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Institutionalizing University Governance in the University of the Future

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The structural layout of universities reflects the strategy of the university and with it the intended responses to expectations of external as well as of internal stakeholders. However, in the traditional architecture of universities, there is a lack of transparency and compliance, since systems necessary for that are not yet sufficiently embedded. This paper tries to close this gap by institutionalizing university governance as part of the structure of universities. In the paper, we propose a research-based framework for a modernized structural layout: It combines university governance norms with the university governance codex and aims to increase the effectiveness of university governance related to compliant behavior, governance system monitoring and continuous improvement of the university governance system. The paper also discusses the benefits of this system for the university of the future.

1. BACKGROUND AND OBJECTIVE OF THE PAPER

Universities as complex institutions are not only supposed to fulfill their educational mandate, but also manage many and varied interest conflicts between and among external and internal stakeholders. A today's university is a highly micro-political system in a complicated macro-political environment.

Within the past decade, higher education has gone through major reforms in many countries of the world (e.g. De Boer, Jongbloed, Enders, & File, 2010). Striving for making higher education more efficient and effective, business models have been transformed, processes were changed, and financial resources were shifted. Applying the paradigm of "New Public Management" (e.g. Aucoin, 1990; Hood, 1991) to higher education, political reforms were initiated in order to increase university performance through the implementation of competitive and managerial elements (e.g. Fumasoli, & Lepori, 2011; Santiago, & Carvalho, 2008; Schimank, 2005). Redefinitions of goals for universities and new legitimacy demands (e.g. Hüther, 2010) affected self-conception, mission, strategies and the overall image of universities. Universities were forced to develop new competencies in order to adequately cope with new claims of stakeholders as part of an increasingly international and technological competition in higher education.

As to their organizational configuration, universities all over the world are torn between two opposing principles (e.g. Carnegie, & Tuck, 2010; Christensen, 2011; Delbecq, Bryson, & Van de Ven, 2013; Scholz, & Stein, 2011): One principle is the centralized model of universities with strong control of the university top management at the expense of the substructures such as departments and faculties. Based on central hierarchical planning, the president almost decides on the whole range of university matters throughout the whole system, including the overall strategy, election of deans, appointment of professors, budget allocation or additional pay. The subunits mainly execute the decisions of the university president. The other principle is the collegial approach, reviving subsidiarity, decentralization and participative bottom-up management. This democratic structure tries to strengthen academic freedom within the substructures while the university management is in charge of attracting funds and endowments for the university and concentrates on external representation.

Regardless which principle we follow: The university top management is accountable towards its stakeholders. And there is an overall demand for transparency of decisions (Gawley, 2008; Jaradat, 2013), with a requirement for compliant behavior. In respect to external stakeholders, this means professional and liable university management, in respect to internal stakeholders,

we talk about preserving academic autonomy for single persons as well as for faculties and departments.

This pressure for accountability leads to a need for organizational response. The university as a whole has to safeguard that the expectations of a compliant management will be met. The structure of the university usually reflects its strategy and with it the intended responses towards distinct expectations. In the traditional architecture of university structures, however, there is a lack that the modern demands of transparency and compliance are not yet mirrored because university governance is not yet sufficiently embedded.

The objective of our paper is to help to close this gap by explicitly institutionalizing university governance in university structure of the university of the future. We will provide a research-based framework for a modernized structural layout that will reflect the requirements of university governance, combining university governance norms with the university governance codex and aiming to increase the effectiveness of university governance related to compliant behavior, governance system monitoring and continuous improvement of the university governance system. In the end, the paper also discusses the expected benefits of this system.

