

GOOD GOVERNANCE OF SENIOR STAFF REMUNERATION IN SA HIGHER EDUCATION : HESA's RESPONSE TO THE REPORT AND RECOMMENDATIONS OF THE INDEPENDENT REFERENCE GROUP

1. INTRODUCTION

- 1.1 Higher Education South Africa (HESA) is an association of all South African public higher education institutions. It was established in 2005 as the united voice of the higher education sector. The Board of Directors of HESA is made up of Vice-Chancellors of all public higher education institutions, meets quarterly, and the Executive Committee meets roughly every six weeks. HESA commits itself and all its member institutions to upholding the best standards of good governance, management and leadership of higher education institutions, and to providing mutual support to achieve high standards of excellence in teaching and research. The collective reputation and public accountability of higher education in South Africa is a core mandate of HESA. One of the ways which HESA adopted in advancing higher education's collective standing in society, was to introduce a variety of forms of self regulation. An area of immediate interest in stimulating such self regulation was the area of remuneration of senior management in our higher education institutions.
- 1.2 In keeping with this mandate, and as part of its stated commitment to introducing a variety of forms of self regulation into the higher education system, one of the early resolutions of HESA thus was to recommend the continuation of a study by an Independent Reference Group on the Remuneration of Senior Staff at South African Public Higher Education Institutions initiated towards the end of 2004 by the South African Vice-Chancellors Association (SAUVCA). It was intended that this study, within the framework of institutional autonomy on matters such as the remuneration of senior management, could be assistance to Councils of higher education institutions in evaluating their remuneration policies and practices.
- 1.3 HESA commissioned the Reference Group, an independent team (which excluded members of senior management of any public university in South Africa) with expertise in issues of governance, higher education policy, higher education funding and remuneration, and chaired by Dr Mamphela Ramphele, former Vice Chancellor of UCT and MD of the World Bank Institute and Vice President of External Affairs of the World Bank to:
 - Obtain an accurate and factual picture of the current situation regarding levels of remuneration of senior management at higher education institutions and the processes in place to set these levels;
 - Understand more thoroughly the factors that influence remuneration levels of senior staff at institutions; and
 - Develop a set of recommendations for HESA's consideration.
- 1.4 Following a preliminary presentation by Dr M Ramphele in December 2005 to the Board of Directors of HESA, the Report was completed in March 2006 and presented to HESA by the Independent Reference Group. A copy of the Report was subsequently handed over to the Minister by mutual agreement. The Minister, as far as HESA is aware, has not completed her study of the Report.
- 1.5 HESA's Board of Directors met on 26 May 2006 to formulate a formal HESA response on the Report and its recommendations. One of HESA's positions is that the matter of remuneration of senior management at public universities in South Africa is of sufficient

public interest that the Report and the considered response of HESA should be made public. HESA's formal response to the Report is given below.

2. THE REPORT AND ITS RECOMMENDATIONS

- 2.1 The Report's analysis is appropriately located in the context of principles of good governance, as endorsed by the prevailing policy framework for South African higher education. These include the principles of public accountability, and of institutional autonomy and academic freedom, which need to co-exist in proper balance. **It is HESA's firmly held opinion that the freedom of University Councils to determine remuneration is an important domain of university self government.** While HESA believes that upholding the principle of autonomy is essential to the wellbeing of the sector, it also contends that appropriate modes of sectoral self regulation would greatly enhance governance at institutional level.
- 2.2 The analysis and findings of the Report are presented in three broad sections followed by a set of specific recommendations:
- i). The first section covers the development of an institutional complexity index and then links the remuneration levels of Vice-Chancellors with the various institutional complexity indices.
 - ii). The second section links the remuneration levels of some selected posts in the civil service and in some parastatal institutions. A fourfold categorisation of Vice-Chancellor's remuneration, linked to a similar fourfold categorisation of the institutional complexity indices, is then suggested.
 - iii). The third section covers the various institutional governance processes involved in arriving at decisions on the remuneration levels of senior management

HESA's response will cover each of the three sections and will then conclude with responding to the specific recommendations.

