2015

What is 'Good Governance' in the 21st Century?

Jim Gardner and Simon Raby

The Good Governance Network

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Introduction

On the 6th May 2015, fifteen leaders from the Public, Private and Third Sectors gathered to discuss the important topic of "What is Good Governance in the 21st Century?" The group came from organisations of all size and included chairs, chief executives, academics and governance professionals.

Four questions framed the discussion:

> 1. What are the central challenges we are experiencing in governing our organisations?
> 2. How does the approach we take to govern our organisations differ across sectors?
> 3. What does a Board need to function effectively?
> 4. What are the key attributes of an effective Chair/Chief Executive relationship?

At the outset, participants also stated that they were keen to: share and learn good practice from contrasting sectors; explore the dynamic of pay and reward for Board members; and to consider the different models that exist to govern effectively. With only two hours to explore these topics, the event promised to be exciting, fast-paced and challenging. After the event, positive feedback was received from all participants.

> Tracy Gordon, Director of Deloitte's Centre for Corporate Governance, provided a good summary of the feedback, stating: *"it was a fascinating day, and incredible to see the range of common challenges emerge between CEOs and Chairs in corporate, public and third sector organisations. I'm looking forward to exploring and sharing practice as the network develops."*

The purpose of this report is to provide an insight to the discussions had on the day, and the central challenges that are emerging as we seek to govern our organisations successfully. The report is structured into two main parts. First, commentary is captured within each of the four questions to provide an insight to discussions, and to draw out key themes/topics. Second, an indication is provided of the emerging topics that those CEOs/Chairs present on the day wanted to further explore. It is our intention to check this thinking and open up these discussions beyond this immediate group to a broader audience. We see this report as a useful first step.

We hope you enjoy reading this report, and please do get in touch should you like to further discuss any of the topics featured.

Jim Gardner   Simon Raby

Facilitators, The Good Governance Network
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1.   The central challenges that exist in governing our organisations

The first question considered the central challenges facing senior leaders in governing their organisations. One of the main topics that emerged, which turned out to be a core thread running through the day, was the **challenge of managing the performance of Boards**, whether of Public, Private or Third Sector organisations. There was general agreement that this was an area for improvement across all organisations, regardless of size, type or sector, but that it posed a bigger challenge for organisations in which board members were un-remunerated. The second key challenge that surfaced regarded **the importance of recruiting the right people** with the right skills, knowledge and experience. More than this, there was a need for Board members to be connected to the purpose of the organisation, and to dedicate the necessary time, energy and contribution. It was acknowledged that although the recruitment of Board members has become far more professional in recent years, finding appropriately skilled people who also have time in their busy lives remains challenging, particularly for un-remunerated board members.

The increasing burden of regulation was the third major challenge posed by participants; not only was this creating additional work, it was also felt to be influencing Boards to focus more on their *fiduciary* role (i.e. compliance with regulation, ensuring financial sustainability) at the expense of their *generative* role (i.e. working on organisational purpose, values, culture, innovation). Participants were particularly interested in how they might create a shift, and move towards a more generative and strategic governance space. The fourth challenge participants explored was around **the structures and processes of Boards**. This included the **ideal size** of Boards, with participants suggesting that they have seen a general reduction in size, but private sector organisations tended to have smaller Boards than not-for-profit organisations. The last key challenge to emerge, which linked to discussion about the generative role of Boards, was that participants were wrestling with **the dynamic of Boards**. Participants suggested that they wanted to build 'creative tension*'* into Board discussions, recognising that this can lead to innovation, better decision-making, healthy challenge for management and other benefits, but that it was inherently difficult to maintain and not descend into unhealthy conflict or tension.