2. RESEARCH BACKGROUND

2.1 Structural Basis of Universities

A university is headed by a university president (or, depending on its situational terminology, by a rector or chancellor or CEO) and a board of trustees. The university top management assumes roles such as providing the funding of the university, defining the university-wide strategy and offering an attractive selection of academic disciplines. The substructures of a university such as faculties, departments, institutes and schools play the most important role for the university's service provision. Consisting of academic staff such as professors, associate professors, assistant professors, research assistants, lecturers, and administrative staff, university divisions are responsible for academic research and teaching. The administrative units of the university provide the service and technological infrastructure.

A university as a "professional bureaucracy" (Mintzberg, 1983: 189) requires an increased awareness of its structural conditions at three levels. At the macro-level, the main subject of management is the relationship between the political sphere, represented by the ministerial bureaucracy, and the academic sphere, represented by the president of a university in combination with different kinds of university boards. The prevalent question at the macro-level is the allocation of predominantly public and state funds (e.g. Paradeise, Reale, & Goastellec, 2009: 198). The meso-level focuses the mechanisms of the internal coordination of diverse interests of university management and faculties. The micro-level deals with the decisions of individual actors such as professors (e.g. Wilkesmann, 2011: 307). At all three levels, inherent tensions and interest conflicts occur. The crucial question is in the end: Who does really govern the university in respect to which issue?

2.2 University Governance as Necessity

The general principle of university governance is academic autonomy (Stevens, 1981; Henkel, 2007). It begins in the university's external relationships. Although outside stakeholders have a right to be broadly informed, they are not the university management itself. And also within universities, there are potential conflicts between the interests of the university management and the interests of the faculties and their academic staff (e.g. Carnegie, & Tuck, 2010: 434). These conflicts range between the opposite poles of the university management's autocratic

centralized leadership and collegial leadership almost in the sense of a “servant leadership” (Greenleaf, 1977) towards subunits. These conflicts may span different levels, when for example in times of decreasing public funding and in order to gain control over scarce financial resources for own activities, university management and stakeholders have different views on issues such as the degree of (in)dependence on university co-operation with external companies.

University governance regulations can be seen as the result of a complex bargaining process, dominated by some internal key players, in the light of experience ignored by the majority of affected academic staff, and with stakeholders such as politicians, professional associations, and companies interfering in it.

In universities, an ideal balance of interests has to be found again and again and is continuously challenged by reality. From time to time, academics point out “that university governance is sick” (Yoder 1962: 222). Since the early 1960s, the question of balancing the interests between university management and academic staff, between administration and faculties, is repeatedly raised (chronologically e.g. Corson, 1960; Yoder, 1962; Barrett, 1963; Larsen, Maassen, & Stensaker, 2009; Kretek, Dragšić, & Kehm, 2013; Shattock, 2013; Taylor, 2013; Scholz, & Stein, 2014). University research widely agrees implicitly or explicitly on the need for university governance regulations in spite of different opinions about the content.

2.3 Corporate Governance as a Tentative Blueprint

Governance serves to moderate tensions within organizations (e.g. Clarke, & Branson, 2012; Kooiman, 2003; Monks, & Minow, 2011; Williamson, 1996). Management science has all along formulated corporate governance principles for a correct and compliant management of corporations. Leadership in accordance with these regulations is expected to ensure the sustainability of the organization.

Four types of corporate governance regulations can be distinguished: first, the self-created, experientially-based company rules, for example management guidelines and internal control regulations (e.g. Picou, & Rubach, 2006); second, customs and usances with a claim for universality, for example principles of orderly accounting (e.g. Moxter, 2003); third, voluntarily chosen certification standards, for example ISO norms or quality models like the EFQM (e.g. Hakes, 2007) and the OECD Principles of Corporate Governance (OECD, 2004); fourth, binding laws, for example the Sarbanes-Oxley-Act from 2002. Taken together, all of these types reflect the current maturity level of management knowledge as well as the predominant ethical viewpoint in management science.