3. HESA's RESPONSE TO THE FINDINGS AND RECOMMENDATIONS OF THE REPORT

- 3.1 HESA welcomes the release of the Report of the Independent Reference Group on the Remuneration of Senior Staff in South African higher education institutions, which it had commissioned in 2005. It is HESA's view that the Report will:
- Contribute significantly to improved governance arrangements with regard to remuneration matters for senior staff at higher education institutions;
 - Constitute a valuable point of reference for Councils of higher education institutions in determining remuneration policies for the senior management of their institutions;
 - Constitute an important initial step towards greater self-regulation by the public higher education system in South Africa; and
 - Contribute significantly to a more informed and rational public debate on remuneration trends for senior staff in South African higher education, especially against the background of the need for our higher education system to be internationally competitive.
- 3.2 **The development of a model to measure institutional complexity:**
- i) The data in the Report reveal that Vice-Chancellors' remuneration packages on 1 June 2005 ranged from R942 000 to R3 290 000. Excluding the single 'outlier' in this range,

remuneration packages vary from R942 000 to R1 791 000 (a range of about R850 000). A range of 50% between the highest- and lowest-paid Vice-Chancellors does not seem to be problematic in itself when considering the significant institutional diversity in our country. The Report then attempts to develop a measure of institutional complexity and proceeds to indicate that the remuneration levels of Vice-Chancellors do not appear to be sufficiently linked to institutional size or incomes, which are among a range of key determining factors of institutional complexity and of associated performance challenges for institutional leadership. The Report also concludes that the extent to which performance measurement and management are rigorously factored into remuneration decisions in higher education institutions, is unclear.

ii) HESA accepts that a model linking institutional complexity to remuneration levels of senior management, would constitute an important part of a framework for Councils of institutions in determining their respective remuneration policies, but is of the view that the model developed in the Report for measuring institutional complexity is incomplete in a number of respects, as acknowledged by the Report itself. HESA notes the Report's listing of issues which would have a decisive bearing on future development of the complexity index. These include:

- Number of campuses and sites of educational delivery;
- Degree of substantive institutional change taking place at the institution due to government's programme on restructuring the higher educational landscape which has created a number of merged institutions and new types of institutions;
- Geographic location of higher education institutions; and
- Degree of diversity within the institution and its community.

iii) HESA is of the view that the incompleteness of the model put forward by the Reference Group could well partly be the reason for the poor fit between complexity indices and remuneration levels. HESA therefore feels that drawing any conclusions from the Report on directly linking remuneration levels of Vice-Chancellors to the corresponding complexity level of their institutions, has to be done with the utmost caution. Due to the above deficiencies in the complexity model put forward in the Report, such deductions cannot be definitive in any manner but could at most serve as some form of guideline or source of additional information on which a broader overall picture can be based. Substantial further work will thus have to be done in order to develop a reliable model for measuring institutional complexity which incorporates some of the omitted factors mentioned earlier.

iv) The Reference Group also noted that the income differential within the top three levels of senior management in higher education institutions exceeds 50% in some instances. Reasons for these high degrees of difference are not explicit and would require further examination, but it is proposed that a maximum differential of 50% be applied. HESA agrees that the matter of remuneration in higher education institutions should not be segmented unnecessarily but needs to be addressed holistically across senior management levels, and across the institution in terms of an integrated institutional remuneration policy. Accordingly, further research into the relationship between the remuneration of academic staff at the various levels of posts, and its relationship to senior management remuneration, is important in arriving at an integrated approach to institutional remuneration.

