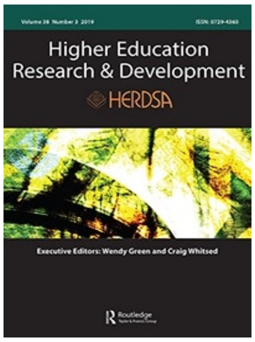

Routledge
Taylor & Francis Group

Higher Education Research & Development

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/cher20

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To cite this article: Rebecca Boden & Julie Rowlands (2020): Paying the piper: the governance of vice-chancellors' remuneration in Australian and UK universities, Higher Education Research & Development, DOI: 10.1080/07294360.2020.1841741

To link to this article: https://doi.org/10.1080/07294360.2020.1841741

Published online: 21 Nov 2020.

HIGHER EDUCATION RESEARCH & DEVELOPMENT
https://doi.org/10.1080/07294360.2020.1841741

Paying the piper: the governance of vice-chancellors' remuneration in Australian and UK universities

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ABSTRACT

There is a long-running cyclical public debate in the UK and Australia about the level of vice-chancellors' remuneration in publicly funded universities. Whilst governments may promise greater oversight, little appears to change. Similar trends are emerging in some other European countries. This article critically considers the determination of vice-chancellors' remuneration as a governance issue. In the context of corporatised public universities, we consider how reforms in university governance may have contributed to the shifting nature and levels of vice-chancellors' remuneration in Australia and the UK. We argue that this area requires urgent governance reform.

ARTICLE HISTORY
Received 8 June 2020
Accepted 21 September 2020

KEYWORDS
Universities; executive remuneration; governance; stewardship theory; agency theory

Introduction

There is a voluble and cyclical public debate in the UK and Australia regarding the levels of vice chancellors'[1] (VCs) remuneration at publicly funded universities (Adams & Gamperl, 2018; Heffernan, 2019; Loussikian, 2018). Annual condemnations of remuneration levels (Langford, 2018) are countered with mantras that VCs lead large and complex businesses within which they work hard for objectively set pay (Blanchflower, 2017). Despite government promises of greater accountability (Dodd, 2017), little appears to change. Similar trends are evident elsewhere, including Denmark (Boden & Wright, 2010) and Canada (Essaji & Horton, 2009).

Research demonstrates rapid and relatively recent increases in VCs' remuneration with little connection between pay and performance (Bachan & Reilly, 2015; Johnes & Virmani, 2020). Further, there is a demonstrated link between these increases and formulaic pay-setting mechanisms such as benchmarking (Gschwandtner & McManus, 2018). However, that literature does not address, because the methodology is unsuited, the governance factors that determine the allocation of remuneration. Accordingly, this article advances understanding of the issue by exploring the dynamics of VC remuneration in the context of governance changes in universities as they have become progressively marketised. Although we draw on empirical examples from both Australia and the UK, this is not a comparative article. Instead, we show that neither nation is an

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outlier. We find a high degree of theoretically predictable and empirically verifiable correlation between rising VC remuneration levels and shifts towards more market-based governance regimes in Australian and UK universities. The escalation of VC remuneration in this context suggests rent-taking.

We first conceptualise remuneration and argue that its form and size are determined by organisations' social, economic, legal and structural dynamics, formalised through regimes of endogenous and exogenous governance control (Marginson & Considine, 2000; Rowlands, 2017). We then review the existing literature on VCs' remuneration, and describe the techniques utilised that drive increases. Following this, we discuss the shifting nature of Australian and UK university governance and relate this to VC remuneration. After a short description of remuneration-setting mechanisms, we argue in the conclusion that part of VCs' remuneration can be argued to be rent rather than salary, and make the case for governance reform.