Those principles exist due to the insight that meeting a minimum amount of regulations by the top management and supervisory bodies is essential in order to secure long-term and sustainable success (e.g. Monks, & Minow, 2011: xxii). Corporate governance regulations help avoid rudimentary management mistakes and promote mutual gains (e.g. Williamson, 1996). For this reason they include regulations for the effectiveness of management and supervision structures, for the inclusion of the interests of stakeholders such as investors, customers and employees and, overall, for the provision of informational transparency.

Characterizing these principles by initiator and by obligation, we can again identify several forms (e.g. OECD, 2004: 12). For single companies, company owners can declare regulations as binding for the executive managers and all employees, backed by an internal control of the compliance. Within an industry, several companies can join forces in order to voluntarily set a binding framework for corporate governance which will later be controlled by an industry association. Regarding a whole country, its legislative body is able to codify corporate governance and compliance regulations which are subject to legal supervision. Even supranation-

al governance regulations exist for the companies of all respective member countries, also covered by legal supervision.

The context-related entirety of management and supervision principles is called governance. This term is used in a descriptive sense as a generic term for corporate regulatory systems, serving to reveal systematic and sometimes unperceived management risks. Moreover, it is used in a normative way as an imperative that has to be obeyed. This “good governance” (e.g. Aguilera, & Cuervor-Cazurra, 2009; Fauver, & Fuerst, 2006; OECD, 2004: 3) implies from the beginning a differentiation in “good” and “bad”. The underlying idea is that the efficacy of alternative modes of governance can be assessed and optimized (e.g. Williamson, 1996: 11).

The predominant field for governance regulations are companies (e.g. Monks, & Minow, 2011; Shleifer, & Vishney, 1997). However, they also cover politics (e.g. Chaturvedi, 2005) and economics (e.g. Bell, 2002; Tabb, 2004). Besides the primary field of private enterprises, governance regulations exist for example for public administrations (e.g. Osborne, 2010), cooperatives (e.g. Eckart, 2009), in the health care system (e.g. Youde, 2012), for utility services (e.g. Guy, Marvin, Medd, & Moss, 2011) and for educational institutions such as schools (e.g. Altrichter, Brüsemeister, & Wissinger, 2007).

3. UNIVERSITY GOVERNANCE SPECIFICATION

Two main streams of research on university governance can be identified. The first research stream takes the external perspective, looking to the diversity in the macro-political field of university governance. Coined as higher education governance, it covers the search for general differences in university governance, taking into account different cultural settings throughout the world, different traditions, different reforms and different ownership structures. Detailed cross-national analyses are provided for example by the OECD (e.g. OECD 2003; 2012). Based on this, there is a search for comprehensive patterns of university governance and for overall university governance norms. The second research stream takes the micro-political perspective. It is based on new institutional economics (e.g. Jensen, & Meckling, 1976; Williamson, 1975), dealing with organizational arrangements for effective individual and collective behavior and modes of governance in hierarchical structures. The issue of distributed governance in universities among university management, faculties and professors can be based on the analysis of property rights (e.g. McCormick, & Meiners, 1988). The impact of governance on performance output is surveyed empirically (e.g. Brown Jr., 2001) and principal-agent structures in universities are analyzed (e.g. Cunningham, 2009; Scholz, & Stein, 2010), leading to the description of alternative university governance codices. These two elements of university governance systems will be discussed in the following sections.

3.1 University Governance Norms

Taking again companies as preceding, explicit corporate governance has been developed in the 1990s, however, implicitly it existed long before (e.g. Daily, Dalton, & Cennella Jr., 2003): It has always been common consensus what an “honorable merchant” is in business life and which business conduct can be expected. With the increasing strategic and technological complexity of corporate systems and due to the observation that the boundaries of those implicit rules were increasingly checked out, a formalization of that implicitness was required.