3.3 Linking the remuneration of Vice-Chancellors to the institutional complexity index:

i) The Report attempts to link the remuneration levels of Vice-Chancellors and other members of senior management of institutions to that of certain selected positions in the civil service of the country and that of some selected parastatal organisations. The Report

further suggests four remuneration ranges for Vice-Chancellors which are linked to a fourfold categorisation of the earlier developed institutional complexity measures.

ii) HESA does not find the reasons advanced for this suggestion in the Report compelling and does not support the proposed categorisation of remuneration levels for Vice-Chancellors, for the following reasons:

- It has already been pointed out that the model for measuring institutional complexity presented in the Report is incomplete in a number of respects. This model thus cannot constitute a reliable base for any kind of categorisation of institutions on the basis of their supposed complexity levels.
- HESA finds the comparisons of Vice-Chancellor remuneration levels presented in the Report with those of public figures in the civil service extremely problematic and even superficial. It is abundantly clear that such comparisons only have some value if the full cost of employment, including all benefits and services rendered, are included. Patently, this is not the case when considering the data on the remuneration levels of senior public figures in the Report.
- Any remuneration model for Vice-Chancellors has to form part of an integrated institutional remuneration model which would include the remuneration levels of academic staff at lower levels. The suggested remuneration ranges would impact extremely negatively on the ability of some institutions to appoint top academic staff at the professorial and lower levels. Universities are already experiencing great difficulties in attracting top-level academic staff and the acceptance of these suggestions of the Reference Group would simply make it even harder for institutions to attract and retain top-level academic staff.

iii) HESA's view is that if such an approach of categorising the remuneration levels of Vice-Chancellors is to be followed, the three shortcomings in the approach adopted in the Report, and listed above, would have to be resolved first. At this stage this suggestion in the Report can thus also serve as little more than another source of information for Councils of institutions on which to base their decisions in respect of remuneration of staff.

3.4 Governance processes in determining institutional remuneration policies

i) The Report notes that information on the remuneration of senior management at higher education institutions has formed part of the annual reports of institutions, as prescribed by the Department of Education, since 2003. This information has thus been in the public domain since that date. The Report does, however, find that valid comparisons between remuneration levels based on the information contained in these annual reports is made difficult since the DoE's reporting instructions allow for considerable variation in interpretation. HESA agrees with this finding and supports measures from the DoE aimed at ensuring greater uniformity of presentation of this data as part of the annual reporting requirements of institutions.

ii) The Report presents a detailed analysis of governance practices in our higher education system concerning the determination of remuneration levels of staff. Not surprisingly it finds that considerable differences – in terms of policy as well as in terms of practice - exist between institutions regarding this matter. In particular it finds that policies and practices in particular, do not always match corresponding value statements or codes of conduct which institutions have adopted in the field of determining remuneration levels. HESA's view is that institutional differentiation in our higher education system, coupled with institutional autonomy, will always result in a measure of difference in the approaches of higher education institutions towards determining remuneration policies and the ways in which these policies are implemented. The Report does not advance an argument for standardisation of policy and practice in this area and neither would HESA support such

standardisation, as it would negatively affect the strengths of our higher education system, viz institutional autonomy and institutional diversity.

Nevertheless, the Report suggests that a Remuneration Framework be developed and lists the main elements comprising such a framework. Within such a framework institutions would then formulate their own governance approaches, remuneration policies, and remuneration practices. HESA supports this approach, as such a framework would provide the necessary cohesion in our higher education system regarding remuneration matters without seeking to place institutions in straitjackets on this issue.

4. RECOMMENDATIONS OF THE REPORT

- i) Recommendation 1: Senior staff remuneration and the macro-economic environment

Against the framework set by the principle and practice of institutional autonomy, HESA supports this recommendation.

- ii) Recommendation 2: Objective performance indicators for higher education and senior staff remuneration

HESA supports the development of clear aims and goals for the higher education system and is of the view that the National Plan for Higher Education (2001) sets out such broad system-wide objectives. HESA contends that institutional differentiation requires that the Councils of the various institutions ensure that these broad system-wide aims and goals be reflected in an appropriate manner in the performance objectives of senior staff members of the institutions.

