZSEM has been focused on the education and development of its faculty since its foundation. This has resulted in significant annual investment into postgraduate studies and the professional development of its faculty. According to data from the Self Evaluation Report (2012), ZSEM has a total of 97 faculty members, 68 of which have a PhD-level qualification. Nearly all faculty members are involved in the work of various committees and academic departments.

The preferences of ZSEM’s faculty are manifested in their teaching and scholarly activities and expressed in their personal goals and student learning goals. Furthermore, both faculty personal goals related to scholarly work and student learning goals are linked to the institutional mission. In order to achieve the goals set before them, faculty members are required to work extensively on scholarly productions, a requirement that is stipulated explicitly in faculty employment contracts.

However, the perceptions or “cognitive orientations” of faculty are bounded to their roles and responsibilities (Witte, 2006, p. 69). The full scope of the roles and responsibilities of ZSEM faculty members includes (SER, 2012):

- Teaching with student advising
- Research and scholarly work
- School-administered, consultative, and organized activities within and outside the School when such activities, based on a mutual contract, bring benefit to the School

In addition, heads of academic departments are members of the Faculty Board that meets at least twice a year and makes decisions exclusively on academic matters.

As a key resource for the business school, the faculty’s capabilities (in the form of competences and expertise) have been closely monitored. Data from the SER (2012, p. 46) indicate that, in the academic year 2011/2012, the undergraduate and graduate programs at ZSEM had:

- 68 faculty with PhD-level qualification
- 20 faculty with MSc-level qualification and
- 9 faculty members with other qualifications

The key “instrument” for monitoring faculty progress is the Faculty Development Plan (FDP). The FDP outlines the expected qualifications and production of scholarly work of each faculty member within a five-year planning horizon. It is an effective means for controlling faculty progress that is carried out periodically, usually twice a year. The FDP is a crucial link between faculty development and the school’s mission, providing guidance and motivation for the faculty towards the pursuit of scholarly activities and the acquisition of desired qualifications.

With this system of “managed” orientations and capabilities, the faculty is a central ZSEM stakeholder that integrates the institutional mission with personal goals and student learning goals. Faculty goals are expressed in the FDP and manifested firstly in intellectual contributions and secondly in improvements to existing courses and the creation of new courses. Similarly, student goals and objectives are measured and used to develop learning outcomes, which are also, in turn, embedded into new courses and improved curriculum. As such, faculty members participate in the achievement of the mission and institutional strategy by defining their personal and student learning goals, as expressed in the FDP. The key strategic outcomes of such a process are the fulfillment of the FDP and the improvement of academic programs.

3.5.1.3.2. ZSEM’s Members of the governing board (Trustees)

Trustees’ preferences, “defined by their personal and organizational interests, obligations and aspirations”, are not as straightforward as those of faculty (Scharpf, 2000, p.8). In this case, preferences depend on the particular context. For example, trustees in a collegially governed institution might have different interests and concerns than trustees in an entrepreneurial institution. Similarly, paid trustees might have different preferences than trustees who are major donors or work on a voluntary basis. However, Birnbaum (2004) argues that, because of the generally slow response of HEIs to changes in the external environment and the lack of speed in making decisions, the main concern of trustees is their “responsiveness”. In his analysis, Birnbaum refers primarily to public institutions with academic governance models. However, the situation in a private entrepreneurial HEI might look quite different. According to both interviewed members of ZSEM’s Board of Trustees, the main interest of the Board of an entrepreneurial HEI is the sustainability and reputation of the organization. Here, trustees do not receive remuneration for their work while putting their dignity and professional reputation at stake. As such, with the success and good reputation of the institution, their reputation and good standing similarly increase.

The focus and operative engagement of ZSEM trustees in the decision making process

depend on the manner in which they perceive their roles and responsibilities. During his interview, Rev. Mišić stated: “I do not see that I should be deeply involved in the operation of the school. We are here to give our dignity and professional reputation to the School. I perceive our role as a Council of Wise Men”. Similarly, the President of the Board of Trustees, Dr. Rudolf stated: “I see the Board as an advising body [...] entrusting to the Dean and senior administrators all key decisions. Our primary role is to give legitimacy to the institution”. This orientation is confirmed by the low frequency of board meetings at ZSEM, which usually occur once a year. However, the interaction between the Dean and trustees is more frequent and generally occurs at less formal occasions.

When asked to comment on the competencies of the trustees, Rev. Mišić argued: “In order to give legitimacy to the institution, board members should be individuals who can play and already have played a key role in similar institutions or stakeholder organizations. They should be individuals who act with integrity, demonstrate ethical behavior and are able to take a long-term perspective”. For trustees, it seems that capability in influencing the decision making process is of less importance than qualities that offer legitimacy to the institution, such as good standing and integrity.

3.5.1.3.3. ZSEM’s dean

In a single role, ZSEM’s dean embodies the entrepreneurial combination of founder and chief executive officer. As an entrepreneur and educator, the Dean has fulfilled his long term vision, described in the SER (2012) as a: “[...] vision which emerged in the early 1990’s; at the time, the current Dean was engaged as a faculty member at a public university trying to implement changes in the business and economics curriculum. This period was characterized by a transitional educational system lacking the new educational approach of modern market economies. Public educational institutions were biased against the introduction of a more modern approach to business education necessary for a globalized free-market environment. At the beginning of the 1990’s, there was no modern economics or business administration literature available in the Croatian language. Therefore, one of [the Dean’s] initiatives was to establish MATE, a publishing house. MATE specialized in the publication of modern economics and business textbooks. Today, MATE is a leading publisher of specialized business literature in Croatia. Textbooks published by MATE supplement the efforts of the faculty, who were ready to adapt their teaching methods. However, despite the fact that modern education and textbook infrastructure had been growing, the public higher education system was not ready to change. This motivated the Dean to initiate the process of establishing the Association for the Promotion of Education in the

Field of Social Sciences. The Association founded the Zagreb School of Economics and Management in 1995.”

In his daily activities, the Dean’s operative focus is on the long term institutional strategy and external relations. In addition, he contributes to the wider social influence and legitimacy of the school through publicity and interaction with stakeholders. As a result, he is able to disseminate and actualize the mission of the school.

The Dean is both a “central connector” and “boundary spanner” (Ansett, 2005; Cross & Prusak, 2002; Cross et al., 2007; de Tony & Nonino, 2010; Smith, 2005). He regularly interacts with internal stakeholders and develops ties with external stakeholders within the corporate sector and government administration. In doing so, he gathers information and obtains feedback from the external environment.

3.5.1.4. Modes of interaction among ZSEM’s actors

In the multiple-actor constellation at ZSEM, governance outcome is shaped on the basis of the formal and informal abilities of actors to exert influence. For example, because faculty members have not been given the formal means to participate in the direction and control of the institution, their influence is limited to academic matters based on their activities in academic departments and faculty council. In contrast, the Board of Trustees possesses formal authority to govern the institution and, as such, acts more as a “Council of Wise Men”. In fact, the only real influence lies within the founding Dean. However, with an understanding of his own position and an intention to avoid “unilateral action”, the Dean has consistently recognized ZSEM’s faculty as a central stakeholder and, as such, introduced the institutional mission as a governance instrument. This orientation corresponded with the institution’s need to align with the International standards of the AACSB. In order to facilitate a “collegiate environment”, AACSB International has created mission related standards as a foundation of its accreditation process (AACSB, 2012). According to the AACSB (2012), “The school publishes a mission statement or its equivalent that provides direction for making decisions. The mission statement derives from a process that includes the viewpoints of various stakeholders”. So, in the AACSB framework, the governance process begins with mission development. In this way, the mission statement guides or drives strategic decisions as well as decisions about programs, faculty, students and curriculum. Therefore, the institution’s mission became a governance instrument, or the “homogenizing element” in the interactions among ZSEM stakeholders.

3.5.1.4.1. The mission as a governance instrument

The concept of mission has been widely discussed and accepted in the science and practice of management. In management science, the importance of the mission has been emphasized within organizational culture theory since the early 1980s (Ouchi & Wilkins, 1985). While organizational culture has many meanings, it generally encompasses a set of persistent and shared beliefs and assumptions that influence an organization (Leland, 2004). For example, Barnard (1938, as cited in Leland, 2004) argued that, by internalizing missions and common values, members of an organization will intuitively pursue organizational objectives. In other words, the culture represented by values and beliefs can be a strong source of mobilization among institutional stakeholders in achieving mutual objectives.

The concept of mission has not only been analyzed through the lenses of organizational culture theory, but using other models as well. For example, in their examination of the implementation of an innovative management model at the pharmaceutical company Cilag AG, system researchers Schwaninger and Janovjak (2009, p. 13) emphasize that Credo and Standards of Leadership are “core components of the Company management model”. Together, Credo and Standards of Leadership create a normative framework of company. While Credo is a fundamental reference system or an expression of the identity and spirit of an organization, Standards of Leadership bring crucial principles of leadership into focus and, as such, create a holistic reference system for decision making. In his book “Intelligent organizations: Powerful models for systemic management”, Schwaninger (2009, p.134) further emphasizes “organizational Ethos” as a basic parameter of organizations that is linked with notions such as identity, vision, purpose or mission. As a basic parameter, “organizational Ethos” is the “base for everything an organization is bound to achieve” and a “lever for continuity and resilience of an organization” (Schwaninger, 2009, p.134). Ethos can be operationalized as the formulation and implementation of persistent values and norms.

There is considerable empirical evidence examining the usage of the mission in the business world. For example, in their discussion of Jones and Kahaner’s (1995) research, Cardona and Ray (2008) emphasize the importance of various management tools. In the cited study, the mission was used and regarded as a highly valued management tool in 90 percent of the companies in the sample. Similarly, Bart and Hupfer (2004) demonstrate that the mission statement has consistently been a key management tool in the period between 1993 and 1997. In their study of the missions of Japanese companies, Hirota et al. (2010, p. 1136) concluded that the mission statement “explicitly expresses the long embedded corporate identity, corporate

purpose, and strategic intent in a very succinct form”. Similarly, in their review of the literature encompassing 20 years of research examining mission statements, Desmidt et al. (2011, p. 469) demonstrated that missions have been useful for organizations by providing direction for the allocation of resources, enabling communication among stakeholders, describing organizational values and inspiring organizational members (Bart et al., 2001; Bartkus et al., 2000; Campbell & Yeung, 1991; Kemp & Dwyer, 2003; Sanchez & Heene, 2004).

Given that the “production” of the mission statement is a result of the involvement of all relevant stakeholders, the features outlined above create a potential for the implementation of the mission statement as a governance tool.

3.5.1.4.2. Integrated model of interaction of ZSEM’s actors

At ZSEM, involving all relevant actors in the decision making process began with the formulation of the mission. This involvement continued with the alignment of key stakeholders with the institutional mission.

According to the SER (2012), ZSEM’s mission was initially defined by the Dean and the Board of Trustees and later developed by the Accreditation “task force”, which consisted of leading faculty and administration members. This task force additionally included input from all relevant stakeholders in development of the mission. In other words, all stakeholders were included in the development of ZSEM’s mission (SER, 2010, p. 5-6):

- Faculty – in meetings and brainstorming sessions, discussions about the School’s mission and its compliance with the curriculum were held.
- Students – by providing suggestions through e-mail, students participated in the creation and revision of the mission.
- Administration – in brainstorming sessions during weekly and periodic administration meetings, the alignment and relatedness of the mission to ZSEM staff was discussed.
- The corporate sector – during annual meetings of the Advisory Board, members evaluated whether the mission was consistent with School activities and provided suggestions and guidelines for future activities.

3.5.1.4.3. Faculty alignment with the mission

One of the key preferences of the faculty is personal academic development. In order to assure effective development, intellectual outcomes of faculty members should

be carefully planned and measured (Festervand & Tillery, 2001). These faculty outcomes are subsequently reflected in their teaching, research, and service.

The planned outcomes of every individual faculty member at ZSEM are defined in the Faculty Development Plan (FDP). The FDP outlines the intellectual contribution expected of each faculty member as well as the expectation for acquiring academic qualifications. The Faculty Development Plan encourages faculty members to complete Ph.D. courses and to write research papers by giving them financial support and relieving them of teaching activities.

In order to “mobilize” faculty in a direction that is preferential for the School, the personal faculty objectives stated in the FDP should correspond to ZSEM’s mission. As such, the Faculty Development Plan (FDP) becomes a central “tool” for linking the institutional mission with the development and individual preferences of faculty.

3.5.1.4.4. Alignment of the Board of Trustees with the mission

The alignment of the mission with the Board of Trustees and administration was achieved by defining “strategic pillars”. ZSEM’s strategic pillars stem directly from the mission and were agreed upon by the key stakeholders. They have been formally ratified by the Board of Trustees as a part of ZSEM’s Strategic plan, where they are used as guiding principles for strategic decision making, resource allocation and control.