Meanwhile, regulation of former implicitness reaches universities. In this regard, implicit traditions are no longer automatically the guidelines of action. It rather seems that everything is

permitted that is not explicitly prohibited. However, to uphold governance flexibility for the people in power, it is reasonable to establish normative guidelines, contrary to the alternative of an extensive catalogue of prohibitions. In general, as a means of social control, a norm is defined as an informal or formal understanding of a social group that governs individual behavior (e.g. Hackman, 1976; Feldman, 1984), serving the emergence of culture and the socialization of people in social systems.

A university governance norm seems difficult to develop, in particular due to the divergent starting positions of the advocates of centralized and of decentralized governance. It is evident that there are different opinions concerning the formulation of a university governance norm. The respective actors, who feel in danger to be limited in their room of maneuver, are likely to oppose such a norm. However, the given social system in which politics, economy and education takes place sets a collective-ethical framework that prefers certain behavior and excludes other behavior. This ethical framework is constantly and dynamically evolving and stringently affects all areas of social relations. In regard to corporate governance, it was possible to find such a normative basis. Companies focused on superordinated principles such as sustainability and transparency, where, despite all situational differences, non-compliance will increase the risk of failure and management collapse. The Enron and Arthur Andersen case (e.g. Branson, 2003; Dossani, & Jo, 2010) substantiate this assertion. In contrast to that, there are only a few cases of private universities where deficits in university governance led to their collapse while in public universities, the government always has the option to intervene and directly revise the undesirable development.

“Good university governance” normatively refers to superordinated principles resembling those of “good corporate governance”. They base upon the same understanding of a democratic, open, mutually committed society. In addition to that, “good university governance” has to consider the institutional particularities of universities (Fielden, 2008).

This leads us to two implications:

First, superordinated principles for university governance are oriented at the university’s democratic constitution. In a university as a loosely coupled system (e.g. Weick, 1976), i.e. an interrelated community of lecturers and learners with own identities concerning teaching and research, no single actor is supposed to claim the exclusive governance power. Sharing the governance power leads to partial equilibriums of influence. In a fragile system of checks and balances, a democratic balance of power will emerge, being achievable through democratic elections of decision makers and through separation of powers among legislation (decision makers), the executive (management functions) and the judiciary (controller). This leads to the university governance norm of participative governance across university subgroups, integrating committees with substantial collegiality (e.g. Orton, & Weick, 1976) and respecting different socializations based on tradition and sustainability.

Second, universities are financed by external investors, i.e. tax payers and governments, companies and donators. They expect that the whole university including its management abide the law and they demand information about what is done with their money and which results have been reached. Related university governance norms aim at outside transparency and reporting and at being accountable for compliant behavior.

Therefore, the university governance norms reflect the distributed influence among the stakeholders of a university and are dedicated to safeguard participation rights, transparency of decisions and, therefore, minimization of sustainability risks.

3.2 University Governance Codex

A university governance codex, to be derived from the university governance norms, is the system of guidelines for the embodiment of sustainable and reasonable university governance. Some of the guidelines are compulsory and some are recommended for voluntary application. The university governance codex prescribes how universities report on their compliance of university governance norms and how they establish transparency on whether, where and how far they diverge from the norms. It lays down the object areas and the principles of university governance assessment and measurement and it specifies the sanction modalities that apply if university governance norms are violated.

The sense of setting up university governance codices follows the fundamental idea of governance that is to reach mutual gains for example in situations of bilateral dependencies (e.g. Williamson, 1996). Therefore, governance-inherent issues of conflict resolution and quality assurance in a broader sense become crucial.

The prevalent function of a university governance codex is to balance inherent tensions and conflicts among decision makers and stakeholders (e.g. in general Boivard, 2005). University governance will be effective if it contributes to a university system which is not distracted from its genuine functions. Moreover, university governance has to find a mode of conflict resolution which is minimal in respect to transaction costs (e.g. Williamson, 1996: 13). But university governance also contributes to the overall appearance of a university. Stakeholders perceive the output quality in teaching and research. Therefore, a functional university governance codex strengthens the overall competitiveness of the university in the market for higher education as well as the overall identity of the university, leading to a shared value system among the university's staff. Thinking this further, a university governance codex contributes to social sustainability for academic professions (e.g. Hammond, & Churchman, 2007).