Remuneration and governance

Economics identifies four ideal types of remuneration: salaries/wages, stipends, profits and rent. Salaries are paid in contractual exchange for work undertaken and are a cost of production. Stipends are paid by organisations (or their patrons) to enable unsalaried people to undertake activities deemed socially or organisationally valuable – such as grant-aided research students (Mauss, 1924/1990). Profits accrue to those who own the means of production as a reward for risking capital. Rent (Smith, 1776/1937), in economic terms, is the extraction of financial value through ownership or control of an asset without simultaneously bringing any new wealth into existence; rent is therefore differentiated from profit. *Rentiers* are actors purposively engaged in rent-seeking behaviour (Krueger, 1974). All remuneration is a share of total available organisational resources, which are finite at any point in time.

Governance regimes determine remuneration forms and their allocation between potentially competing groups, reflecting organisational power dynamics (Neokleous, 2015). Salaries may play a part in motivating employees towards organisational aims, although usage varies (Tampu, 2015). Contemporary stewardship theory posits that individual behaviour can be 'ordered such that pro-organisational, collectivistic behaviours have higher utility than individualistic, self-serving behaviours' and that 'even where the interests of the steward and the principal are not aligned, the steward places a higher value on co-operation than defection' (Davis et al., 1997, p. 24). This alignment makes it rational and efficient to trust the steward and extend them significant autonomy, with remuneration playing a less prominent role in motivating them.

Stewardship was the dominant governance form until the twentieth century (Donaldson & Davis, 1991, p. 22). However, in the early twentieth century, companies began raising capital by selling shares, distributing ownership rights more widely and separating shareholder ownership from control by professional managers (Berle & Means, 1932/1968). This caused information asymmetries and shifted the balance of power in managers' favour (Balago, 2014); managers could no longer be implicitly trusted. The resulting rethinking of governance led to the popularisation of contract and market-based agency theories (Jensen & Meckling, 1976).

Agency theory casts owners as principals and managers as their agents, with both seeking to maximise their own financial position at the expense of the other (Ross, 1973). Jensen and Meckling (1976) posit two ways to mitigate this problem. First, principals may institute costly governance systems that delimit, control and monitor agents' actions. Second, principals can align agents' interests to their own using remuneration – managers will seek to maximise shareholder wealth if they share in it (Jensen & Meckling, 1976). Agency theory suggests that remuneration is the most cost-effective way to protect shareholders' interests because it frees managers to behave entrepreneurially whilst minimising surveillance costs (Panda & Leepsa, 2017). Managers' remuneration, therefore, reflects the cost of ensuring that they can be trusted, not the economic value of their contribution.

Davis et al. (1997) differentiate agency and stewardship using six psychological and situational vectors. First, agency favours measurable, extrinsic motivations such as remuneration, whereas stewardship focuses on less measurable intrinsic factors such as personal growth and achievement (Davis et al., 1997, pp. 27–29). Second, the organisation becomes an extension of a steward's identity and 'psychological structure' (Davis et al., 1997, p. 29), but, for an agent, the attachment is strictly financial and self-serving. Third, the institutionalised and sometimes coercive structural power of agency relationships can be distinguished from the personal expert and referent power of stewardship (Davis et al., 1997, pp. 31–32). Fourth, stewardship is marked by high commitment and trust, but agency seeks to minimise risk through control systems that cast individuals as economically self-interested actors (Davis et al., 1997, pp. 32–34). Fifth, stewardship tends to be collectivist whilst agency is individualistic (Davis et al., 1997, pp. 34–35). Finally, stewardship is marked by lower power-distance relationships than agency, with flatter, less hierarchical organisations (Davis et al., 1997, pp. 35–36).

Agency governance was increasingly adopted in the corporate world from the 1970s. Its theorisation utilises simplified econometric models of human behaviour which do not adequately recognise that agents might use their asymmetric power to game the system to their own advantage. By the 1990s, self-serving managerial behaviour was widespread, leading shareholders and governments to demand a shift towards greater formal, endogenous and exogenous surveillance and control measures such as non-executive directors, remuneration and audit committees, and the strengthening of shareholders' legal rights (Cadbury, 1992). The extent to which these have been effective remains moot.