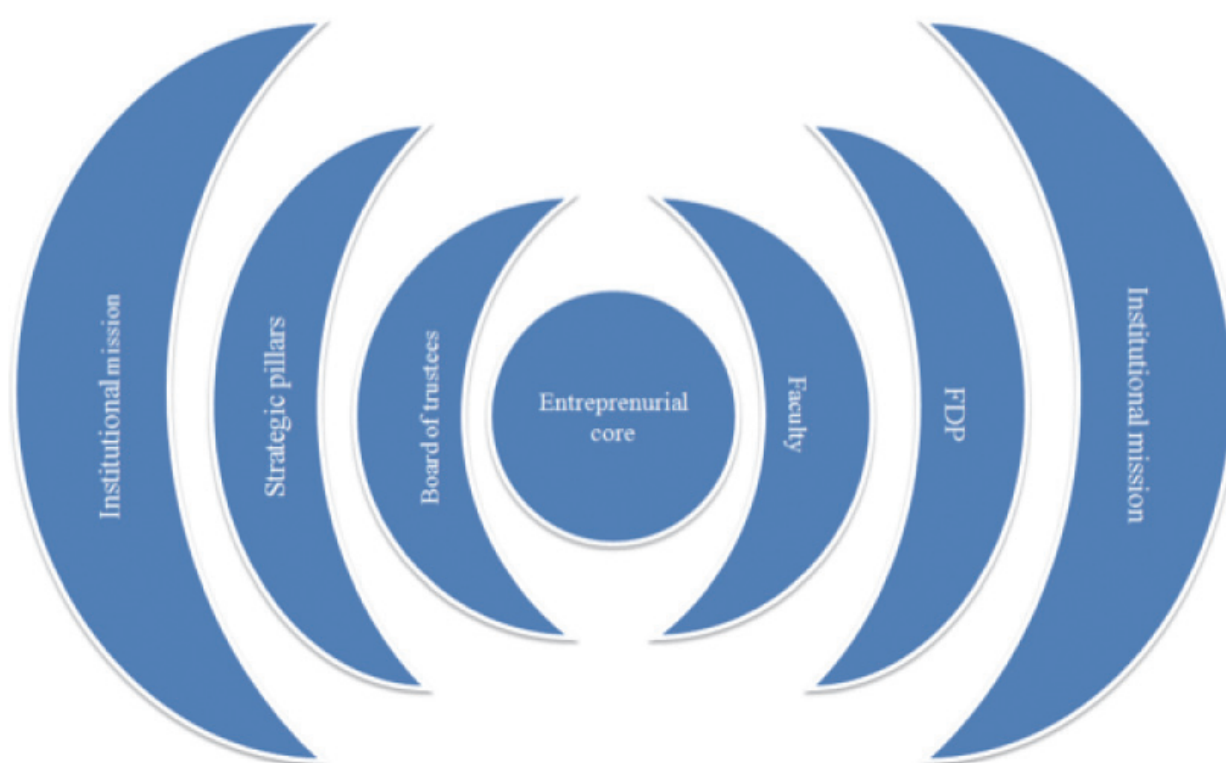
ZSEM’s strategic pillars are (SER, 2012, p. 2):

- Strong commitment to faculty development – in the five-year period from 2008 to 2011, ZSEM has invested considerably in faculty development. This investment has contributed to a steep increase in the number of faculty with PhD qualifications.
- Dedication to quality – in order to achieve international accreditation, ZSEM has made a strong commitment to human and financial resources.
- International exchange – on average, over 6% of the ZSEM student body participates in an exchange program, where the national average for student participation in international exchange is 0,3%.
- Strong links with the business community – the ZSEM Dean is advised by an Advisory Board comprised of respected CEOs from the Croatian business community. Furthermore, many managers and business people from the corporate sector are actively involved at ZSEM, either as faculty or guest lecturers.

These strategic pillars are a practical reference system for decision making, providing guidelines for the allocation of organizational resources. For example, when making decisions about the allocation of the ZSEM budget, the manner in which funds will be invested is clear and transparent.

This integrated entrepreneurial “mission based” governance model is presented in the following figure:

Figure 18: The “mission based” governance model



Source: Developed by the author

The “Entrepreneurial core”, consisting of the Dean and senior administrators, directs and controls the institution by formulating and executing the strategy and assimilating all involved actors towards the fulfillment of the institutional mission. In addition, the Board of Trustees and faculty members are also involved in the governance of the school by participating in the formulation and accomplishment of the institutional mission.

While the Board of Trustees formally approves the strategic plan that stems from the mission, ZSEM faculty members actualize this mission by planning, executing and sharing their intellectual contributions and research knowledge, as stated in the

Faculty Development Plan.

In this governance model, the role of the “entrepreneurial core” is to act as a facilitator of mission production and dissemination. In addition, it requires continuous stakeholder management and communication of the “strategic pillars”. Finally, a central task of the “entrepreneurial core” is to assure conditions for the alignment of the personal objectives and goals of faculty with the mission.

3.5.1.5. Features of ZSEM’s entrepreneurial governance model

Based on the “theoretical model of origination of governance approaches”, the key features of ZSEM’s entrepreneurial governance model are:

1. Differentiation between formal and informal governance structures

ZSEM has a formal governance structure that is defined by the Law and the Statute. In compliance with all legal requirements, the ZSEM Board of Trustees is the central governing body with the stipulated roles and responsibilities to direct and control the institution. However, ZSEM is also an institution governed by an “entrepreneurial core”. In this case, the Board of Trustees acts more like a “Council of Wise Men”. At the center of the entrepreneurial core is the Dean, whose power stems from the fact that he is one of the school’s founders and the “driving force” behind the establishment of the institution. He manifests his influence through his position as the “central connector” and “boundary spanner” of the network, mobilizing all key stakeholders and organizational units and supporting the formation of ad hoc committees.

2. Resilience to regulatory risks

With a strong “entrepreneurial core” effectively operating within a distributed network, ZSEM is an organization that is resilient to changes in regulations and is able to sustain its direction towards the fulfillment of organizational objectives.

3. Influence of “informal” actors on institutional governance in exchange for additional legitimacy

ZSEM is a private and independent institution solely dependent on funding from the market. Therefore, ZSEM’s long-term market sustainability is one of the primary organizational concerns. In light of this fact and in a search for additional legitimacy,

ZSEM initiated an international accreditation process. As a result, the international accreditation agency became an important and “informal” stakeholder and, in this way, influenced ZSEM’s decision to adopt the “mission” as a guideline for directing decision making processes. In this form of governance model, the institutional mission is used as a tool for the direction and control of the institution.

4. Identification and appropriate reaction to opportunities within the social economic and cultural environment

The specific social economic environment in Croatia, which can be characterized by a transition from a socialist to market economy, facilitated the establishment of ZSEM as an entrepreneurial institution. In addition, specific features of Croatian culture, such as high “power distance” and „pragmatism“, supported the development of an entrepreneurial, “mission based” institution.

5. Independence and market orientation

At ZSEM, institutional independence stemming from private ownership has been one of the key factors enabling the origination of the entrepreneurial model. This has resulted in a funding base that comes solely from the market. As a result, the school’s relationship with faculty became flexible and performance driven and agreements between faculty and the institution can be characterized by entrepreneurial cooperation.

6. Simplicity and flexibility

As a relatively small institution in the early phases of development, there is a strong organizational readiness for change at ZSEM. In addition, there is often reduced differentiation between faculty and staff and it is not unusual for some faculty members to be deeply involved in administrative matters by participating in the work of flexible ad hoc committees. As a result, ZSEM has been effectively governed through more informal practices in a multi-actor constellation connected in a network.

7. Stability of the leadership

Stability of the leadership is a key element in the effectiveness of the entrepreneurial model. More specifically, this stability has enabled the entrepreneurial Dean and

senior administrators to formulate and execute the long-term strategy that has, in turn, resulted in the achievement of key organizational objectives.

8. Need for the identification of the key or “central” stakeholder

Because of its strong and central “entrepreneurial core”, there is often the risk in an entrepreneurial model of “unilateral action” resulting in the negligence of the interests of all stakeholders. As such, it is necessary to recognize and manage stakeholders while identifying their order of relevancy. At ZSEM, the founding Dean recognized the faculty as a central stakeholder by introducing the institutional mission as a governance instrument. As a result, faculty preferences have been satisfied through the preparation and realization of the FDP, which links the personal objectives of faculty with the mission.

9. Leaders as “central connectors” and “boundary spanners”

In this form of governance model, the role of the leader is to act as a facilitator of mission production and dissemination. In addition, it requires the leader to be both a “central connector” and “boundary spanner”, continuously managing internal and external stakeholders as well as communicating strategy, gathering information from the environment and obtaining feedback in order to improve competitive position (Ansett, 2005).

This analysis demonstrates how a specific combination of institutional and contingency forces, together with actor constellations and modes of interaction, has shaped the entrepreneurial governance model.

The entrepreneurial model has several advantages, including the ability to formulate and execute long term strategies and effectively fulfill organizational objectives, a simple and flexible decision making process and resilience to regulatory risks. However, not all environments are suitable for the development of such a model.– Using the ZSEM case as an example, it might be concluded that, in order to support the implementation of an entrepreneurial model, opportunities arising from the social economic and cultural environment have to be identified and exploited. In addition, the institution must be independent and possess a dominant actor within the constellation.

In this particular case, the inability to reform existing public higher education institutions prompted the entrepreneurial Dean to establish a modern and market oriented business school. Despite certain cultural obstacles, such as high levels of uncertainty avoidance in a country with a long tradition of faculty governance,

the Dean also managed to mobilize and homogenize faculty members around the activities most valuable for the school.

Another important condition in the development of an entrepreneurial model is the independence and market orientation of the institution. When an institution is released from direct government control and its sustainability depends on market forces, the major governance concerns are effectiveness and speed in the decision making process. In addition, an independent HEI will look for all possible sources of legitimacy, such as compliance with international standards. Because legitimacy brings support and an ability to survive, the institution will more enthusiastically adapt to the formal and informal norms that bring such legitimacy.

Finally, in order to create an effective entrepreneurial model, the “entrepreneurial core” should dominate within the constellation of actors and, as such, possess the ability to influence and mobilize the stakeholders’ network around the institutional mission.

The biggest risk in such a model is the replacement of the entrepreneurial leader. Therefore, succession planning is a key challenge for the long term sustainability of an institution employing an entrepreneurial model. In this setting, there are two possible directions in the evolution of the governance model. On one hand, the institution might replace the entrepreneurial leader with a new leader or leadership structure with the same abilities as those of the previous leader, including the ability to mobilize stakeholders, disseminate entrepreneurial culture, and foster innovation and market orientation. Alternatively, the institution might evolve towards a new governance model with a more active Board of Trustees.

3.5.2. The strategic dimension of ZSEM’s governance

Hilb (2008) argues that “strategy follows people”, where effective strategizing is ensured only through adequate teamwork, coordination and active participation of all involved “people”.

Using the theoretical frameworks of stewardship (Davis et al., 1997) and role (Biddle, 1986; Neuberger, 2002) theories, Hilb (2008, p.7) identifies four success factors for the effective development, implementation and control of an organizational strategy. Those four factors are:

- Selection of individual board members
- Culture of constructive criticism and trust
- Networked structures and processes among the board members
- Proper success measures for all stakeholders

Central to the effective development, implementation and control of strategy is a “culture of constructive criticism and trust” among the involved actors, which is achieved through “networked structures and processes”.

Therefore, a team with appropriate working methods creates the “culture of constructive criticism and trust” necessary for the “effective development, implementation and control of the strategy” (Hilb, 2008).

In Hilb’s (2008) approach, the unit of analysis is the governing board, with individual board members as actors in the process strategy ratification and control. In contrast, the unit of analysis in this empirical study is the constellation of all involved actors in the process of developing, implementing and controlling the strategy.

3.5.2.1. The constellation of ZSEM’s actors in the process of development, implementation and control of the strategy

ZSEM’s Board of Trustees is not the only actor involved in the “effective development, implementation and control of the strategy”. Instead, the actors constellation within the ZSEM entrepreneurial governance model encompasses a “coalition” comprised of the Dean, senior administration and “ad hoc committees”, faculty and the Board of Trustees. This coalition is directed towards the accomplishment of the institutional mission through the operationalization of the strategy.

As an entrepreneurial organization, the central challenge for ZSEM was to identify and implement the structure and processes that would ensure effective coordination among all involved actors in the development, implementation and control of the strategy.

Within this structure, the roles of individual actors that enabled the development and implementation of the ZSEM strategic plan are:

- The Dean - initiated the strategic planning process
- The “Accreditation task force” – an ad hoc committee that developed and implemented the strategic plan
- The Board of Trustees – ratified the strategic plan and monitored its execution

ZSEM’s current Strategic plan covers the five-year period from 2012 to 2017. Planning activities commenced in 2008, which corresponded with the initiation of the international accreditation process. As such, the team most central in the strategic planning process was the “Accreditation task force”, which included representatives of all key stakeholders.

3.5.2.2. Selection criteria and diversity of the ZSEM team that developed and implemented the strategic plan

Team members responsible for developing and implementing the strategic plan were selected on the basis of their knowledge and expertise. Key selection criteria included knowledge about the operation and history of the school, a commitment to the vision and mission of the school, access to information and complementary skills. Team roles were not assigned and assessed during the selection process and demographic diversity was not among the criteria for selection. In the end, however, analysis has demonstrated that all team roles are represented within a demographically diverse team.