2. Cross-sector differences and strengths

The second topic was 'how does the approach we take to govern our organisations differ across sectors (Private, Public and Third)?' Lots of differences were identified from the discussions, some subtle and others more fundamental. **The different approach to remunerating Board members** between Private sector organisations and Public/Third sector organisations emerged as a central difference. Linked to the voluntary (i.e. unremunerated) nature of the vast majority of Board members in the Public and Third Sectors, was the challenge of Board members not having sufficient time for the increasing complexity and quantity of work required of today's Boards. The **breadth of membership of the Board** also emerged as a key difference. Participants pointed to the tendency in the Public Sector, almost exclusively, for Boards to include trade union representatives and/or staff representatives. Similarly, it was noted that Third Sector organisations in particular often include beneficiaries on their Boards, which it was believed helped them better deliver their 'mission'. It was also proposed that the Public and Third Sector were more advanced along the path of creating diverse Boards, something that remained a particular challenge for Private Sector organisations.

Participants suggested that there was a trend emerging across Third Sector Boards in **transitioning from a singular focus on their *fiduciary* responsibilities** (i.e. compliance with legislation and regulation) **to a more *strategic*** (ensuring the organisation has a strategic plan in place, monitoring delivery of the strategic plan) **and *generative*** focus (i.e. focusing on organisational mission, vision and values, facilitating innovation and

creativity). Whilst this type of approach is not unique to the Third Sector, participants suggested it was more prevalent and that the Public Sector, in particular, tended towards the fiduciary approach and had most to do to move beyond this model of governance. It was also proposed that the Public and Third Sector were more advanced along the path of creating diverse Boards and this remained a particular challenge for Private Sector organisations.

One of the key differences participants discussed was that **Private Sector organisations benefit from greater clarity of organisational purpose** (generally, to make a profit and deliver value for the owners of the business). This clarity is compounded by the competitive environment in which Private Sector Organisations operate, and the stakeholder groups they work with/for (e.g. shareholders), requiring Boards to encourage nimbleness, adaptability and innovation.

> Bill Brett, Executive Chairman of the Brett Group, suggested that: *"in my company scrutiny of financial performance drives decision-making for the Board'* and this leads to clear roles and a focus on performance management.

Contrasting with this, participants suggested **that Public and Third Sector organisations** may be slower to react and adapt and only respond to external drivers for change (e.g. increased regulation and cuts in funding). This type of approach may be hampering innovation and areas for improvement in these sectors.

Related to the earlier discussion regarding the challenge of recruiting talented Board members who have time to commit to their roles, participants discussed the difference across sectors in **what attracts people to join Boards**. In the Private Sector it was said that paying individuals to play roles on a Board helped to attract the right people. In the Public Sector, participants suggested that there was too often a complacent and reactive approach to recruiting Board members, with organisations waiting for volunteers to approach them. However, there was a strong sense that Public and Third Sector organisations have a real opportunity to attract people who want to make a difference.

> Joe Cooper, Managing Director of Imperial College Students' Union, said *"serving on Boards in charities appeals to people's desire to deliver social good".*

3. Effective Boards

Perhaps the largest topic for discussion was 'What does a Board need to function effectively?' In addressing this question, participants drew on their own experiences of what leads to effective Boards, and what contributes to ineffective Boards. A common thread running through the discussion was that **Boards and governance structures more broadly need to add real value to organisations**, not just fulfil the bare minimum requirements of approving policies and procedures, ensuring legal compliance and monitoring financial performance. High performing and sustainable organisations, it was suggested, required that their Boards **engage at a strategic level**, help make sense of an increasingly complex world and work in partnership with senior management to move the organisation forward in the right direction.

> Tony Logan, Director of Operations at Kent Union, suggested that *"effective Boards help develop strategy in partnership with management"* and stressed the importance of quality time out of the organisation, to work together with management on the organisation's purpose, values, culture and strategy.

A number of examples were given where CEOs and Chairs had arranged, and greatly benefitted from, longer 'away-days' to work on strategic issues, which had also led to greater levels of cohesiveness. Participants also suggested that effective Boards share a common sense of purpose, vision and values with their management team and the wider organisation. Whilst Mike Wright, Professor of Entrepreneurship at Imperial College Business School, highlighted the importance of having a shared mind-set across the Board, management team and wider organisation.