VCs' remuneration – the story so far

There is ample evidence that UK and Australian VCs' remuneration has been changing rapidly in scale and nature in recent years. Using voluntarily disclosed 1993–1994 data, Baimbridge and Simpson (1996) report average UK VC remuneration of £93,498. In the UK, VCs' remuneration has had to be disclosed in universities' annual reports and accounts since 1994, and is collated annually by *The Times Higher*. Using this, Bachan and Reilly (2015) found that VCs enjoyed remuneration growth of 59% in real terms from 1997 to 2009. Gschwandtner and McManus (2018) also utilised this data, reporting that, between 2007 and 2015, VC remuneration rose by 20.6% in real terms. Between 2011–2012 and 2016–2017 UK VCs' remuneration rose by an average of 3.1% a year –

during which time a 1% pay rise cap applied to academic staff (Hubble & Bolton, 2018). Averages can be misleading because of the marked variation in size and nature of UK universities, but in 2018–2019 at British universities with income over £30 million a year, the average VC remuneration was £281,550 [AUD 530,182], with the highest being London Business School at £609,000 [AUD 1.10 million] (HESA, n.d.).

Australia has no comparable data set or consequent analysis; however, annual rises are dutifully reported in the press. At the time of writing when 2019 university financial accounts were beginning to be reported, it was noted that the 2019 average for Australian vice-chancellors' remuneration may well have exceeded AUD $1m [£609,000] (Ross, 2020b). The Australian National Tertiary Education Union (NTEU) argued that Australian VCs were the highest paid in the world (Kniest, 2017). Universities' 2018 annual reports and financial statements reveal that VCs' salaries ranged from AUD $1,582,500 [£867,998] at the University of Sydney to AUD $622,250 [£341,302] at Charles Darwin University. More prestigious universities generally paid their VCs more, but this was not universal. For example, in 2018, the Australian Catholic University's VC was paid AUD $1,325,000 [£726,633,000], exceeding the salaries at some more prestigious universities.

Whilst agency theory posits a strong correlation between performance and pay, empirical research has demonstrated only a weak relationship between corporate executive pay and organisational performance (e.g., Gritsko et al., 2013; Marshall, 2017). There are a small number of parallel studies of universities. In the US, Cheng (2014) found that between 2004 and 2009 institutional performance played a very limited role in determining public university VCs' remuneration. In Canada between 1996 and 2006, increases in VC salaries exceeded both productivity and performance gains (Essaji & Horton, 2009).

In their comprehensive analysis over 10 years involving performance indicators relating to student numbers, student evaluations, research and financial performance, Gschwandtner and McManus (2018) found neither VCs' nor universities' performance can explain the increases in VCs' salaries, and that higher pay does not lead to higher performance. Bachan and Reilly found little evidence that university performance accounted for UK VCs' remuneration levels, concluding that:

> It may be the case … that VC pay is more merited than some of the harsher public criticism suggests. However, there is evidence from the estimated year effects that even after controlling for … observable and unobservable factors, there have been sizeable annual increases in real VC pay in the years covered by our analysis that are not readily explainable. (Bachan & Reilly, 2015, p. 70)

In 2019, Johnes and Virmani (2020) analysed UK VC remuneration levels against three performance measures: efficiency (productivity), media league table rankings, and financial stability. They found that only rankings affected remuneration, and then only amongst pre-1992 universities. Amongst the post-1992s, the size was the only significant determining factor. According to Kniest (2017), Australian VCs' salaries appear disproportionate to the performance of their universities in terms of world rankings. No study has found convincing evidence of a strong relationship between VC remuneration and performance.

The econometric literature also explores the role of remuneration setting tools. Bachan and Reilly (2015) look to tournament theory (Lazear & Rosen, 1981), which suggests that pay levels can be explained by a person's rank order in an organisation. They found:

> … that VCs are rewarded according to internal pay structures as predicted by tournament theory. … The evidence suggests that the presence of highly-paid staff impacts positively on VC pay. (Bachan & Reilly, 2015, p. 69)

This finding was confirmed by Johnes and Virmani (2020).