Apart from the managing director of ZSEM, who acted as team leader, the team members were: Maja Martinović, Vice Dean for Graduate studies; Karmela Aleksić Maslač, Vice Dean for the Undergraduate program and Director of Research; Edda Apfenthaler, Deputy Secretary for Administration; Petra Sušac, Administrative Head of Graduate studies; and faculty members Ivija Jelavić and Borna Jalšenjak. In addition, the Dean has acted as a sporadic team member, supervising the entire process and ratifying key decisions. The diverse know-how possessed by team members is presented in the following table:

Table 21: Know-how diversity of the “Accreditation task force”

Team member	Know how
Zoran Barac	Managing director of ZSEM, good acquaintance with the strategy of the school, experience in the corporate sector, experience with large-scale projects
Maja Martinović	Vice Dean for MBA programs, good understanding of the school’s teaching methods, familiarity with the resources of the school, experience in the corporate sector
Karmela Aleksić Maslač	Vice Dean for UG and Director of Research, good overview of the school’s teaching methods, knowledge of information technology and e-learning methods
Edda Apfenthaler	Deputy Secretary for Administration, good understanding of all administrative matters and service departments of the school
Petra Sušac	Administrative Head of Graduate Studies, involved in graduate admissions, very well acquainted with the curriculum and rules and regulations in graduate education at ZSEM
Ivija Jelavić	Faculty member, good understanding of teaching methods and approaches to the measurement of learning objectives
Borna Jalšenjak	Faculty member, good understanding of teaching methods and research strategies as well as the expectations of the school’s faculty

Source: Developed by the author

In order to conduct an assessment of team roles, the researcher asked all team members to provide a judgment about their own roles within the team and those adopted by their colleagues during the strategic planning process. The use of this approach in the present research is based on Margerison and McCann’s (1985) and Belbin’s (1993) theories of team roles. The results of this analysis indicate the number of “votes” received by each member on the basis of both self-assessment and the assessment of other team members.

Table 22: Team roles of the “Accreditation task force”

Margerison and McCann Role	Belbin equivalent	Description	Team member	Number of “votes”
Reporter-Adviser	Monitor-Evaluator	Likes to help others. Gathers information and makes it understandable. Listens patiently before deciding. Prefers to be slow and fully right rather than quick and mostly right.	Maja Martinović	4
Creator-Innovator	Plant	Likes independence to think and innovate. Not afraid to challenge norms. Good at starting new things.	Zoran Barac	5
Explorer-Promoter	Resource Investigator	Likes to connect with people outside the group as well as inside. Good at seeing the big picture. Good at creating enthusiasm for new ideas.	Maja Martinović	6
Assessor-Developer	Coordinator	Likes experimenting with new ideas. Good at evaluating different options. Good at organizing new activities.	Borna Jalšenjak	4
Thruster-Organizers	Shaper	Likes ‘making things happen’. Ready to add energy and turn an idea into action. May be impatient.	Zoran Barac	4
Concluder-Producer	Completer-Finisher	Likes completing things on time, on budget and to specification. Likes using well-developed skills. Good at methodical, careful work.	Petra Sušac	5
Controller-Inspector	Implementer	Likes working with detailed information. Good with facts and figures.	Edda Apfenthaler Karmela Aleksić-Maslač	4 4

Upholder-Maintainer	Team worker	Looks after the physical and social elements of the team. A great source of emotional strength for others on the team. May have strong views on how the team should be run.	Ivija Jelavić	3
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Source: Adapted from http://changingminds.org/explanations/preferences/margerison_mccann.htm

A review of the above table reveals that all roles are represented in the team and that some members, like Barac and Martinović, held multiple roles. As team leader, Barac held roles of Creator and Thruster-organizer. In other words, he has been recognized by his fellow team members as an initiator of new things and the person who monitored progress towards project milestones.

This assessment also indicates that Martinović held roles of Reporter-adviser and Explorer-promoter. Interestingly, Martinović had been the leader of an important committee that had overlapping composition with the “Accreditation task force” and, arguably, fulfilled her role in this team by connecting with people outside the team and distributing information in both directions.

Occasionally, ad-hoc working committees were formed on the basis of the identified roles of team members. For example, for the preparation of a detailed analysis of faculty qualifications, the roles of Concluder-producer (Sušac) and Controller-inspector (Apfenthaler and Aleksić-Maslač) were combined. By doing so, this team successfully completed an assignment that requires methodical work with detailed information. Similarly, for an assignment that required more diverse viewpoints, the complementary roles of Developer (Jalšenjak) and Controller-inspector (Aleksić-Maslač) were combined. In one particular instance, Aleksić-Maslač - Jalšenjak were paired in an assignment aimed at developing a multidisciplinary list of peer review journals that would be used as a benchmark list for the publishing activities of ZSEM faculty members.

3.5.2.3. Structure and working culture in the ZSEM strategic planning process

Strategic planning also involved all stakeholders and organizational members through regular faculty and board meetings, workshops and informal discussions. As such, the communication of information occurred on a continuous basis and was disseminated transparently throughout the organization. During both formal and

informal discussions, open and sometimes controversial debate was encouraged so that sensitive issues could be clarified and mutual understanding could be achieved. In her reflection on strategic planning activities and teamwork processes, Vice Dean Martinović stated: “We had constant meetings, discussing all the details. We did not avoid open and sometime controversial debates. Our tools were agendas, action plans, individual tasks and responsibilities, timelines, minutes of meetings. Gradually, we developed great personal relationships and become aware that controversial debates are an effective means for reaching important decisions”. Similarly, Ms. Apfenthaller added: “After a certain period, we got to know each other so well that we could know who is competent to accomplish a certain task based on her or his role on the team.”

3.5.2.4. Success measures in the ZSEM strategic planning process

In order to ensure measurable progress, the strategic plan also contained a number of performance measures. The key performance measures expressed in the ZSEM strategic plan are the “expected strategic outcomes” presented in the following table:

Table 23: Excerpt from the ZSEM strategic plan

A. Strong commitment to faculty development			
Strategic goal	ZSEM strategic action/plan	Expected strategic outcomes	Responsibility
Continuous investment in faculty development	Faculty management and support processes	Increasing the number of AQ faculty Maintaining the number of faculty with a PhD, MBA, MA, MSc.	Dean, Managing director
	Maintaining qualification ratios	Turnover rate	Dean, Managing director
Increase quality of research output	Continuous improvement of research activities	Increasing the number of papers published in PRJs in A1 and A categories	ZSEM Research Team

B. Dedication to quality			
Strategic goal	ZSEM strategic action/plan	Expected strategic outcomes	Responsibility
Increase levels of teaching and service quality	<p>Faculty participation in faculty development programs</p> <p>Faculty participation in mentorship programs</p>	<p>Maintaining the number of faculty attending programs</p> <p>Maintaining and increasing the level of student satisfaction</p>	Dean, Managing director
Achieve accreditations	<p>Achieving AACSB accreditation</p> <p>Achieving EQUIS accreditation</p> <p>Reaccreditation process by Croatian Agency for Science and Higher Education (ASHE)</p>	<p>AACSB accreditation</p> <p>EQUIS accreditation</p> <p>ASHE accreditation</p>	Dean, Director, ZSEM Accreditation Team

C. Focus on internationalization			
Strategic goal	ZSEM strategic action/plan	Expected strategic outcomes	Responsibility
Create an international context at ZSEM which will help our students better understand and adapt to the global business world	Maintaining ERASMUS programs Increasing internship programs abroad Maintaining relations with partner universities (active agreements) Increasing the number of MBA programs/courses in English Developing new relations with potential partner universities Education of faculty abroad Summer School organization Organization of International Day and Erasmus Week	Increasing the number of students Increasing the number of students conducting internships Increasing the number of students and faculty participating in international exchange programs Increasing the number of MBA programs/courses in English Increasing the number of new partner universities Increasing the number of faculty who study abroad Increase the number of students participating in summer school Increase the number of participating countries	Dean, Managing director

Source: ZSEM's Strategic plan (2012)

The expected strategic outcomes have been closely monitored and reported to all key stakeholders during meetings of the Board of Trustees and during faculty and administration meetings.

Eventually, the “ZSEM Accreditation task force”, drawing upon its’ diversity in knowledge, team roles and demographic features, developed an effective accreditation plan. At the end of 2013, this plan produced the following key strategic outcomes:

1. ZSEM developed a high quality faculty with targeted qualifications by the end of 2013.
2. ZSEM was granted AACSB International accreditation and became one of 70 business schools in Europe with such recognition.
3. ZSEM increased the enrolment of international students

Based on this analysis, the strategic dimension of the ZSEM “Entrepreneurial governance model” can be characterized by:

- The role of the Board of Trustees is focused on ratification of strategy only.
- An “Entrepreneurial core” that initiates and monitors the strategic planning process.
- The establishment of an ad-hoc committee (“Accreditation task force”) who adopted a major role in the Strategic planning process.
- A strategic planning process that included all stakeholders in the processes of development, implementation and monitoring of the strategy through both formal and informal meetings and interactions.

Another important finding to arise from this analysis was that a key element for effective strategy was the selection of an ad-hoc committee or the “Accreditation task force” and this committee’s ability to reach important decisions through open and sometimes controversial debates. The only major criterion for the selection of this team has been only the know-how diversity. Interestingly, however, the team exhibited both team-role and demographic diversity as well.

3.5.3. The integrated dimension of ZSEM’s governance

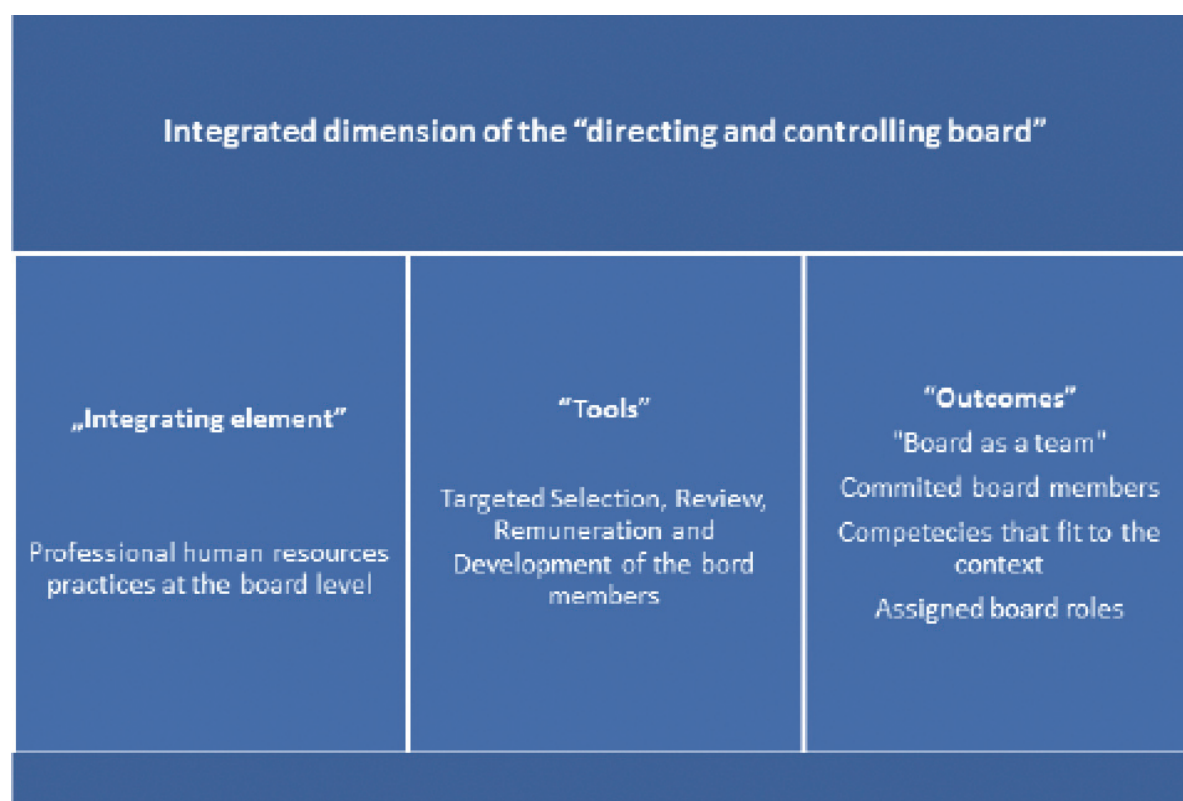
The integrated dimension of governance is based on resource dependence theory. According to this theory, effective governance depends on the resources of the involved actors and their ability to access resources from the external environment

(Hillman et al., 2000). Although individual resources such as human and social capital, access to external resources and institutional legitimacy might be present in an organization, the involved actors might lack the ability to mobilize these resources in the proper direction.

Hilb (2008) argues that, in order to ensure effective resource mobilization, actors should be selected, reviewed, remunerated and developed in an integrated and targeted manner appropriate to each particular context. In other words, professional human resource practices at the individual level act as the “integrating element” for the appropriate mobilization of actors’ resources are. With this suggestion, Hilb presumes a “direction and control” function of the board.

Therefore, the “cornerstone” of the integrated dimension in a “directing and controlling board” is the targeted selection, review, remuneration and development of board members, as presented in the following figure:

Figure 19: The integrated dimension of the “directing and controlling board”



Source: Developed by the author

The outcome of an integrated board management concept in a “directing and controlling board” is the creation of a board that functions as a team. Here, there is

no “free rider problem”, members are committed to their assigned board roles and competencies fit the given context.