4. LOOKING AT EFFECTIVENESS

Once the intentions of university governance are negotiated and the respective structures are found, the consecutive problem at the object-level is compliant behavior by university management and central administrative service. University governance regulations can be easily violated because effective control of compliance is extremely difficult. The extent of observing university governance norms, however, influences the extent of subsequent conflicts that bear the risk of limiting effective university operations. Therefore, conflict resolution and quality assurance that are formulated by the university governance codex have to be met.

Usually, a governance system's effectiveness is operationalized with the help of indicator systems and combined in an index. One step further, rankings can make the status of the governance system and the position in cross-organizational comparison transparent. Davis et al. (2012) show the enormous role that such indicator systems already play and analyze effectiveness, reliability and impacts on policy making. It becomes obvious that the design of indicator systems has a significant influence on the effectiveness of governance regulations.

In university governance, there is the parallel need for effectiveness indicators. A university governance index can support the sustainable implementation of structural innovations if it shows the implementation of regulations of the university governance codex and reports the status of the realization of single aspects.

It can for example systematically determine under which university law and university foundation act a university is governed and which university governance norms these laws and

acts fulfill. Similar to a scorecard for political university autonomy in Europe (Estermann, Nokkala, & Steinel, 2011) distinguishing the autonomy of universities concerning organization, funding, staff recruiting, and profile formation and resulting in a performance ranking of European countries in those four dimensions, it would be possible to establish a university governance index that is able to identify the balance of centralized and decentralized, collegial control in university regulations.

Other catalogues of structural items can already be found that capture the extent of decentralized university governance and its realization in universities. Ramo (1998) scans seven key indicators for distributed university governance: governance climate, institutional communication, the role of university supervising bodies, the role of the university president, the role of faculties, collective decision-making and the steering mechanisms of structural governance regulations. Scholz, Stein, & Fraune (2012) develop a criteria catalogue for the assessment of decentralized university governance on the faculty level with aspects such as development of a faculty strategy, funding of the faculty, incorporation of the faculty in administrative structures and faculty information systems.

Concerning the ongoing university governance process, the central question is the intensity of efforts to maintain the compliant execution and supervision of the university governance codex. The effectiveness of university governance over time has to be measured: How is transparency established regarding the process of decision-making? How are existing incentive schemes, for example salaries of the university management or supervisory bodies, monitored in respect to their effects and, if necessary, modified? Which key performance indicators, classifications and rankings are used for university governance? Does an evaluation of the university governance exist and how independent is it from the people involved in university governance? And as far as sanctions are concerned, the consequences in case that university governance violates the norms need to be assessed. Furthermore it is essential that an independent and neutral reporting system on governance norm violation and the sanctioning exists.

The resulting reporting system tells us the maturity of university governance in a specific university. An overall university governance index serves as operationalization and quantification of governance issues. It will be interesting to determine single subindices such as an index for the collegiality and participation fit of university laws; an index for the transparency of the election of university presidents; an index for the transparency of incentive and bonus systems for people with a university leadership role; an index for the extent of mandatory and voluntary compliance of guidelines university governance codex guidelines; an index for the quality of university governance reporting; or an index for the dynamic development of the university governance codex.