Benchmarking is the setting of remuneration by reference to analogous organisations/job roles – an attempt to set a self-fulfilling market for pay (DiPrete et al., 2010). Gschwandtner and McManus (2018) and others (e.g., Schmidt & Dworschak, 2006) found that high levels of VC remuneration are linked to benchmarking exercises, 'where those universities with below average pay increase their VC pay quicker than those with above average pay' (Gschwandtner & McManus, 2018, p. 1). Bachan and Reilly (2015) found that UK elite university VCs tended to be paid more than their less prestigious counterparts.

In sum, rapidly rising VC remuneration is not strongly correlated with performance. There is evidence that remuneration setting tools, such as remuneration tournaments and benchmarking, are influential in driving up remuneration. In agency terms, these findings beg the question as to whether information and power asymmetries within universities are influencing the setting of remuneration as, in agency terms, VCs are achieving unjustifiably high remuneration. Governance regimes play a central role in the distribution of organisational power and determine the approaches used for fixing remuneration. We now examine the dynamic governance regimes of Australia and the UK with regard to VC remuneration.

The changing landscape of VCs' remuneration in Australia and the UK

Traditionally, Australian and UK universities practised collegial governance of a stewardship nature (Duderstadt, 2004). Until the 1990s, academics were the primary collegial decision makers and VCs were *primus inter pares* (Marginson & Considine, 2000; Shattock, 2017). As these universities became increasingly corporatised and marketised, they adopted the rhetorics and logics of market-based agency governance. In particular, governing councils and, exogenously, governments came to assume principal-like roles with VCs as their agents (Kivistö, 2008).

Australia

By 2020, Australia had 39 self-governing and self-owning publicly funded universities. In the first half of the twentieth century, they were largely funded by the states, supplemented by student fees (Forsyth, 2014). In 1957, the Murray Report found that Australian universities were grossly under-resourced and recommended the establishment of a grants commission to advise on funding requirements (Committee on Australian Universities, 1957). Murray also recommended that universities be funded by specifically targeted recurrent triennial grants from the federal government, distributed via the states.

Consequently, the federal government established the Australian Universities Commission, which centrally determined '[p]retty much everything' on funding (Forsyth, 2014, p. 129). Universities' academic work at this time was largely free from government interference and the cultural and intellectual contribution universities made was highly valued (Blackmore et al., 2010).

In 1983, the Hawke government's education minister, John Dawkins, commenced 'reduction of *direct* [state] control of the internal business of higher education institutions' (Wells & Martin, 2013, p. 203, emphasis original). The Dawkins reforms signalled a 'Thatcher-like commodification of the tertiary education system' (Pusey, 1991, p. 148). VCs were to serve as chief executive officers of universities that were, in turn, expected to be more business-like and entrepreneurial (Harman & Treadgold, 2007). The balance of internal power shifted away from academic senates to university councils which became smaller and focused on strategic and financial matters (Rowlands, 2017). An 'openly corporatist' approach 'to university governance was aimed at delivering greater accountability to government' (Baird, 2006, p. 37). This was facilitated, in part, through the appointment to councils of external members from the business world, with a concomitant reduction in staff and student members (Baird, 2006). Financial exigencies considerably strengthened VCs' and university governing bodies' powers (Marginson & Considine, 2000).

From 1974 until 1986, the national Academic Salaries Tribunal determined Australian academic staff salaries centrally (Marginson, 1989). In 1987, the first of a series of federal industrial pay awards was introduced, continuing the centralised setting of employment conditions and salaries. This system persisted until the late 1990s, when it was replaced by decentralised local enterprise bargaining, consistent with more managerialist employment practices (Anderson et al., 2002), under which academic salaries were determined by each university. This shift chimed with the managerial, enterprise governance that has been in place in Australian universities since the 1990s (Marginson & Considine, 2000).