However, in some cases,, boards might assume a “co-optative” function rather than a “direction and control” function. This is particularly true in contexts in which the institution is searching for legitimacy, as has been demonstrated in the case of the entrepreneurial model of ZSEM. In this type of entrepreneurial institution, high-ranked individuals with strong public reputation are co-opted into the governing boards (Pfeffer, 1974).

As such, the central element of the integrated dimension of the “co-optative board” is the “entrepreneurial leader”. The integrating role of the entrepreneurial leader is:

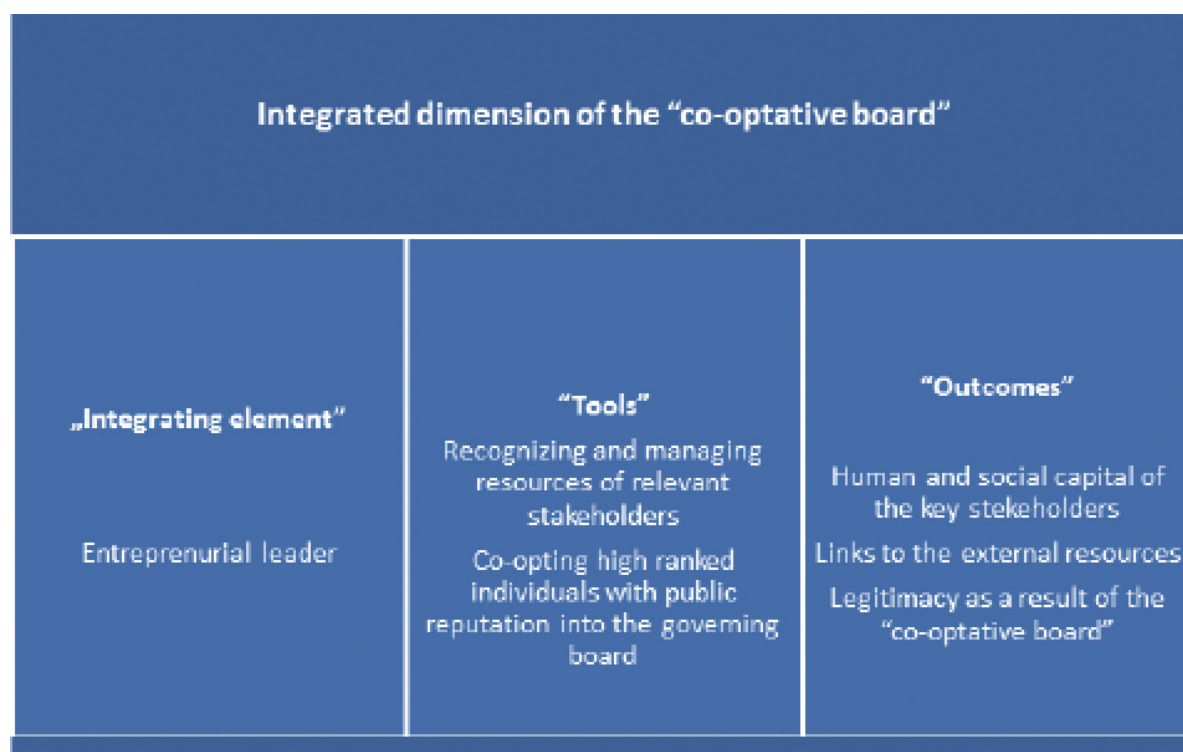
- to ensure that the resources of the involved actors are mobilized and directed towards activities that are valuable for the institution. This is achieved by recognizing and managing the resources of relevant stakeholders.
- to co-opt high ranked individuals with strong public reputation into the governing board.

The ZSEM’s dean recognized the faculty as a central stakeholder of the HEI arguing that: “[...] Firstly, you need the best faculty [...] then the best faculty attracts the best students [...] finally, the best students attract the best employers [...] this is the recipe for the best business school”. He argues that the key resources for ZSEM are the human and social capital of its faculty. For this reason, the mobilization and development of faculty is the major focus of his activities.

In an entrepreneurial institution, another important “tool” for accessing resources from the external environment is the co-optation of respected and well-established individuals into the board. “Co-optative” governing boards have a two-fold purpose. Firstly, they provide a link between the institution and external resources and stakeholders. Secondly, they serve as a source of institutional legitimacy.

The integrated dimension of the “co-optative” board is presented in the following figure:

Figure 20: Integrated dimension of the “co-optative” board



Source: Developed by the author

When exhibiting this type of board function, the process of sourcing, mobilizing and directing ZSEM’s resources included:

- Developing and directing the human and social capital of the ZSEM faculty
- Co-opting high ranked individuals into the governing boards

During these processes, the “integrating element” or facilitator role was adopted by the entrepreneurial Dean, acting as a “central connector” and “boundary spanner” of the distributed network of involved actors.

3.5.3.1. The entrepreneurial Dean as an “integrating element” for the mobilization of ZSEM’s resources

In general, HEIs are organizations with public influence and purposes, which makes them open systems without any clear boundaries with the environment (Bryson et al., 2001). As open systems (Katz & Kahn, 1978; Scott, 1987), HEIs have to exchange resources with their environment and are strongly affected by networks of stakeholders (Hill & Jones, 1992). Thus, stakeholder resources become essential for

their development (Bryson et al., 2001).

This was recognized by the founding Dean, who positioned himself as a governing stakeholder with the power to influence organizational behavior by moderating the flow of resources and information across the network (Pajunen, 2006). His central position within the network enabled him to work as an “informal consultant” to the involved actors and, as such, to mobilize stakeholders’ resources for the purpose of achieving organizational objectives. For example, when the school was established, the initial faculty members were predominantly recruited from the Dean’s social network as former students or as associates of his publishing house.

As a “boundary spanner”, the Dean also develops links with external stakeholders, ensures that “information flows” from the environment and obtains feedback in order to improve the competitive position of the organization (Ansett, 2005; Cross & Prusak, 2002; Cross et al., 2007). To do so, the Dean makes use of his many formal roles outside of the organization, such as Vice-president of the Croatian Council of Universities and University Colleges of Applied Sciences and member of AACSB’s (Association to Advance Collegiate Schools of Business) European Advisory Council. As the “boundary spanner”, the Dean is also a critical resource for the organization in which a key strategic objective is internationalization. In order to achieve this objective, the Dean’s role is essential in channeling flows of information and resources between the organization and partner institutions worldwide which, in turn, helps build relationships with key stakeholders outside the country. As a result, the Dean facilitates innovations in educational programs and institutional strategy (Ansett, 2005) and contributes to the competitiveness of the institution.

Finally, as a “central connector” and “boundary spanner”, the Dean is an “integrating element” in the mobilization and direction of actor resources such as the social and human capital of ZSEM’s faculty. Furthermore, he has access to external stakeholders, providing legitimacy by co-opting high ranked individuals with strong public reputation into the governing board.

3.5.3.2. Development and direction of the human and social capital of ZSEM’s faculty

The faculty has long been recognized as a key resource for ZSEM. The following text will describe the manner in which the faculty at ZSEM has been:

- selected,
- reviewed,
- remunerated and
- developed.

3.5.3.2.1. Selection of ZSEM’s faculty

A detailed account of the re-emerging process for the selection of ZSEM faculty is provided in the SER (2012, p. 49), according to which: “[...] the management of ZSEM is continuously engaged in the search for new faculty, preferably holding a PhD, but also other professionally qualified faculty from top positions in the corporate sector [...] opportunities have been given to top graduating ZSEM students and alumni to develop themselves as faculty members, starting as academic assistants, and continuing to become full-time academically qualified faculty members [...]. With respect to the faculty with professional backgrounds, the recruitment policy is to find people with the best professional qualifications to teach those courses requiring hands-on experience and practical knowledge. Typically, this consists of hiring faculty with relevant and significant managerial experience.” Therefore, as a predominantly teaching and vocationally oriented institution, ZSEM has a continuous selection process which aims to balance the academic and professional competences of faculty members.

3.5.3.2.2. Review and remuneration of ZSEM’s faculty

At ZSEM, the main tool in the faculty review process is the Faculty Development Plan. The purpose of this plan is to keep track of the qualifications, level of academic appointments, and production of intellectual contributions (for one year and 5 year periods) for each faculty member. This plan is communicated to all faculty members by departmental heads at departmental meetings and is a central “tool” for the management of faculty performance. In general, the ZSEM faculty is rewarded on the basis of (SER, p. 52):

- Level of academic appointment (Lecturer, Senior lecturer, Professor)
- Number of direct contact teaching hours
- Intensity of research activity
- Commitment to service

Every faculty member is assessed individually, firstly by the Head of the relevant Department and finally by the Dean.

3.5.3.2.3. Development of ZSEM’s faculty

At ZSEM, the process of developing and directing the human and social capital of the faculty encompasses (SER, p. 50-51):

- Developing an individual career plan.
- Determining individual expectations regarding teaching, research and other professional engagements of the faculty.
- Assurance of administrative support to the faculty.
- Providing orientation, guidance and mentoring.

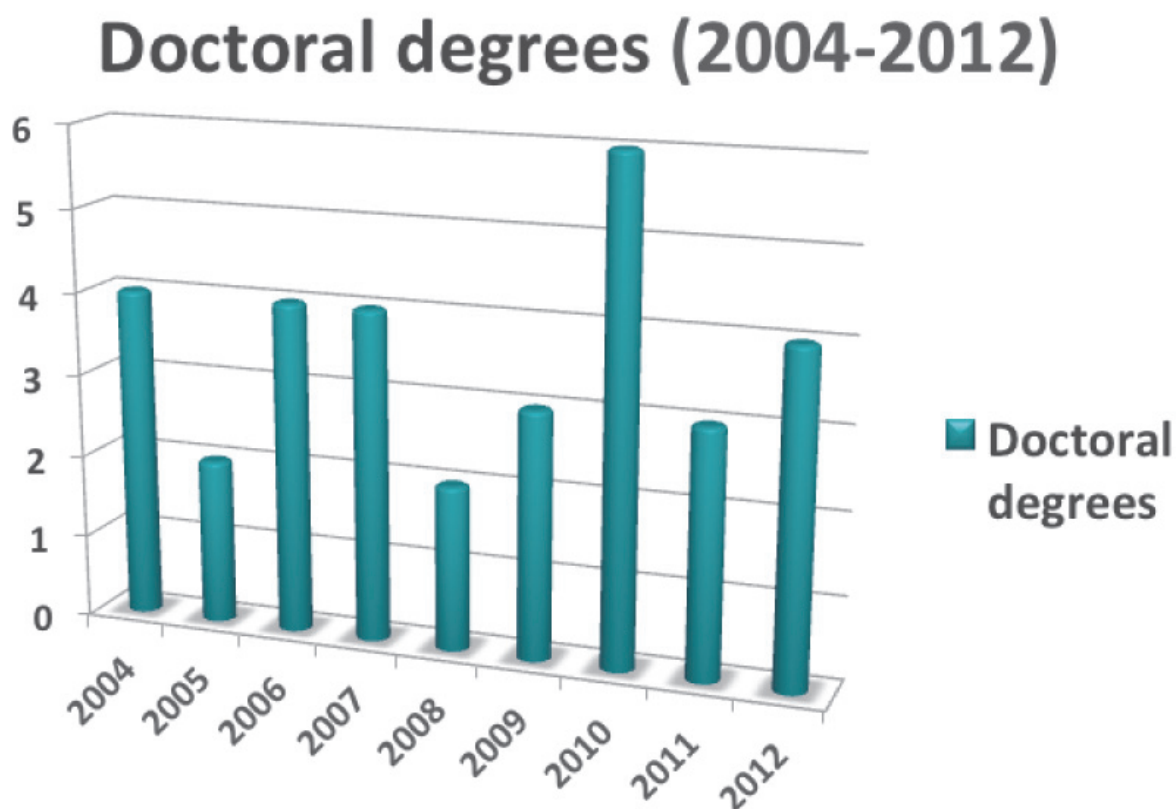
Table 24: Development of ZSEM’s faculty

Activity	Description
Developing an individual career progression plan	ZSEM has developed an individual career progression plan for every faculty member. The plan encompasses detailed expectations of intellectual contributions necessary for appointments and reappointments in each teaching position (lecturer, senior lecturer, and professor).
Determining individual expectations regarding teaching, research and other professional engagements of the faculty	Faculty performance expectations include the following: <ul style="list-style-type: none"> ▪ Teaching and advising; final paper and/or graduation thesis mentoring ▪ Research and scholarly work ▪ School-administered, consultative, and organized activities, both within ZSEM and outside the School (when such activities, based on a mutual contract, bring benefit to the School).
Assurance of administrative support to the faculty	One important mechanism for faculty support is the work of academic assistants. The role of academic assistants is to help faculty members in preparing study materials such as handouts, case studies, presentations etc. Assistants also have a supporting role during various exercises and seminars for students.
Providing orientation, guidance and mentoring	At ZSEM, faculty orientation includes preparation for teaching, research, and service. New faculty members are introduced to the “academic life” of ZSEM through a presentation of the expectations ZSEM has for teaching, research, and service. Teaching is the most important activity for young faculty and consumes most of their time and energy. The production of intellectual contributions is also considered essential for the success of all faculty. Finally, young faculty members are involved in various committees at ZSEM and are encouraged to actively participate in decision making.