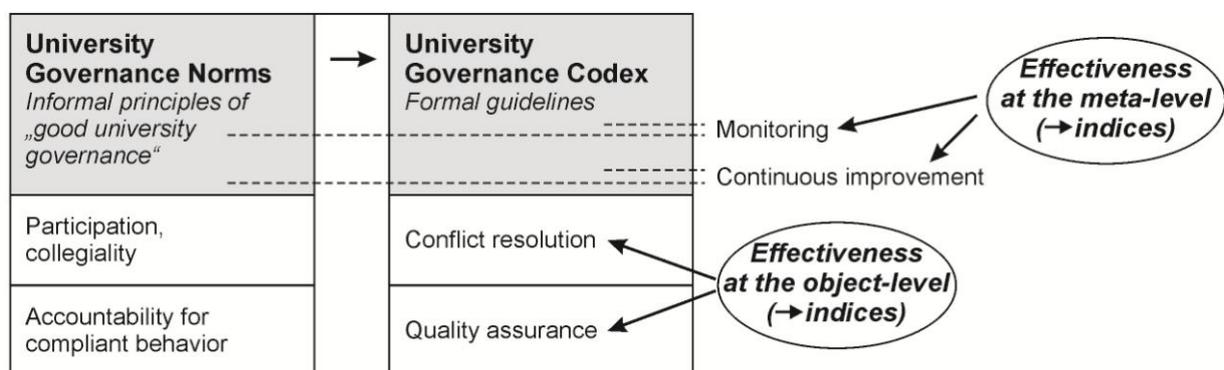
But this is only the one facet of the effectiveness of a university governance system that is related to the object-level. Moreover, there are criteria at the meta-level: how effective the monitoring of governance effectiveness is, and how effective the continuous improvement of university governance is.

Once the university governance is defined in a university, it will be essential to repeatedly survey appropriate data and make them available for tracing. Monitoring over time helps increasing compliance towards the norms. The monitoring results allow conclusions on the common consciousness of university governance. University governance effectiveness can be increased if, similar to corporate governance, monitoring will be based on the definition and application of indices as part of an overall audit system (Cohen, Krishnamoorthy, & Wright, 2002). Monitoring effectiveness is evaluated not only internally but also from the outside. The “market” in the sense of specialist media issue rankings for universities, and researchers in higher education might specialize on single subindices.

A further long-term aspect of effectiveness focuses the capability of university governance to adapt to new realities. There must be a competence for constant review and change of the most important scopes such as the way of assigning the university president, the decision-making power of the university management and the faculties and the overall transparency of the decision-making system (e.g. Armour, Hansmann, & Kraakman, 2009). Furthermore it is necessary to regularly assess the effectiveness of the sanctioning system in case of violation of university governance.

Binding the framework together, figure 1 shows the relationship between university governance norms, university governance codex, and the effectiveness both at the object-level and at the meta-level.