Although Australian universities have always set VCs' remuneration autonomously, from 1976 until 1986 the Academic Salaries Tribunal made recommendations for VC remuneration levels using a two-tier system that differentiated the research elite from the rest. The Tribunal (1974) found they were well paid in relation to equivalent roles elsewhere in society, a view unpopular with the then Australian Vice-Chancellors' Committee and some individual VCs who protested that the tribunal risked undermining universities' independence and should be abolished (Academic Salaries Tribunal, 1974). In response, the federal government stipulated that any university that exceeded the recommended VC remuneration levels would have that amount deducted from their recurrent government grant. There is evidence that such deductions were subsequently made on a number of occasions (Academic Salaries Tribunal, 1985). However, the demise of the Academic Salaries Tribunal in the late 1980s marked the end of this central oversight.

The role of the Academic Salaries Tribunal means that Australia has a relatively well-defined point at which VC salaries were deregulated and the effect of this can be demonstrated empirically. Table 1 expresses the ratio of VCs' salaries to the starting salary for the most junior level teaching and research academics at three Australian universities from 1975 to 2018. These universities are broadly representative of university types in the Australian sector.[2] Data for this table were sourced variously from Academic Salaries Tribunal reports and from publicly available university annual reports. Data on academic

Table 1. Comparison of selected Australian vice-chancellors' and lecturers' salaries 1975–2018.

	1975	1985	1995	2005	2015	2018
Elite research intensive university	2.9	3.1	6.3	14.7	12.0	16.01
Mid-level teaching and research university	2.6	2.8	6.3	9.8	10.1	10.6
New dual sector (established mid-1990s) university	N/A	N/A	N/A	8.3	9.3	7.7

Source: Varied.

staff salaries were sourced from Academic Salaries Tribunal reports, union archives, from Marginson (1989) and from published university financial statements. It is significant, but not surprising, that the ratio was far lower when all remuneration was centrally set or regulated. Sharp increases from the 1990s corresponded with the lifting of government control over VCs' remuneration, the inception of local enterprise bargaining, and a transition from collegial to corporate governance models.

The United Kingdom

UK universities began as autonomous, self-governing communities of scholars endowed financially by the state, church or wealthy individuals (Moodie & Eustace, 1974). Apart from a small number of newer for-profit institutions (beyond the scope of this article), universities remain private, charitable and self-governing. From the nineteenth century, the state increasingly funded universities, but the government took care not to exercise control as a consequence (Ainley, 2014). This arrangement came to an abrupt end in the 1980s under Margaret Thatcher's governments (Shattock, 2006).

Thatcherism promoted the diminution of the state and the primacy of markets. Professionals were seen as unaccountable and self-serving, making the self-governing universities with significant public funding an obvious target (McNay, 1999). Savage cuts to university budgets from 1981 led the non-statutory Committee of Vice-Chancellors and Principals (now Universities UK) to establish the Jarratt Committee with Sir Adrian Cadbury, a significant figure in corporate governance reform, as a member. The committee's report (CVCP, 1985) opined the need for a greater role for the government in directing universities to a more efficient, business-like approach. University councils, it argued, should assert their power vis-a-vis collegial senates. Crucial to this was 'recognising the Vice-Chancellor not only as academic leader but also as chief executive of the university' (CVCP, 1985, para 5.5d). This placed considerable day-to-day executive power in the hands of VCs – council members being lay, external, and overwhelmingly non-remunerated volunteers with relatively low organisational time commitments and no personal financial interests in the organisation. Following Jarratt, the government established a series of national funding councils that allowed it to steer universities at a distance using financial levers (Shattock, 2012).

These reforms have since deepened and accelerated, especially in England where deregulation and student fees have heralded significant competition and marketisation. Universities have prioritised corporate efficiency and profitability, shifting the balance of power further towards senior managers. This has weakened collegiality and strengthened hierarchical managerial control by VCs and, to a lesser extent, university councils (governing bodies) (Trakman, 2008). Exogenously, university governance in England (Scotland, Wales and Northern Ireland have somewhat different systems) now consists of loose state regulation of the emerging competitive higher education market through the Office for Students.