The **structure and systems of organisational governance** were pointed to as key in ensuring effective governance. Participants noted the importance of Board committees in providing space for the essential fiduciary work of the Board, whilst not 'cluttering' up the agenda of full Board meetings, and thus creating space for the more strategic and generative work of the Board. It was suggested that Committees should not be tagged onto the end of full Board meetings, rather they required quality time in their own right and adequate support and preparation from management. One participant highlighted how an increase in structure and the use of 'proper' committees has been wholly positive, suggesting that in the past their Finance Committee consisted of their 'accountant having a conversation with the Chair and CEO half an hour before Board meetings...it was nuts!' It was generally noted that **effective Boards require clear procedures**, including a scheme of delegated authority that details the responsibilities and accountabilities of the Board, Committees, the Chair, the Chief Executive and the Senior Management Team; well prepared and considered papers, with clear recommendations, circulated at least a week in advance of meetings (Board and Committee); healthy meetings characterised by challenge and scrutiny, robust discussion and debate, whilst maintaining a professional, courteous and constructive approach.

Linked to these structural and system issues, participants highlighted **the importance of maintaining continuity on the Board**, whilst also ensuring adequate renewal from new Board members. It was recognised that there is no perfect model here and that each organisation needs to find an approach that suites its own circumstances. Fixed terms of office were identified as being important, as was the Board regularly reviewing itself to ensure it has the right mix of skills, knowledge and experience required for the organisation's current and future needs. A further thread of the discussion concerned **the behaviours and culture of an effective Board**. A key attribute pointed to was shared trust, both amongst Board members but also between the Board and management. It was acknowledged here that the Board also has a key role to play as a 'check and balance' over management. Participants suggested that an effective Board needed to have belief in each other and also in the organisation, that the Board should be characterised by bravery, whilst balancing this with its obligation to manage risk, and also honesty and openness. The importance of respect between Board members and of management was noted and that the Board should act as a 'critical friend'[1] to management. Whilst the Nolan Principles (or the 'Seven Principles of Public Life'[2]) were not explicitly mentioned, all of the seven principles emerged through the discussions on the day as being important for effective Boards:

- Selflessness
- Integrity
- Objectivity
- Accountability
- Openness

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[1] For a definition see: MacKenzie, B. 2014. *Critical Friends at Work*. Association of Management and Executive Development, 6pp.

[2] The Seven Principles of Public Life, or the 'Nolan principles', are the basis of the ethical standards expected of public office holders. They were first published in 1995 by the Committee on Standards in Public Life – for further information, see www.gov.uk/government/publications/the-7-principles-of-public-life

- Honesty
- Leadership

The final topic that the group explored, and indeed kept coming back to throughout the event, was around the importance of **diversity on a Board**. It was recognised that an organisation's Board should, ideally, consist of people who reflect the community/customers/beneficiaries that the organisation serves and that there is growing recognition of the importance of Boards having a reasonable gender (in particular) balance amongst members. Was it just a coincidence that of the 15 participants on the day, only 3 were female? It was noted that Boards may need to consider the 'representation' of people from Black and Minority Ethnic (BME) communities and people with disabilities, amongst other groups. Participants also noted though that this can become a tick-box exercise, which does not lead to diversity of thought, opinion or perspective. Mike Wright, highlighted the importance of Boards not recruiting in their own personality and seeking out new Board members who think differently and will bring different perspectives to help inform the Board's decisions.

The Chair/CEO relationship

The final question posed to the group was 'what are the critical success factors that make the Chair/CEO relationship work?' With a mix of chairs and CEOs in the room, and some who were currently serving as both in different organisations, this was a fascinating topic. The first point raised by participants was the absolute importance of both **understanding their respective roles and being clear about the boundaries** of their roles. People recognised that how the roles work differed across organisations and depended on the context and the post-holders; it was therefore considered **essential that the Chair and CEO discussed and agreed what their roles and expectations of each other were**.