FIGURE 1: The University Governance Framework

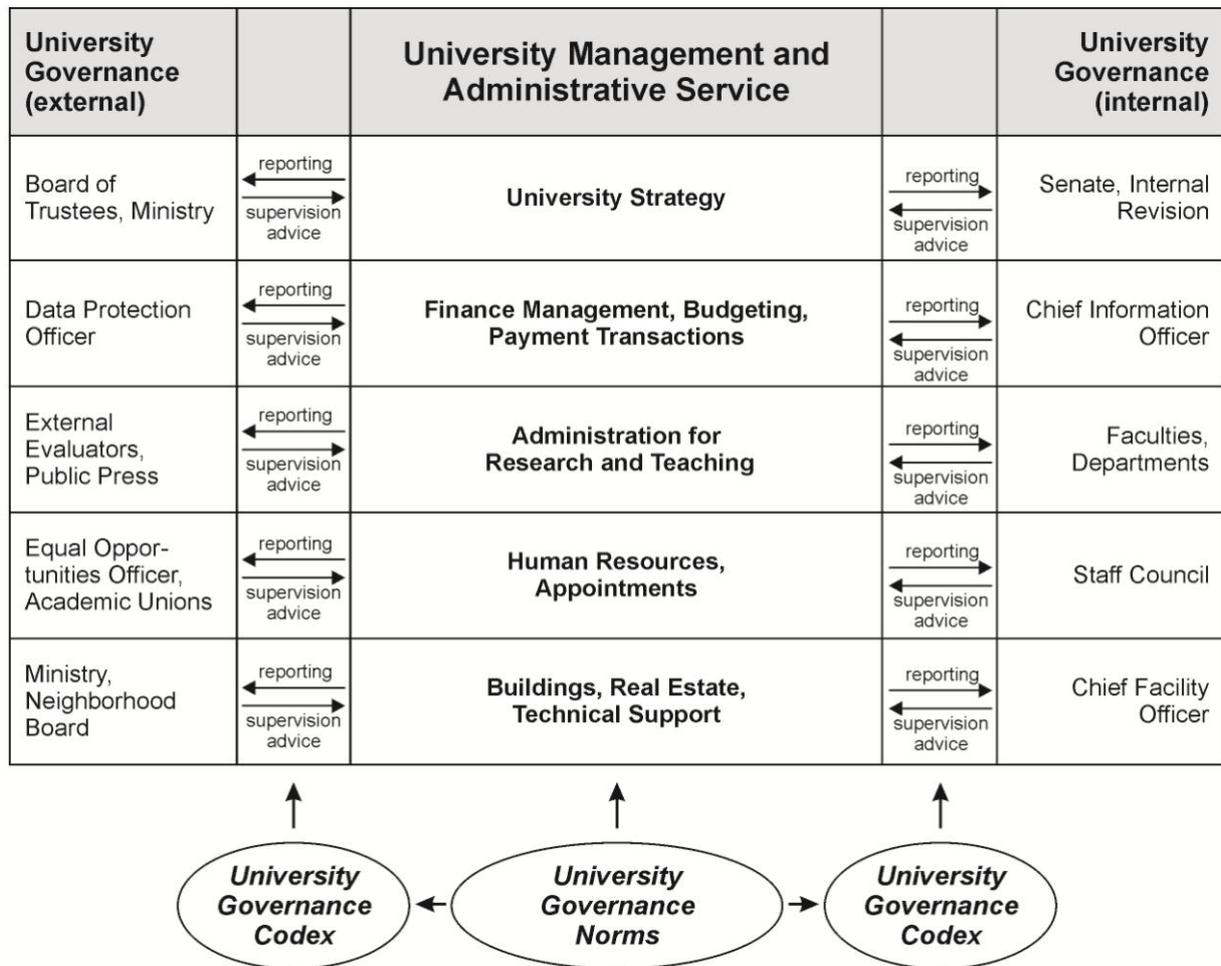


5. STRUCTURAL INSTITUTIONALIZATION

Regardless which specific tasks the university top management and its administrative units fulfill, structural institutionalization means to create explicit university governance control units as part of a modern “university of the future”. These university governance control units will be designed to supervise university management and they are the addressees of university reporting.

Because of the level-related differentiation made above, it seems necessary for a “complete” university governance that these university governance control units on the one hand cover the macro-political level with the external stakeholders, on the other hand the micro-political level with the internal stakeholders. Therefore, each area of university management and central administrative service will be supervised and advised by an external as well as an internal university governance unit. The other way round, each area of university management and central administrative service has to report university governance norm fulfillment externally as well as internally. Figure 2 shows the core of the university structure where university governance is implemented.

FIGURE 2: Institutionalized University Governance



We see that the internal university governance units represent the internal stakeholders and are partly enforced by law, e.g. in some countries the staff councils, and partly voluntary, e.g. a Chief Facility Officer who cares about the general university architecture. On the external side of university governance, this is the same principle, seeing enforced units such as a data protection officer, and units that are country-specific such as academic unions. It becomes important that the both the external and internal university governance units are independent from the university management and central administrative service and that they have effective mechanisms of sanctions that apply if the university management does not meet the compliance demands stated by the university governance norms.