The UK has a similar history to Australia's on the setting of academic staff salaries. After 1945, the University Grants Commission (which channelled government funding) determined salaries and pay scales in consultation with the academic union. From the 1960s this role was undertaken by the Universities Authorities Panel and, from 1987, the Universities and Colleges Employers Association – both employers' associations (Rani, 2009). In 2004, a new academic pay framework and 'salary spine' were agreed with the unions, allowing some local flexibility based on job evaluation, in response to the growing realisation that academic salaries were not competitive (Rani, 2009). The framework for academic salaries is now set collectively, but there is local discretion on bargaining and implementation.

VCs' remuneration, in contrast, has always been at the discretion of each university with no external controls. Unlike Australia, the British government never sought to control remuneration, but has pursued market mechanisms to correct information asymmetries. In 1994, it required universities, as with private firms, to declare senior staff remuneration in their annual financial accounts (Baimbridge & Simpson, 1996) (a requirement mirrored in Australia). In private firms such disclosures are designed to discipline agents towards not exploiting information asymmetries by highlighting their share of finite organisational resources. The present regulator, the Office for Students notes that it 'does not have legal powers to regulate the pay of senior staff in the higher education sector directly' but does acknowledge that it has a 'duty to take into account the value for money higher education providers offer for the public money they receive' (OfS, 2020). It executes this duty in part via market means, recently requiring and publishing specified information on staff pay, and the disclosure of VC remuneration information in the universities' audited financial statements.

Baimbridge and Simpson (1996) correctly hypothesised that the ending of local authority control over the old polytechnics and colleges as they entered the university sector (becoming the 'post-1992s') would lead to a rapid escalation in VC remuneration. Bachan and Reilly (2015, p. 53) detail the remarkable 59% remuneration growth (in real terms) enjoyed across the sector between 1997 and 2009. Table 2 indicates the increases between 2007 and 2015 – which included the Global Financial Crisis and UK austerity policies. Johnes and Virmani (2020) also note this rise, which accelerated when 'full' student fees were introduced in 2011 as part of the further marketisation of universities.

Table 2. Average UK VCs' and academics' remuneration, adjusted to 2017 prices.

Year end	VC remuneration	Academic remuneration	Ratio
2007	235,311	47,829	4.9:1
2008	256,912	48,287	5.3:1
2009	277915	51,430	5.4:1
2010	275,196	51,462	5.4:1
2011	267,702	50,526	5.3:1
2012	265,267	49,553	5.4:1
2013	266,778	49,083	5.4:1
2014	271,357	48,866	5.6:1
2015	283,888	49,496	5.7:1

Adapted from Gschwandtner and McManus (2018, Table 1, p. 7).

As in Australia, these increases are not indicative of general remuneration increases in the sector. In 1993–1994, VCs' salaries averaged £93,498 [AUD$168,300], whilst the most junior lecturer grades had a mean salary of £20,412 [AUD $37,038], a ratio of 4.6, and senior lecturers £29,543 [AUD $53,607], a ratio 3.2. As Table 2 starkly reveals, this ratio has increased very considerably since then. In 2020, the Office for Students published its first remuneration ratio data, for 2017–2018. When very small institutions with an income of less than £30 million a year [AUD $54,442,074] are excluded, the ratio of total mean VC remuneration to total other mean staff remuneration in the English universities was 8.2 (data for Scotland and Wales is not available for this year) (OfS, 2020). Table 3 lists the universities in England in 2017–2018 with the highest remuneration ratios.

How VC remuneration is currently set

In both Australia and the UK, VCs' remuneration is determined by a remuneration committee of the council for each university. Many universities publicly justify the remuneration levels of their VCs on the basis that the salaries are independently determined by these committees following rigorous external benchmarking exercises. However, our

Table 3. Ratio of VC remuneration: mean base salaries, English universities 2017–2018, top 20.