> Distilling the respective roles down though, Tracey Gordon from Deloitte suggested that *"the Chair manages the Board; the CEO manages the business".*

The second point raised was that **the relationship between CEO and Chair should not be seen in isolation**, rather it is part of the wider relationship between management and the Board. Participants felt that the CEO/Chair relationship should be informed by the culture of the organisation, the makeup of the Board and management team and be informed by the priorities of the Board.

The third key issue related to the **need for effective Chairs to have good 'political antennae'**, the ability to 'read' the Board and that they should assist the CEO in managing the business of the Board. In order for the Chair to be able to fulfil these requirements, s/he needs to manage relationships with other Board members, understanding their concerns and priorities. Linked to this, participants highlighted the **importance for CEOs and Chairs to 'manage up and down'**. In other words CEOs take responsibility for managing their direct reports and the wider organisation, and Chairs should take responsibility for managing the Board, in particular Board members with portfolios (Deputy Chair, Treasurer, etc.) and Committee Chairs. This 'management' function of Board members should take a non-directive and facilitative form of leadership, requiring capabilities in listening, co-ordinating, influencing and understanding, rather than a more directive or coercive style of leadership.

Lastly, participants suggested that an effective CEO/Chair relationship **requires investment in the relationship**, with regular communication, including face-to-face, being a pre-requisite. The relationship needs to be characterised by trust, openness, honesty and mutual exploration of the organisation, its future and its potential.

> Jim Gardner, CEO of Kent Union and Chair of Dame Janet Primary Academy, talked about meeting with the head-teacher (the CEO equivalent) of Dame Janet at least monthly, after work for an informal conversation and catch-up, and how this has helped build trust and mutual understanding.

Participants also pointed out that the relationship needed to maintain an element of tension and challenge and not become too cosy, in order that both remain on their toes and mindful that the CEO reports to the Board, through the Chair, with the Chair normally required to complete the CEO's formal appraisal(s).

Check-out

At the end of an engaging and thought provoking session, and through follow-up discussions, participants were asked for thoughts as to: 'what worked well?' 'what could have been different' and 'what would you like to happen next?'

What worked well?
- The diversity of the CEOs and Chairs in the group was seen as a key strength;
- Learning from different types of boards, their challenges and views;
- An openness in contribution from participants.

What could be different?
- Spending more time investigating key issues that emerge;
- Splitting off into separate groups (e.g. sector specific);
- Fleshing out the sector specific differences in greater detail.

In terms of 'what next', participants identified the following key topics for future exploration:

1. **Performance Management**
   - *Appraising performance*: what methods exist for appraising/raising the performance of board members, NEDs, chairs and the whole board? How can you deal with difficult people?
   - *Reward and remuneration*: what do we mean by reward? What role does pay play in performance? How do we best manage those who are unremunerated?

2. **Models of Governance and Leadership**
   - *Leadership dynamics*: Who manages and leads the board, and how? How do we ensure that everyone is on the same hymn sheet? How can we achieve continuity as organisational needs evolve and board members change? How can we collaborate successfully?
   - *Practicing Governance as Leadership*: How do we practice fiduciary, generative and strategic governance together for the benefit of the organisation?

3. **Managing diversity**
   - What do we mean by diversity? How do achieve a truly diverse board, in how we think? How do we manage diverse opinions? How do we introduce creative tensions?

Next steps?

Given the success of this first event, we are keen to continue to explore good governance in the 21st Century and will seek to explore particular aspects of the three key themes above through further events, thought-pieces and on-line dialogue. If you have any questions or would like to get involved please do not hesitate to get in touch.

THE GOOD GOVERNANCE NETWORK

Established in 2015, the Good Governance Network brings together a diverse range of senior professionals involved in governing organisations to develop, identify and disseminate best practice in governing organisations.

Co-founders and facilitators:

Jim Gardner
E: j.r.gardner@kent.ac.uk
LinkedIn: https://uk.linkedin.com/pub/jim-gardner/14/955/768

Simon Raby
E: s.o.raby@kent.ac.uk
LinkedIn: http://uk.linkedin.com/in/drsimonraby

W: http://www.kent.ac.uk/kbs/research/research-centres/ecg/