Source: Adapted from ZSEM’s Self Evaluation Report (2012)

Through the above-described activities, faculty development at ZSEM supported the successful completion of a doctoral degree by a number of faculty members. The number of doctoral degrees acquired by ZSEM faculty members in the period from 2004 to 2012 is presented in the following figure:

Figure 21: Development of ZSEM’s faculty



Source: ZSEM Accreditation team (2013, March)

3.5.3.3. Co-opting high ranked individuals into the governing boards

Members of “co-optative” governing boards link the institution with external resources and stakeholders. They also serve as a source of institutional legitimacy. While legitimacy is the result of general public perception, there should also be a general consensus within an institution about desirable and appropriate actions and reputation as well as about the norms and values to which board members are aligned (Suchman, 1995, p. 574). When the actions and reputation of board members fit with desirable norms and values, the institution gains legitimacy. As such, institutions actively adapt to their environment with the “co-optative function” of the board

(Pfeffer, 1975, p. 219). Pfeffer (1975) demonstrated that, in the absence of such an approach, an unfavorable perspective for the organization might result. In another study, Pfeffer and Salancik (1978) also demonstrated how the American Institute for Foreign Study gained legitimacy and support from the educational establishment by co-opting high ranked educational leaders into their Advisory board. In the ZSEM case, the Board of Trustees and the Advisory Board similarly serve as a source of legitimacy. ZSEM's Board of Trustees, whose president is a full member of the Croatian Academy of Sciences and Arts and whose vice-president is the Dean of the Faculty of Philosophy Society of Jesus⁴², creates prospects for endorsement from key external stakeholders. Key external stakeholders have also been managed through ZSEM's Advisory Board. This Advisory Board consists of 26 members who are all respected and well-established individuals from the Croatian business community. In addition, the school invites many managers and business people from the corporate sector to be involved at ZSEM either as faculty or guest lecturers. ZSEM alumni and corporate stakeholders are also included in the development of the curriculum. Together, these policies have resulted in better employment possibilities for ZSEM alumni.

3.5.4. The controlling dimension of ZSEM's governance

Hilb's (2008) controlling dimension refers to the strategic control and risk management roles within an organization. Using the theoretical lenses of agency and stakeholder theories, Hilb emphasizes a “holistic monitoring of results” from the perspectives of all involved actors, arguing that strategic control and risk management should be performed at the board level.

However, in ZSEM's constellation of actors, where the entrepreneurial Dean is a governing stakeholder and the Board of Trustees provide legitimacy and act as a “Council of Wise Men”, the roles of risk management and strategic control have been fully taken over by management.

Historically, performance measurement and control have not been regular practices in HEIs. Indeed, within the HEI context, it is often not easy to define the “results” that should be monitored because there are “no specific goals toward which progress could be measured” (Smith, 1992, p.3). It is important to point out, however, that this argument was made during a period when sufficient public financing was available

42 Since the establishment of the school, the Croatian Province of the Society of Jesus and its' Faculty of Philosophy have been renting all necessary teaching, library and office facilities to ZSEM.

for the operation of public HEIs (Smith, 1992). In the current context of scarce financial resources, financial goals and performance are becoming increasingly important.

3.5.4.1. ZSEM’s risk management process

As a private institution relying on tuition fees as its sole funding source, the management at ZSEM is continuously involved in emergent risk management activities and continuously assessing the situation in the global higher education environment.

In recent history, the higher education market has been changing. It has become a global market, a situation true for business schools in particular, which represent the fastest growing segment of the higher education arena. According to Mochel (2014), there are more than 15,700 higher education institutions offering programs in business and management worldwide. The distribution of business schools by region is presented in the following table:

Table 25: Distribution of business schools by region

Region	Estimated Number of Schools Offering Business Programs
Africa	843
Eastern, South-Eastern, and Southern Asia	7,864
Central and Western Asia	602
Europe	2,462
Latin America and the Caribbean	2,125
Northern America	1,730
Oceania	98
Global	15,724

Source: Mochel (2014)

These data demonstrate that global competition is intensifying, especially in Europe where there exists the highest “density” of business schools per unit area. In fact, although it is the second smallest territory (after Oceania), Europe has a far greater number of business schools than any other region (except Asia). Arguably, this suggests that the long-term survival of European business schools depends on their ability to be recognized and distinguish themselves in the European and global environments.

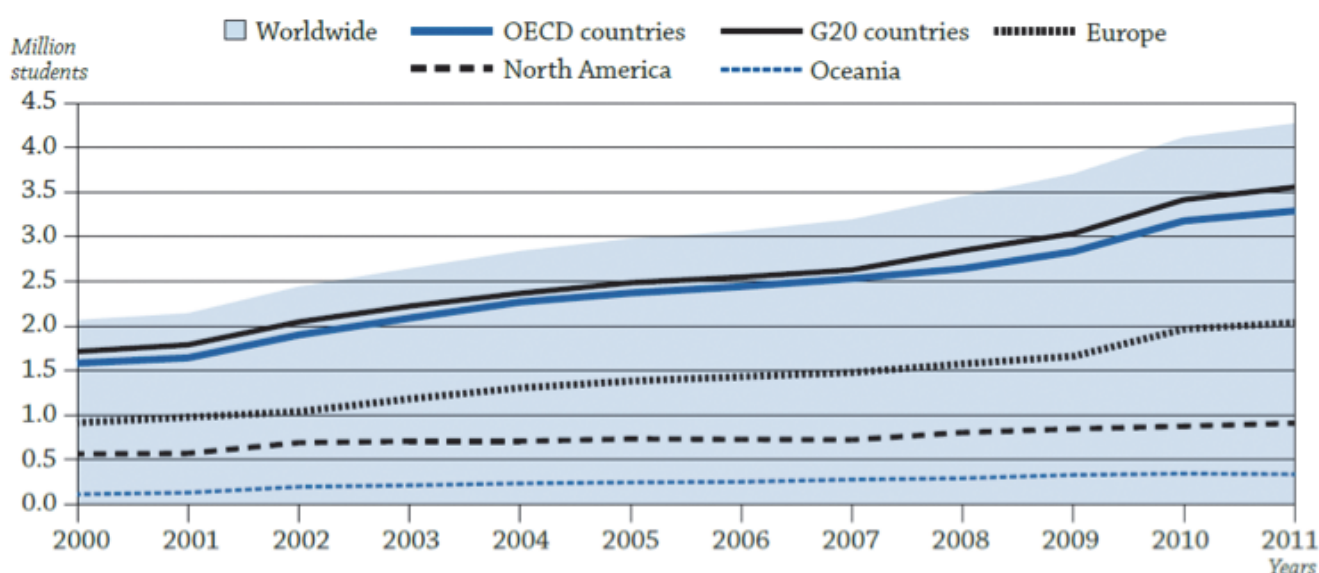
The two key trends determining the future of business education are global demographic development, which leads to increased global mobility of students, and a declining amount of public funding per student.

During the period from 2012 to 2017, it is expected that the global education sector will continue to grow at an annual rate of 8% as a result of demographic changes and rising disposable income in developing countries (GSV EDU, 2012, p.1).

One of the key trends in higher education is the development of an international market. Data indicate that, in the period from 1975 to 2011, the number of international students increased from 0.8 million in 1975 to 4.3 million in 2011 (OECD, 2013).

The following figure shows the growth of international students within the world’s geopolitical regions:

Figure 22: The growth of international students within world geopolitical regions



Source: OECD, 2013

Another global change that can be identified in the higher education arena is the reduction of public funding per student. In the five-year period between 2008 and

2012, the United States reduced public funding per student by 28%. According to the latest data, public financing of American state universities account for 50% of total funding. However, to offset the decline in public funding, there has been a visible increase in funding through scholarships. As such, income from tuition fees accounted for 47% of the total financing of American higher education in 2012, an increase of more than six percentage points compared to the previous year (State Higher Education Executive Officers’ Association, 2014).

The reduction of public funding to higher education is particularly evident in Europe. The following table presents the changes observed in public HE financing in various European countries between 2008 and 2012:

Table 26: Evolution of public HE financing in European countries

Evolution from 2008 to 2012 (inflation adjusted)	Countries
10% increase or greater	Denmark, Norway, Sweden
Between 5% and 10% increase	Austria, Belgium
Between 1% and 5% increase	France, Netherlands
Stable (from -1% to +1%)	
Between 1% and 5% decrease	Croatia, Poland
Between 5% and 10% decrease	Portugal, Slovakia
Decrease of more than 10%	Czech Republic, Spain, Greece, Hungary, Ireland, Island, Italy, Lithuania, UK

Source: EUA’s Public Funding Observatory (Spring 2013, p. 5)

Evident in the table above is that, in most of the countries presented, there was a decrease in public funding. Of all twenty countries, nine fall in the group exhibiting reduced public funding of more than 10 percent in the examined period.

The consequence of this decline in public funding for HEIs and the negative demographic trends in developed countries is that most business schools are competing for a growing number of international students.

At ZSEM, this assessment of the global higher education market has been the basis for strategy formulation and for defining key strategic outcomes.

3.5.4.2. ZSEM’s strategic control system – “mission outcomes” as performance metrics

Accordingly, the strategic objective of ZSEM has been to become recognized for its continuously improving high quality programs in both regional and European higher education markets.

As a nonprofit organization, ZSEM does not aim to maximize profit. Instead, it is focused on the measurement of “mission outcomes” as performance metrics. These mission outcomes, in turn, ensure the long term financial sustainability of the school. The mission of ZSEM is “to transfer values, knowledge, and skills that students need for long-term success in a globalized business world undergoing constant technological and market transformations”.

The achievement of this mission is measured through the monitoring of the following “mission outcomes”, which themselves stem from the mission:

- Strategic management outcomes
- Faculty and Student outcomes
- Program outcomes

3.5.4.3. Strategic management outcomes

At the strategic management level, the expected outcomes are related to faculty development, quality improvement, internationalization and links with the business community. Stemming from the mission statement, the expected strategic management outcomes have been defined by ZSEM’s management and ratified by the Board of Trustees.

3.5.4.4. Faculty and student outcomes

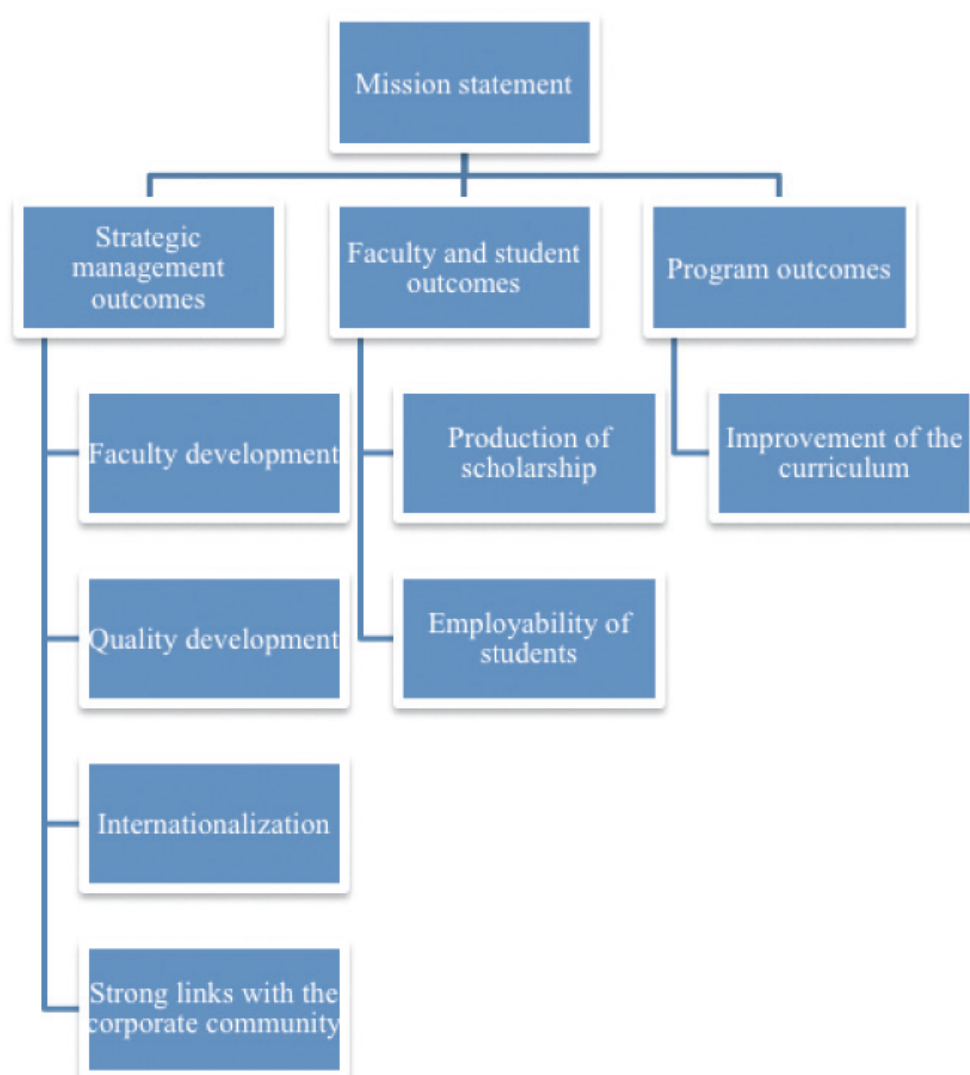
The outcomes expected for faculty and students are the production of high quality research by the faculty and the employability of students. Faculty expectations are defined in the Faculty development plan and manifested in the intellectual contributions of faculty members. The employability of students has been measured within the school’s career center.