Institution	VC total remuneration divided by mean total staff pay	Note on status
London Business School	12.8	
University of Oxford	12.8	Russell Group
London Metropolitan University	12.7	Post-1992
University of Cambridge	12.4	Russell Group
University of Essex	12.3	
University of Sheffield	12.3	Russell Group
University of Bath	11.9	
University of Birmingham	11.9	Russell Group
University of Worcester	11.4	Post-1992
University of York	10.9	Russell Group
University of Southampton	10.9	Russell Group
Roehampton University	10.7	Post-1992
Royal Holloway	10.5	
LSE	10.5	Russell Group
University of Leeds	10.4	
University of Surrey	10.2	
Loughborough University	10.1	
University of Kent	10.0	
Edge Hill University	10.0	Post-1992
City, University of London	10.0	
University of the West of England	9.9	Post-1992
Open University	9.9	
University of Newcastle	9.8	Russell Group
King's College London	9.8	Russell Group
University of Huddersfield	9.7	Post-1992
Nottingham Trent University	9.6	Post-1992
The University of Liverpool	9.6	Russell Group
Royal Veterinary College	9.2	
Birkbeck College	9.2	
University of Reading	9.2	

Derived from OfS (2020).

search for publicly available documents sourced through university websites reveals that, in 2018, more than half of all Australian VCs were members of or had formal rights of audience and debate at the renumeration committee meetings that determined their own remuneration. In only 11 Australian universities were VCs formally excluded from such deliberations.

Through Freedom of Information Act requests, the UK University and College Union found that, in 2018, 95% of VCs were either members of the remuneration committee that set their own salary or were entitled to attend meetings (Weale, 2018). A voluntary code agreed by the Committee of University Chairs [of councils] in 2018 (CUC, 2018) had declared it inappropriate for VCs to be members of their remuneration committees but that they could attend providing they were not present when their own salary was discussed. By 2019, some 81% of UK universities still allowed their VC to attend remuneration committee meetings and nine still allowed the VC to vote (down from 66 the previous year) (Adams, 2019).

Discussion and conclusion

The shift in the UK and Australian universities from collegial to more corporate forms of operating has engendered a corresponding shift in governance from stewardship to the agency. Professional management functions have come to the fore in the pursuit of business objectives and VCs both see themselves and are seen by others, including governments and government agencies, as chief executive officers. A significant uptick in VCs' remuneration has occurred relative to other academic salaries. Market-based salary setting mechanisms, such as benchmarking, appear to drive these increases.

VCs and their representative bodies consistently justify this increased remuneration with agency rhetoric, arguing that it reflects their appropriate share of university performance improvements. However, independent academic analyses have consistently found no convincing evidence of a relationship between VC remuneration and performance and that the very significant increases since the 1990s are more likely to be the result of benchmarking in a case of '[k]eeping up with VC Jones' (Gschwandtner & McManus, 2018, p. 1). Benchmarking therefore casts an aura of market-based objectivity, but is essentially self-fulfilling (Essaji & Horton, 2009).

In agency terms, we argue that this apparent over-compensation of VCs has two root causes. The first relates to principals. University councils are de jure endogenous principals, but are weak in agency terms because they are not legal owners, are financially disinterested (i.e., they are not shareholders), and have empowered VCs to act entrepreneurially. University councils, which appoint remuneration committees, may therefore be insufficiently powerful or insufficiently self-interested as principals to control the process adequately. At the UK's University of Bath, for instance, the council has been criticised for being too cosy and too socially aligned with the VC:

> There is a tendency to want to have a highly paid vice-chancellor because it shows what an important job I'm doing as a lay governor,' says Shattock, who also believes that the inexorable rise of university leaders' salaries is, to some extent, caused by laziness. 'Governors do not want to go through the hassle of appointing a new vice-chancellor, so they make sure they give [the existing one] a little more each year'. (Grove, 2018)

That is, university councils are not sufficiently empowered or self-interested in the financial affairs of the university to act as effective principals – none of their actions have the potential to maximise their own financial position[3] at the expense of vice-chancellors as agents and hence they are unable to exercise effective control as governors with respect to levels of VC remuneration.