We know from new institutional economics that any institutionalization brings along transaction costs (Williamson, 1975). Institutionalizing university governance has to follow the principle that the transaction costs of new structures, rules and processes must on the long run be less than the costs of missing university governance. These transaction costs are mainly the opportunity costs of governance risks, consisting of punishments for non-compliant behavior, third party funding staying away, or the loss of academic reputation due to financial intransparency and misappropriation of public funds. In comparison to the fall of a university, university governance control units can be worth the efforts.

Referring to new institutionalism (Powell, 2007), the institutionalization of university governance spills over to the question of legitimacy within society that is, beside the economic suc-

cess, necessary to be established for organizational survival. As a matter of fact, peer pressure among universities is steadily increasing worldwide towards university governance and compliance (e.g. Fielden, 2008). Spoken in terms of new institutionalism, an overall isomorphism (DiMaggio, & Powell, 1983) towards structurally explicit university governance can be observed. Given that institutionalized structures constrain organizational action (Giddens, 1991), universities with structurally institutionalized university governance at its macro-level of organizational design infiltrate the behavioral practices of the agents at the micro-level of individual compliance (Knorr-Cetina, 1981). This will lead to an overall collective behavioral change in the sense of the university governance norms.

6. DISCUSSION

Which benefits does the proposed structural institutionalization of university governance have for the university of the future? First, it serves to map the theory-based conceptions, second, it helps to identify blind spots in university governance research, and third, it points to university governance risks and long-term threads to the sustainability of the university system as a whole.

Comparing university governance internationally, it is obvious that on a worldwide scale, systems of higher education differ very much (e.g. Paradeise et al., 2009). In particular in the US, university governance is under close observation. The *American Association of University Professors* argues the case for decentralized university governance. Since the middle of the 1990s, the AAUP progressively addresses collegial university governance (e.g. Euben, 2003) and its evaluation (e.g. Ramo, 1998), provides checklists for university president search committees (e.g. Poston, n.y.) and indicator systems for good university governance (e.g. Ramo, n.y.). Still, current university governance is moving towards the centralized model (e.g. Kamola, & Meyerhoff, 2009). Contrasting this with the German situation, there, the relevance of university governance rises as well, albeit with a big time lag to the corporate governance debate. Prevailing are statements of proponents of centralistic university governance, like the German Rectors' Conference (e.g. Hochschulrektorenkonferenz, 2011) or the Centre for Higher Education (e.g. Müller-Böling, 2000). However, more collegial university governance concepts are discussed and assessed for their effectiveness (e.g. Bogumil, & Heinze, 2009) and their governance-compliant implications for the relationship between universities and companies (e.g. Scholz, & Stein, 2012). It seems to be natural that also in university governance, cross-cultural differences will occur. Reflecting the international differences in university governance, a very important discussion starts, focusing international system transfer. It leads us to a critical view on international convergence and assimilation of university governance. The so-called "Americanization" of university systems pushing university systems internationally in the same direction of centralistic governance (e.g. Kamola, & Meyerhoff, 2009) might not be reasonable. While situational factors differ from country to country, competitive advantages can only be achieved if different systems – and not equalized systems – compete (e.g. Page, 2007).

Empirically, it will remain a challenging task to relate university governance, for example university governance norms on faculty autonomy, university governance guidelines in the sense of a codex, and university governance measurement systems, to the overall university performance, effectiveness and competitiveness.

7. CONCLUSIONS

University governance is expected to find its way into university structure and then into university culture and the behavior of the actors in universities. The more conscious the modes and structures of university governance are, the more it will be possible to instrumentalize it for university effectiveness and competitiveness in the international competition in higher education.

From this point of view, university governance and its structural institutionalization are more than something theoretical and something abstract. They are of utmost relevance for the viability of universities and for example for practical motivation and retention of qualified academic staff in the university system. The substance of available human capital of universities ultimately depends on their university governance systems. Therefore, human resource development and training of decision makers in universities (e.g. Scholkmann, 2008) has to be adjusted to university governance. For instance, university presidents and faculty deans should be trained in respect to modern, situationally effective university governance.

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