3.5.4.5. Program outcomes

The expected program outcomes encompass continuous improvement to the

curriculum, as measured through an assessment of the learning objectives. Specifically, student goals and objectives have been measured in order to obtain learning outcomes. These learning outcomes are, in turn, embedded in the new syllabus and improved curriculum. This integrated framework of mission outcomes is presented in the following figure:

Figure 23: ZSEM’s integrated system of strategic control



Source: Developed by the author

The central challenge for ZSEM has been to involve all stakeholder groups in the process of defining and achieving the mission outcomes. In doing so, ZSEM has established an integrated framework in which all stakeholders participate in the process of directing and controlling the mission outcomes.

This framework clearly defines the relationship between all stakeholders (i.e. administration, faculty and students) and ensures that the defined goals are measurable and controllable through the monitoring of mission outcomes.

This approach integrates the Mission statement with strategic outcomes, faculty goals and student learning goals and objectives and places the faculty at the center of the process of strategic control. In this framework, the greatest challenge is to create a “directional” mission, where a directional mission is one that can be utilized as a decision making guideline across the organization. In addition, it is important that the process of mission formulation takes into account the viewpoints of all stakeholders. As a result, this process of strategic control includes the perspectives of all involved actors.

3.5.4.6. Communication policies

In this process, the school’s management and administrators act as facilitators of mission production and dissemination. In addition, the central task of management is to assure the necessary conditions for the alignment of expected mission outcomes with the mission. For example, the personal objectives and goals of faculty should be derived from the mission in order to mobilize faculty members towards the achievement of the mission outcome.

In this sense, communication policies are of utmost importance for the operationalization of ZSEM’s system of strategic control.

The SER (2002, p. 8) outlines the manner in which the mission and the expected mission outcomes have been communicated: “The School’s mission is communicated through the syllabi of all undergraduate and graduate courses. Posters communicating the mission have also been placed in all classrooms. All School employees (staff and faculty) have added the School’s mission to their e-mail signatures. It is also reflected on the promotional materials of the School, its official web site, published articles and other official materials of the School”. In addition, the expected mission outcomes have been communicated at:

- Meetings of the ad hoc committees, such as the “Accreditation task force” or the “AOL team⁴³”. At “Accreditation task force” and “AOL team”

43 The AOL team (Assurance of Learning team) is made up of supervisors and coordinators of the assessment of student learning goals and objectives. In every department, there is a faculty member (AOL supervisor) in charge of the AOL process. Their duties include controlling the implementation of AOL measurements outlined in the AOL plans and controlling the changes

meetings, most of the expected outcomes have been defined

- Faculty Board meetings. During these meetings, faculty members across departments are consulted and acquainted with the expected outcomes.
- Board of Trustees meetings – the Board of Trustees formally approved the expected strategic outcomes. In addition, the realization of “expected mission outcomes” has been reported to the Board.

Based on the discussion above, it is evident that communication policies have been utilized as an important “tool” for the mobilization of all relevant stakeholder groups in the process of defining and achieving the mission outcomes.

3.6. Specific Empirical Section Conclusion

The objectives of the Empirical part of this dissertation were to study the entrepreneurial governance model of ZSEM and to provide recommendations regarding the necessary elements for an appropriate governance model for the next developmental phase of the school.

As a participant-observer in this study, the researcher applied a constructivist paradigm and a case study strategy in which research outcomes were “constructed” during the research process and new knowledge was “co-produced” during interaction with the empirical participants.

Because one of the empirical objectives was to solve a real life problem, ZSEM was selected as the research object in order to achieve a “better understanding of the particular case” (Stake, 2005, p. 445) and to create the potential for improvements in governance. For the researcher, as participant-observer, the decision to study the governance model at ZSEM was also one of convenience, where sources of evidence were readily available.

Various data sources, including document analysis, participant-observation and semi-structured interviews, together with the application of the meta-theoretical framework of “New corporate governance”, enabled the triangulation of data sources as well as theoretical triangulation. Together, these methodological strategies

implemented in the program based on the results of measurement. AOL coordinators are academic assistants tasked with delivering the AOL plans to faculty members in charge of measurement, helping with the measurement process itself and informing the AOL supervisor and AOL team about the progress of measurement.

contributed to the credibility and validity of the research findings.

The meta-theoretical framework of “New corporate governance” directed the literature review, research questions and empirical analysis. As such, the empirical case has been analyzed by comparing the applied theoretical framework with the observed empirical data.

Using the theoretical framework of “New corporate governance”, a model for the origination of governance approaches was developed and subsequently applied as a “map” that directed the reporting of empirical findings as well as the construction of conclusions and recommendations for the future development of the governance approach.

Using this model, it has been possible to identify the institutional and contingency forces that shaped ZSEM’s entrepreneurial governance model. In addition, the strategic, integrated and controlling dimensions of the entrepreneurial governance model have been analyzed.

Finally, the analysis of the empirical results enabled a comparison of the dimensions of the entrepreneurial governance model with the dimensions of a “matured” or theoretical governance model.

3.6.1. Overview of the empirical results

The proposed model for the origination of governance approaches outlines the institutional and contingency forces to which institutional governance has to adapt in order to sustain itself in the given context. Institutional forces include “hard” and “soft” norms, the social economic environment and culture and traditions. Conversely, the contingency forces that have been utilized for the model are ownership, organizational complexity and the method of selecting HEI leaders. According to the model, institutional and contingency forces impact the constellations and modes of interaction of involved actors that, in turn, result in a particular governance approach. Following an examination of the institutional and contingency forces that have influenced ZSEM’s operations, the findings can be summarized as the following:

1. ZSEM is “resilient” to changes to hard norms. For example, the governance approach remained stable despite the fact that legislation relating to institutional governance had been changed.
2. A distinction can be made between formal and “shadow” governance at ZSEM. More specifically, the formal Board of Trustee’s acts as a “Council of Wise Men” while the key governing actor is the entrepreneurial Dean.
3. “Soft norms” have been utilized as a source of legitimacy. For HEIs,

legitimacy generates support and, in turn, a greater ability to survive. As such, ZSEM enthusiastically adapted to the international standards that offered increased legitimacy to the school.

4. The social economic context has played a key role in the formation of the entrepreneurial governance model at ZSEM. Specifically, the slow pace with which public institutions adapted to the new context of a transitional economy and free market system created an opportunity for the founding Dean to establish a new entrepreneurial institution.
5. The analysis of this case has demonstrated that the cultural context, characterized by dimensions of collectivism, high uncertainty avoidance and femininity, has not been an obstacle for the development of the entrepreneurial model. Instead, other cultural features (such as high power distance) have supported entrepreneurial activities (Shinnar et al., 2012). Furthermore, the Croatian culture tends to be pragmatic, meaning that Croatians are ready to adjust to a changing context and therefore might more readily adopt an entrepreneurial culture.
6. Private ownership has been an important determinant of the entrepreneurial model. As a private institution, ZSEM's funding base comes exclusively from the market. This funding approach created an awareness among the involved actors of the competitiveness of the environment and the school's dependency on the market. In addition, the school's relationship with the faculty became a flexible and performance driven one in which agreements between the faculty and the institution possessed an entrepreneurial and cooperative nature. Therefore, actors have been united in their focus on organizational sustainability and the institutional mission. Here, the institutional mission is that which directs the involved actors in the decision making process and subsequently ensures the long term sustainability of the institution.
7. The low organizational complexity of ZSEM also supported the entrepreneurial model. As an institution of small size in an early phase of development, ZSEM can afford the blurred roles and responsibilities of the board, informal board practices and a contingent strategic planning process.
8. The method for the selection of leaders at ZSEM ensured the stability its leadership. This, in turn, enabled the development of a “mission based culture” that influenced the formulation and execution of the long-term strategies and, finally, the achievement of key organizational objectives.
9. Within the entrepreneurial governance model at ZSEM, the principal constellation of actors consists of a “coalition” between the Dean and senior

administration and a number of “ad hoc committees”, the faculty and the Board of Trustees. Within this constellation, the founding Dean dominates and creates the “entrepreneurial core” made up of senior administrators and ad-hoc committees. Such a constellation requires the leader to be both a “central connector” and “boundary spanner”, continuously managing stakeholders and communicating strategy, gathering information from the external environment and obtaining feedback in order to improve the competitive position of the organization (Ansett, 2005). In order to avoid “unilateral action” and the subsequent negligence of relevant stakeholder interests, it is necessary for the leader to recognize and manage stakeholders while identifying their order of relevancy. At ZSEM, the founding Dean recognized the faculty as a central stakeholder and, as such, introduced the institutional mission as a governance instrument.

An examination of the strategic, integrated and controlling dimensions of the ZSEM entrepreneurial governance model produced the following findings:

1. Strategic dimension

Within the entrepreneurial model, the development, implementation and control of strategy was conducted from the “entrepreneurial core”. While the Board of Trustees ratified the strategic plan, strategic activities were predominantly performed by an ad-hoc committee called the “Accreditation task force”. The strategic role at ZSEM was carried out as follows:

- The Dean initiated the strategic planning process
- The “Accreditation task force”, an ad hoc committee, developed and implemented the strategic plan
- The Board of Trustees ratified the strategic plan and monitored its execution

The analysis carried out as part of this study also demonstrated that the diverse composition of the “Accreditation task force”, based on team role, demographic and know-how diversity, resulted in the successful fulfillment of its strategic role. The team also managed to hold open and, at times, controversial debates, which further served to prevent ineffective decision making.

Various tools and procedures were used during the strategic planning process, including agendas, action plans, individual tasks and responsibilities, timelines and meeting minutes.

Finally, in order to ensure measurable progress, the team developed and implemented “expected strategic outcomes” as performance measures.

2. Integrated dimension

In the entrepreneurial model at ZSEM, the “integrating element” in the mobilization of actors’ resources is the founding Dean. The discussion in the previous section demonstrated that he has acted as both a “central connector” and “boundary spanner” of the distributed network of involved actors. This position enabled the Dean to mobilize and coordinate the resources of ZSEM actors, including the social and human capital of the faculty and access to external stakeholders. In addition, he managed to “co-opt” high ranked individuals with strong public reputation into the governing board, which gave additional legitimacy to the school.

3. Controlling dimension

At ZSEM, strategic control and risk management have been conducted entirely by the “entrepreneurial core”. However, by applying a “mission based model” and using “mission outcomes” as performance metrics, this core also managed to involve all key stakeholders in the strategic control process. To do so, ZSEM established an integrated framework by including all stakeholders in the direction and control of mission outcomes.

Firstly, all key stakeholders were involved in the formulation of the mission statement.

From this mission statement, the “expected strategic outcomes” were defined by ZSEM management and ratified by the Board of Trustees.

Furthermore, the mission statement has also been used for defining the personal goals of faculty members and student learning goals. This framework clearly defines the relationship between stakeholders (i.e. administration, faculty and students) and enables the development of measurable goals, thus creating the possibility for the monitoring of mission outcomes.

The findings presented above enable analysis of the process through which the entrepreneurial governance model might evolve towards a more “mature” governance model within each of the four dimensions:

Table 27: Evolution of the governance model

Dimension	Entrepreneurial governance model	“Mature” governance model
Situational	Context characterized by: Unstable regulatory environment Changing social economic environment Identifiable ownership Tuition fees as the sole funding source Independence and autonomy of the institution Smaller size and early stage of development Stability of leadership (appointed leadership) Dominance of the “entrepreneurial core” within the actors’ constellation	Context characterized by: Stable regulatory environment Stable social economic environment Dispersed or non-identifiable ownership Obtaining various sources of financing Lack of autonomy of the institution Larger size and mature stage of development Elected leadership Dominance of the Board of Trustees within the actors’ constellation
Strategic	Strategic role is conducted from an “entrepreneurial core” consisting of senior administrators and ad-hoc committees. Governing board’s role is focused on ratification of strategy rather than on participation in the strategic planning process.	Transfer of the strategic role to the Board of Trustees. Emphasis on a process of board member selection based on the know-how, demographic and team role diversity. Implementation of a “culture of constructive criticism and trust” among board members achieved through “networked structures and processes”. Introduction of performance metrics from the board level.
Integrated	Institutional leader as the “integrating element” in the mobilization of actors’ resources. “Co-optative” board as a “tool” for linking the institution with external resources and stakeholders and a source of institutional legitimacy.	The “integrating element” in the appropriate mobilization of actors’ resources are professional human resource practices at the level of individual board members.
Controlling	Strategic control and risk management is conducted from the “entrepreneurial core”.	“Holistic monitoring of results” from the perspectives of all involved actors at the board level.

Source: Developed by the author

This table presents the potential evolution of the entrepreneurial governance model towards a more mature governance model.

The entrepreneurial governance model is appropriate for private and independent HEIs operating in a context characterized by changing regulatory and social economic environments and where tuition fees are the only funding source. Under these conditions, it is possible for an institution in an early phase of development and with stable and long tenured leadership to establish an “entrepreneurial core” to direct and control the institution.

However, the biggest challenge for such an institution is succession planning of the entrepreneurial leader.

Therefore, for the long term sustainability of this type of institution, it is necessary that key stakeholders recognize and respond to the changing context by replacing the entrepreneurial leader with a new leader that possesses the same personal features or by changing its governance approach, evolving towards a new governance model with a more active Board of Trustees.