Exogenously, significant public funding to universities in both the UK and Australia justifies governments acting as principals but, in both nations, governments have currently restricted themselves to relatively weak, hands-off, market-based regulation, consistent with the shift to steering from a distance approaches described earlier. Agency theory posits that where principals are weak or nominal, agents will maximise their own (economic) self-interest. We suggest this is precisely what has occurred in relation to VC remuneration.

The second root cause of the over-compensation of VCs in both Australia and the UK, as we have highlighted, is that many officially sit on their own universities' remuneration committees. This is a clear failure of university governance and appears to have enabled VCs to secure remuneration for themselves at levels that exceed that which would serve as an appropriate reward necessary to ensure the appointment and retention of suitably talented people.

In agency governance, executive remuneration will always exceed the true economic wage because it is designed to be at the optimal point to maximise return to the shareholder in a trade-off between surveillance/control costs and rewarding managers, such that they promote shareholder interests above their own (Jensen & Meckling, 1976). To the extent that salaries are not justifiable by reference to performance, they can be said to constitute rent. Rent-seeking behaviour is where actors extract a greater share of remuneration than is economically justified in terms of work undertaken or risks endured; it is a consequence of having unchecked power (Krueger, 1974). Essaji and Horton (2009) suggest that rent-seeking may explain the escalation of VC remuneration in Canada. On the basis of the data presented in this article, we argue that it may also explain, at least in part, the escalation of VC remuneration in Australia and the UK. Rent-seeking points to a significant breakdown in university governance.

Earlier, we noted that agency theory posits that principals and managerial agents both seek to maximise their own financial position at the expense of the other (Ross, 1973). Of the two ways that agency theory suggests can mitigate this problem, we have demonstrated that in both the UK and Australia, remuneration has not been effective in aligning the interests of principals (in terms of well-functioning universities) and agents. Agency theory suggests that the second means of addressing this problem is through increased surveillance – governance systems that oversee, control and monitor the actions of agents (Jensen & Meckling, 1976). These are generally dismissed as being too expensive and an unnecessary imposition on universities as self-governing and autonomous entities. Yet it is clear that the current system is not working in either universities' or the public interest and also that mechanisms that limit VC remuneration (we suggest that limits on senior executive remuneration would naturally follow) can work. The Australian historical example outlined in this article demonstrates this. Governments could, for instance, set fixed ratios between VCs' remuneration and mean academic salaries. This would be in line with agency thinking concerning surveillance and control where remuneration has failed to achieve the desired goals.

There is evidence from Australia and from the UK, that the coronavirus pandemic has drawn attention to and exerted some mitigating effects on vice-chancellors' remuneration in 2020, with some having taken remuneration cuts in the face of financial exigencies facing their universities (Ross, 2020a). This does not address the underlying weakness in university governance that enabled vice-chancellors' remuneration to escalate in the first place and thus suggests that once university finances are restored, the problem is set to return. Decisive steps to limit VC remuneration would assist in restoring faith in the university sector at a time when this is arguably most needed.

Notes

1. By vice-chancellor we mean the chief executive officer of universities. These posts are also variously named 'president', 'principal' or 'rector'.
2. It is not relevant to name these universities.
3. Approximately half of the chancellors of Australian university councils are remunerated (as are some council members) but in general the levels of remuneration are modest and do not compare with the fees paid to company directors. There is no evidence of a system of performance-based bonuses. UK university council members are currently volunteers and are not remunerated.

Acknowledgements

The authors gratefully acknowledge the assistance to access published historical documents provided by a number of Australian universities and access to archival records provided by the National Tertiary Education Union of Australia.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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