- iii) Recommendation 3: System-level collection, dissemination and analysis of remuneration information

HESA supports this recommendation.

- iv) Recommendation 4: Reinforcing Council accountability for remuneration decisions

HESA supports this recommendation on the understanding that its development and implementation would occur within the framework of responsibilities of individual Councils as set out in the Higher Education Act, Act 101 of 1997, and in the various institutional statutes.

- v) Recommendation 5: Building sectoral self-regulatory capacity for effective senior staff remuneration

This recommendation forms part of HESA's stated goal of enhancing institutional self regulation and is thus supported fully.

- vi) Recommendation 6A: Promoting good practice

HESA supports this recommendation as it forms part of its stated goals towards enhanced institutional self regulation.

- vii) Recommendation 6B: Council accountability for remuneration decisions

HESA supports this recommendation and will seek to incorporate, where appropriate, the required training in its Higher Education Leadership and Management programme.

- viii) Recommendation 6C: Public goals for higher education and governance of senior staff remuneration

HESA supports this recommendation and is finalising a code of good conduct for itself and its members which incorporates the main aspects of this recommendation.

- ix) Recommendation 6D: The King Code and governance of senior staff remuneration

HESA fully supports this recommendation and will assist institutions in the implementation of this recommendation.

- x) Recommendation 6E: Integration of remuneration and other governance practices

HESA supports this recommendation and will assist institutions in the development of such framework policies for institutional remuneration.

- xi) Recommendation 6F: Participation and disclosure

HESA supports this recommendation. The commissioning of the study on the remuneration of senior staff at universities in South Africa by HESA, is an example of HESA's commitment in this regard.

- xii) Recommendation 6G: Management of senior staff remuneration at institutional level

HESA supports this recommendation and will seek to assist institutions in its implementation.

- xiii) Recommendation 6H: Comprehensive systems of performance management

HESA fully supports this recommendation and will assist institutions where no comprehensive performance management systems exist, to develop such systems.

- xiv) Recommendation 6I: Institutional complexity index

HESA supports the development of a model for determining rational and reliable institutional complexity indices, provided the shortcomings in the model as espoused in the Report can be overcome. Such institutional indices should form part of the information base on which Councils should base their remuneration policies and ultimate remuneration decisions. HESA intends launching a project to develop such a model and approach.

- xv) Recommendation 6J: Grade equity in senior staff remuneration

In general HESA supports this recommendation but would wish to embark on some further research before exact grade ranges are suggested – particularly whether there is any justification for determining both a maximum and a minimum differential between successive grades at the senior level.

- xvi) Recommendation 6K: Remuneration ranges for Vice-Chancellors

As already indicated earlier, HESA cannot support the proposed remuneration ranges in the Report as it believes the proposals are based on a flawed analysis and interpretation. HESA contends that this particular issue would have to be investigated much more, as universities are required to function more and more in terms not only of business principles, but in the face of declining government subsidies; they are increasingly expected to engage in substantial entrepreneurial activities in an attempt to earn greater proportions of own and private income. HESA nevertheless commits itself to further

research and investigation into the development of such remuneration ranges which could assist Councils in their decision making on remuneration levels of senior management.

xvii) Recommendation 7: Sectoral monitoring of senior staff remuneration in higher education

As part of its commitment to forms of enhanced self regulation, HESA will investigate the development of viable and effective monitoring mechanisms into policies and practices concerning the remuneration of senior staff.

5. CONCLUSION

HESA would like to express its sincere appreciation to the Independent Reference Group, chaired by Dr Mamphela Ramphele, for producing a well thought through and extremely useful Report on a matter of great public interest and of considerable importance to the higher education sector itself. HESA is convinced that this exercise in improving sectoral and institutional self regulation in the field of senior management remuneration has been very worthwhile and will be of great benefit to higher education as a system, as well as to individual institutions.

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