This form of evolution in governance approach implies:

1. Within the Situational dimension - Identification of the new context or the changes in institutional and contingency forces that determine a particular context. For example, a change in entrepreneurial leadership might be a critical element of the new context.
2. Within the Strategic dimension - Transfer of the strategic role to the Board of Trustees. Emphasis on the selection of board members based on know-how, demographic and team role diversity. Implementation of a “culture of constructive criticism and trust” among board members, achieved through “networked structures and processes”.
3. Within the Integrated dimension – Shift from a “co-optative” board to a “directing and controlling” board. Adoption of professional human resource practices at the level of individual board members that, in turn, become an “integrating element” for the mobilization of actor resources.
4. Within the Controlling dimension – Shift from centralized entrepreneurial control to an approach emphasizing the “holistic monitoring of results” from the perspectives of all involved actors at the board level.

4. Concluding Section

This study was conducted to understand the manner in which different HEI governance approaches originate and to identify the main features of these approaches. Governance approaches of higher education institutions differ depending on various contextual forces. These forces might include “hard” or “soft” norms, the social economic environment, culture and traditions, ownership, organizational complexity and the selection method of leaders. As a result of these contextual forces, various governance approaches have originated in the higher education arena. The governance approaches recognized in the literature include collegial, bureaucratic, professional or corporate (McNay, 1995; Middlehurst, 2004), entrepreneurial (Clark, 1998; Gibb et al., 2009), political (Baldrige, 1971; Birnbaum, 1988; de Groof et al., 1998) and cybernetic (Birnbaum, 1988) models. The entrepreneurial model was the focus of this dissertation because the researcher, as a participant – observer, had the opportunity and convenience to explore this model. In an empirical case study, the entrepreneurial governance model of a business school was studied through the multi-theoretical lenses of Hilb’s (2005; 2008; 2012) “New corporate governance” framework.

In Hilb’s approach, governance is considered through four dimensions:

- Situational – meaning that each context requires a different approach. As such, board members should recognize this contextual specificity and act as change agents.
- Strategic – emphasizing the often neglected strategic direction of the institution from the board level.
- Integrated – encompassing the necessary tools for the integration of the board as a team.
- Controlling – emphasizing the monitoring function of the board

Hilb’s framework is a normative approach in that it provides guidelines for how boards should behave. It is also meta-theory, where each of the above dimensions is based on several underlying theories:

- The Situational dimension is based on Institutional and contingency theories
- The Strategic dimension is based on Stewardship and Role theories
- The Integrated dimension is based on Resource dependence theory
- The Controlling dimension is based on Agency and Stakeholder theory

Hilb's (2008) theoretical framework provided an explanatory framework for studying the empirical case of the Zagreb School of Economics and Management, a private business school in Croatia.

In the empirical part of this thesis, the objectives were to examine the institutional and contingency variables that shaped the entrepreneurial governance model of the studied business school as well as the features of this governance model. A second objective was aimed at solving a real life problem by providing recommendations for the necessary elements of an appropriate governance model for the next developmental phase of the studied school.

For the identification of the institutional and contingency variables that influenced and shaped ZSEM's governance approach, “the theoretical model of origination of governance approaches” was used (Figure 1: Origination of HEI governance models, p. 46).

The existing literature has demonstrated that a number of institutional and contingency forces, such as “hard” and “soft” norms, the social economic environment, culture and traditions, ownership, organizational complexity and the method for the selection of leaders, impact the behavior of involved actors and, in turn, shape the governance model of a given institution. An examination of the institutional and contingency forces that impacted ZSEM's operations produced the following findings:

1. ZSEM is “resilient” to changes to hard norms. For example, the governance approach remained stable despite the fact that legislation relating to institutional governance has been changed.
2. At ZSEM, there is a distinction between formal and “shadow” governance, where the formal Board of trustee's provides institutional legitimacy by acting as a “Council of Wise Men” while the key governing actor is the entrepreneurial Dean.
3. At ZSEM, “soft norms” have been utilized as a source of legitimacy. Since HEI legitimacy generally leads to support and an ability to survive, ZSEM enthusiastically aligned itself to the international standards that brought such legitimacy.
4. The social economic context has played a key role in the formation of the entrepreneurial governance model at ZSEM. Namely, the slow adaptation of public institutions to the new context of a transitional economy and free market system created an opportunity for the founding Dean to establish a new entrepreneurial institution.
5. This study has also demonstrated that a local culture characterized by dimensions of collectivism, high uncertainty avoidance and femininity has

not been an obstacle for the development of an entrepreneurial model at ZSEM. Instead, certain aspects of the cultural context, such as a high power distance, have supported entrepreneurial activities (Shinnar et al., 2012). In addition, Croatian culture tends to be highly pragmatic, where Croatians are ready to adapt to changing contexts. This, in turn, might also support an entrepreneurial ethos.

6. Furthermore, private ownership has been one of the important determinants of the entrepreneurial model at ZSEM. As a private institution, ZSEM's funding base comes exclusively from the market. This funding approach created an awareness among involved actors of the competitive environment and market dependency. In addition, the school's relationship with faculty became flexible and performance driven and agreements between the faculty and the institution have an entrepreneurial cooperation. Therefore, actors have been homogenized and mobilized around organizational sustainability and the institutional mission. Here, the institutional mission is what directs the involved actors in the decision making process and subsequently ensures the long term sustainability of the institution.
7. A low level of organizational complexity at ZSEM also supported the entrepreneurial model. As an institution of small size and in an early phase of development, ZSEM can afford blurred roles and responsibilities on the board, informal board practices and a contingent strategic planning process.
8. The method for selecting leaders ensured the overall stability of ZSEM's leadership. This, in turn, enabled the development of a “mission based culture” that influenced the formulation and execution of long-term strategies, which resulted in the achievement of the key organizational objectives.
9. The constellation of actors within the ZSEM entrepreneurial governance model encompasses a “coalition” between the Dean, senior administration, “ad hoc committees”, the faculty and the Board of Trustees. Within this constellation, the founding Dean dominates and creates an “entrepreneurial core” consisting of senior administrators and ad-hoc committees. This type of constellation requires the leader to be a “central connector” and “boundary spanner”, continuously managing stakeholders and communicating strategy, gathering information from the external environment, and obtaining feedback in order to improve competitive position (Ansett, 2005). In order to avoid “unilateral action” and a subsequent negligence of stakeholder interests, it is necessary for the leader to recognize and manage stakeholders by identifying their order

of relevancy. At ZSEM, the founding Dean recognized the faculty as a central stakeholder and introduced the institutional mission as a governance instrument.

The features of the entrepreneurial governance model shaped under the influence of the institutional and contingency forces outlined above are:

1. Difference between the formal and informal governance structure

At ZSEM, the formal governance structure is defined by the Law and the Statute. ZSEM fully complies with all legal requirements, according to which the Board of Trustees is the central governing body with the stipulated roles and responsibilities to direct and control the institution. However, ZSEM is an institution governed by the “entrepreneurial core”, while the Board of Trustees acts more like a “Council of Wise Men”. At the center of the “entrepreneurial core” is the Dean, whose power stems from the fact that he is one of the school’s founders and the “driving force” behind the establishment of the institution. The Dean manifests his influence through his role as the “central connector” and “boundary spanner” of the network, mobilizing all key stakeholders and organizational units and supporting the formation of ad hoc committees.

2. Resilience to regulatory risks

As an institution with a strong “entrepreneurial core” effectively operating within a distributed network, ZSEM is resilient to changes in regulations and, as such, is able to sustain its direction towards the fulfillment of organizational objectives.

3. Influence of “informal” actors on institutional governance in exchange for additional legitimacy

ZSEM is a private and independent institution solely dependent on funding from the market. As such, the school’s long-term market sustainability is one of its primary organizational concerns. In light of this fact, ZSEM underwent an international accreditation process in search for additional legitimacy. As a result, the international accreditation agency became an important and “informal” stakeholder of the school and influenced ZSEM to adopt a “mission” as a guideline for directing decision making processes in the organization. In this governance model, the institutional mission has been used as a tool for the direction and control of the institution.

4. Identification of and appropriate reaction to opportunities within the social economic and cultural environment

In Croatia, the specific social economic environment, characterized by a transition from a socialist to a market economy, facilitated the establishment of ZSEM as an entrepreneurial institution. In addition, several features of Croatian culture, including high levels of “power distance” and “pragmatism” supported the development of an entrepreneurial “mission based” institution.

5. Independence and market orientation

Institutional independence, stemming from ZSEM’s private ownership, has been one of the key factors enabling the origination of the entrepreneurial model. As a result, the funding base of the institution is derived solely from the market. This, in turn, has allowed a flexible and performance driven relationship between the school and faculty in which agreements between the faculty and the institution are characterized by entrepreneurial cooperation.

6. Simplicity and flexibility

As a relatively small institution in an early phase of development, there is a strong sense of organizational readiness for change at ZSEM. In addition, it is common to find little differentiation between faculty and staff and not unusual for some faculty members to be deeply involved in administrative matters through participation in the work of flexible ad hoc committees. As a result, ZSEM has been effectively governed using more informal practices in a multi-actor constellation connected in a network.

7. Stability of the leadership

The stability of the leadership is a key element in ensuring the effectiveness of the entrepreneurial model. This stability enabled the entrepreneurial Dean and senior administrators to formulate and execute long-term strategies that, in turn, resulted in the achievement of key organizational objectives.

8. Need for the identification of the key or “central” stakeholder

In the entrepreneurial model, due to its strong and central “entrepreneurial core”,

there is often a risk of “unilateral action”. This, in turn, can result in negligence of the interests of all stakeholders. As such, it becomes necessary to recognize and manage all stakeholders by identifying their order of relevancy. At ZSEM, the founding Dean recognized the faculty as a central stakeholder by introducing the institutional mission as a governance instrument. As a result, faculty preferences have been satisfied through the preparation and realization of the FDP, which links the personal objectives of the faculty with the mission.

9. Leaders as “central connectors” and “boundary spanners”

In an entrepreneurial governance model, the role of the leader is to act as a facilitator of mission production and dissemination. In addition, it requires the leader to be both a “central connector” and “boundary spanner”, continuously managing stakeholders and communicating strategy, gathering information and feedback from the external environment, and utilizing the obtained information for continuous improvement (Ansett, 2005).

Each governance approach fits a particular context. As such, the involved actors should recognize the changing context and adapt the governance model accordingly. The “real life” challenge for ZSEM’s entrepreneurial model is determining how to best prepare for the new context and evolve towards a more mature governance model. The entrepreneurial governance model is appropriate for small and independent HEIs operating in a context characterized by changing regulatory and social economic environments in which tuition fees are the only funding source. In an institution of this type, where development is in an early phase and where stable and long tenured leadership exists, it is possible to establish an “entrepreneurial core” to direct and control the institution. In contrast, a larger institution with multiple academic departments offering various programs will be more effectively directed under an institutional governance model in which a board of trustees, made up of professional stakeholder representatives, should dominate the constellation of involved actors

In light of this analysis, this study was able to provide recommendations for the establishment of a governance model at ZSEM that would be appropriate for the new context. To do so, the recommendation considered the four dimensions of effective governance: situational, strategic, integrated and controlling.

Specifically, the appropriate evolution of the governance approach requires:

1. Within the Situational dimension - Identification of the new context. The new context might result from changes in institutional and contingency

forces, such as a change in entrepreneurial leadership or a change in the balance of power among the involved actors.

2. Within the Strategic dimension - Transfer of the strategic role to the Board of Trustees. Here, the emphasis is on the process of selecting the board members based on knowledge, demographic and team role diversity. The implementation of a “culture of constructive criticism and trust” among board members is achieved through “networked structures and processes”.
3. Within the Integrated dimension – Shift from the “co-optative” board to a “directing and controlling” board. Here, the adoption of professional human resource practices at the individual board member level acts as an “integrating element” for the mobilization of actors’ resources.
4. Within the Controlling dimension – Shift from centralized entrepreneurial control to an approach favoring the “holistic monitoring of results”, where the perspectives of all involved actors at the board level are taken into account.

4.1. Recommendations for Practice

The inherent complexity of HEIs makes governing them a challenging task. Often, the governance of an HEI turns into a competition for power and resources among the involved actors that, in turn, contributes to organizational ineffectiveness (Baldrige, 1971; De Groof et al., 1998). Therefore, rectors, deans, members of the Board of Trustees, faculty members and all other relevant actors involved in the governance of HEIs should identify and consider the success factors for effective direction and control.

The findings from this empirical case study of an entrepreneurial governance model demonstrate that, for effective direction and control, the involved actors should take several factors into account.

Firstly, actors should recognize the context in which an institution operates and become aware that various institutional and contingency forces might influence actors’ behavior, thus shaping their approach to direction and control. Understanding the context will help the involved actors adapt their approach to directing and controlling the institution. In the context described in this study, where a small institution of low complexity and private ownership is operating within a changing social economic environment characterized by cultural features that support the development of an entrepreneurial culture, the entrepreneurial governance model might be appropriate. However, in a different context, where a large and complex institution with diverse or public ownership is operating in a stable social economic

environment and a collectivistic culture with low power distance, the academic or network model might be the preferred approach.

Secondly, the empirical case study has demonstrated several advantages to the entrepreneurial governance model, including stability of the leadership, resilience to regulatory risks, a market orientation and the effective involvement of ad-hoc committees. Together, these factors enabled the formulation and execution of long-term strategies that resulted in the achievement of key organizational objectives.

However, the entrepreneurial model also holds some risks that should be mitigated in order to achieve effective governance. For example, direction from a strong “entrepreneurial core” might lead to “unilateral action”, resulting in negligence of the interests of all stakeholders. As such, it is necessary for leaders to identify key stakeholders and take into account their interests. Furthermore, when operating under such a model, leaders should act as both “central connectors” and “boundary spanners”, continuously managing stakeholders, communicating strategy and gathering and exploiting critical information from the external environment (Ansett, 2005).

The biggest risk posed by this model is the succession of the entrepreneurial leader. In this context, succession planning must take into account the evolution of the governance model within situational, strategic, integrated and controlling dimensions.

Within the Situational dimension, actors should identify key institutional and contingency forces that will determine the future context.

Within the Strategic dimension, actors should be selected on the basis of know-how, demographic and team role diversity. In addition, a “culture of constructive criticism and trust” should be practiced during the process of developing, implementing and controlling organizational strategy.

Within the Integrated dimension, actors should utilize professional human resource practices as the “integrating element” in the mobilization of actor resources.

Within the Controlling dimension, results should be “holistically monitored” from the perspectives of all involved actors at the board level.

4.2. Recommendations for Future Research

In the theoretical part of this study, an examination of the situational dimension was conducted based on institutional and contingency theories. Although institutional and contingency theories hold nearly opposing approaches to understanding the factors that impact organizational processes, these two frameworks have been combined in

a number of empirical studies (Gupta et al., 1994).

For this study, combining these two theories has been a useful framework for providing a basis from which a model for the origination of governance approaches was developed. In the model designed for this study, HEI governance approaches originate as outcomes of their adaptation to institutional and contingency pressures. The empirical case study demonstrated the manner in which the institutional and contingency pressures shaped the entrepreneurial governance model. Accordingly, future research endeavors might investigate how other governance models, such as bureaucratic, collegial or network models, originated under the influence of institutional and contingency forces.

Furthermore, utilizing “New corporate governance” as a theoretical framework might enable researchers to identify discrepancies between empirical findings within strategic, integrated and controlling dimensions and theoretical norms.

In this study, one of the contingency variables added to the model for the origination of governance approaches was “the selection method of HEI leaders”. This variable was deemed significant in light of its impact on the behavior of leaders and board members and, as such, its influence in shaping the governance approach. However, there are many other institutional and contingency forces that influence the direction and control of HEIs. As such, a possible avenue for future research might be the ongoing identification of such variables and the identification of their magnitude in shaping governance approaches.

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APPENDIX I

Interview protocol for the members of the Board of Trustees

During 2014, two interviews were conducted with members of ZSEM’s Board of Trustees (President and Vice president). The President of the board was interviewed on March 3rd, 2014 and the vice president of the board was interviewed on July 25th, 2014.

Interviews took place on the premises of the Zagreb School of Economics and Management and lasted approximately 45 minutes. Questions were left open in order to stimulate discussion.

The interview with the president of the Board of Trustees was transcribed while the interview with the vice president was recorded and later transcribed. This data has been analyzed and reviewed in detail. Interview responses were carefully considered and reviewed for any patterns or themes arising among the interviewees. Finally, some questions were further discussed with respondents following the initial analysis of the compiled data.

Interviews began with an expression of appreciation for the opportunity to participate in the research. Following this, the dissertation topic and research objectives were explained to the respondents. In addition, the researcher explained the purpose of the interview and the reasons for which the respondents had been chosen as participants. Finally, a questionnaire was presented.

During the interview, respondents were asked about the current governance approach at ZSEM and any potential for improvement. Interview questions encompassed the four dimensions of governance (situational, strategic, integrated and controlling), with an objective to identify the contingency and institutional forces that shaped ZSEM’s governance model. In addition, interviewees were asked to identify any potential for improvement in the governance model for the new context.

The following set of questions was used:

SITUATIONAL DIMENSION

1. From the following list of possibilities, how would you characterize the governance model at the Zagreb School of Economics and Management (ZSEM)?
 - Administrative or Bureaucratic governance model - characterized by highly structured decision making processes in which administrators have a central role

- Collegial or academic governance model - assumes that the institution is governed by the faculty in governing bodies.
 - Entrepreneurial governance model - in which there is an “entrepreneurial core” mobilizing all involved actors in the direction and control of the institution.
 - Network governance model - characterized by a flexible multi-actor constellation in which actors come from diverse backgrounds and governance processes are more informal.
 - Professional governance model - institution is governed by professionals who have experience in the corporate sector and are able to direct management efficiently.
 - Political governance model - implies involvement of various groups in the governance process, with competition for power and resources.
 - Trustee governance model – assumes that the board acts in trust for, and on behalf of, trust beneficiaries.
 - Some other governance model
2. Did one or more of the following circumstances influence the governance approach at ZSEM?
 - Autonomy of Institutions
 - Division of tasks between bodies of management (the Board of Trustees and the Faculty Board)
 - Structure (size and composition) of the Board of Trustees
 - Socio-Cultural Context (transition from socialism to capitalism)
 - Culture and traditions
 - Form of ownership
 - Institutional size
 - Stages of development
 - Stability of the leadership
 - Selection method of the leaders (election vs. appointment)
 3. Do you see any other circumstances that also influenced the governance approach at ZSEM?
 4. Do you think that ZSEM should adhere to some of the generally accepted governance codes (eg. “Corporate Governance Code”, etc.) in order to improve the governance of the institution?
 5. Which of the following ZSEM stakeholders have a dominant influence on the direction and control of the institution?
 - Board of Trustees
 - Dean

- Faculty Board
 - Someone else
6. What do you think about the role of the Board of Trustees in the governance process at ZSEM?
 7. What do you think about your role in ZSEM’s Board of Trustees?
 8. What do you think about the role of the Faculty Board in the governance process at ZSEM?
 9. What do you think about the role of the Dean in the governance process at ZSEM?
 10. What is the key factor for the integration and mobilization of stakeholders towards the fulfillment of ZSEM’s strategic objectives?
 11. Do you think that the governance approach at ZSEM should be changed in the present context?
 12. Do you think that the governance approach at ZSEM should be changed if the context is changed?
 13. What changes in the environment should initiate a change to the governance approach at ZSEM?

STRATEGIC DIMENSION

1. How do you perceive the process of formulating, implementing and monitoring of ZSEM’s strategy?
2. What competencies are important for members of the Board of Trustees? Do you think that members of the Board of Trustees should have competences in strategic management of the institution?
3. Is demographic diversity in the Board of Trustees an advantage or disadvantage for the operation of the board?
4. Do you think that the division of team roles among members of the Board of Trustees would improve the operation of the board?
5. What are the key elements for successful collaboration in the work of the Board of Trustees?
6. Do you think that the size of the Board of Trustees is appropriate for ZSEM?
7. Are you satisfied with the achievement of the strategic objectives of ZSEM? Do you think that all stakeholders are achieving their objectives by participating in the direction and control of ZSEM? In your opinion, who should monitor the achievement of the strategic objectives of ZSEM? Who should monitor the achievement of the stakeholders’ objectives?

8. Do you think that ZSEM should change the following elements of its governance approach:
 - Required competencies of Board of Trustees members?
 - Processes of the Board of Trustees?
 - Size of the Board of Trustees?
 - Approach to the monitoring of strategic goals and objectives?
9. If you think that ZSEM should implement any of the above changes, when would be an appropriate time for such changes?

INTEGRATED DIMENSION

1. What is your opinion about the selection process for members of the Board of Trustees?
2. Does the selection process for members of the Board of Trustees fit with ZSEM's governance approach?
3. What do you think about the individual responsibilities of members of the Board of Trustees?
4. Do you think that ZSEM should implement a formal evaluation of the work of the Board of Trustees?
5. It is often the case that Board of Trustees members at higher education institutions are not financially rewarded. What is your opinion on the remuneration of the members of the Board of Trustees?
6. Do you think that members of the Board of Trustees should be offered further education through lifelong learning programs or in some other way?
7. Are you satisfied with your work on the Board of Trustees at ZSEM?
8. Do you think that ZSEM should introduce governance changes to:
 - the selection process of the Board of Trustees?
 - the evaluation of the work of the Board of Trustees?
 - the approach to the professional development of members of the Board of Trustees ?
 - the approach to the compensation of members of the Board of Trustees?
9. If you think that ZSEM should implement any of the above changes, when would be an appropriate time for such changes?

CONTROLLING DIMENSION

1. Are you familiar with the financial statements of ZSEM?
2. Do you see the need for an independent audit of the financial statements of ZSEM?

3. What risks would you identify in the operation of ZSEM? Do you see any risks that ZSEM’s management has failed to consider?
4. In your opinion, who is responsible for identifying and managing risks at ZSEM?
5. What is your opinion about the communication between the Board of Trustees and other ZSEM stakeholders?
6. What are the key factors for successful communication between the Board of Trustees and other ZSEM stakeholders?
7. Do you think that ZSEM should introduce changes to:
 - Financial reporting?
 - Risk identification?
 - Communication between the Board of Trustees and other ZSEM stakeholders?
 - Controlling function?
8. If you think that ZSEM should introduce any of the above changes, when would be an appropriate time to introduce such changes?

APPENDIX II

Interview protocol for members of the “Accreditation task force”

In August 2014, members of “Accreditation task force” were asked to make a self-assessment of their roles in the team and assess the team roles held by their colleagues during the strategic planning process.

First, the dissertation topic and purpose of the interview were first explained to respondents. They were then asked to provide a judgment of their own roles and to assess the roles held by their teammates during the strategic planning process. In a questionnaire, every team member could assign up to two of their colleagues’ names to each team role. The following table presents the template given to respondents to be completed with the names of her or his colleagues:

Table: Questionnaire for members of the “Accreditation task force”

Margerison and McCann Role	Belbin equivalent	Description	Team member
Reporter-Adviser	Monitor-Evaluator	Likes to help others. Gathers information and makes it understandable. Listens patiently before deciding. Prefers to be slow and fully right rather than quick and mostly right.	
Creator-Innovator	Plant	Likes independence to think and innovate. Not afraid to challenge norms. Good at starting new things.	
Explorer-Promoter	Resource Investigator	Likes to connect with people outside the group as well as inside. Good at seeing the big picture. Good at creating enthusiasm for new ideas.	
Assessor-Developer	Coordinator	Likes experimenting with new ideas. Good at evaluating different options. Good at organizing new activities.	

Thruster-Organizers	Shaper	Likes ‘making things happen’. Ready to add energy and turn an idea into action. May be impatient	
Concluder-Producer	Completer-Finisher	Likes completing things on time, on budget and to specification. Likes using well-developed skills. Good at methodical, careful work.	
Controller-Inspector	Implementer	Likes working with detailed information. Good with facts and figures.	
Upholder-Maintainer	Team worker	Looks after the physical and social elements of the team. A great source of emotional strength for others on the team. May have strong views on how the team should be run.	

Source: Adapted from http://changingminds.org/explanations/preferences/margerison_mccann.htm

In addition, respondents were asked to provide further comments regarding the structure of the committee and the working culture among team members during strategic planning activities. Responses were additionally discussed with respondents after the analysis of the compiled answers, a process which offered additional insight.

APPENDIX III

Curriculum Vitae Zoran Barac

Education	2010 – 2015	University of St. Gallen,	St. Gallen, Switzerland
	Doctoral program: International Business	Thesis: Effective Direction and Control of Higher Education Institutions; An empirical case study of Croatian private business school	
	1996 – 1998	Faculty of Economics,	Zagreb, Croatia
Professional experience	Master of Science: International Economics	Thesis: Portfolio optimization of pension investment fund	
	1991 – 1995	Faculty of Economics,	Zagreb, Croatia
	Bachelor in Business administration: Accounting and business finance	Thesis: Accounting for equity investments and M&A	
	10/2007 – present	Zagreb School of Economics and Management,	Zagreb, Croatia
	Managing Director		
	02/2006 – 10/2007	Europapressholding d.o.o.,	Zagreb, Croatia
	Group finance director		
	08/2004 – 02/2006	Phoenix Farmacija d.d.	Zagreb, Croatia
	Board Member – Group finance director		
	04/2001 – 08/2004	Farmacija d.d.	Zagreb, Croatia
	Finance Director		
	2000 – 04/2001	Farmacija d.d.	Zagreb, Croatia
	Assistant to General manager, operations and development		
	1998 – 2000	Croatian Pension Inv. Company	Zagreb, Croatia
	Managing director		
	1997 – 1998	Croatian Pension Fund	Zagreb, Croatia
	Assistant to CEO		
	1995 – 1997	Institute of Economics	Zagreb, Croatia
	Research assistant		

Other professional activities	<p>07/2014 – present Platinum Invest, fund management company President of the Supervisory Board</p> <p>2000 – 2004 Croatian Agency for Pension Funds Supervision Member of the Governing board</p> <p>05/2000 – 2001 Ministry of environmental protection Member of the working group for the preparation of the Environmental fund Act</p> <p>1998 – 2000 Croatian Government Member of the Croatian Government commission for Pension Reform</p>
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