

**ALL ABOARD?
WHITEHALL'S NEW
GOVERNANCE CHALLENGE**

Summary document

Introduction

Management Boards in government departments have existed in one form or another for nearly 20 years. Their evolution as a fixture of Whitehall governance has varied significantly by department, as some have embraced them more enthusiastically than others.

Previous, soft-touch attempts at reform have been largely ineffectual in standardising or empowering departmental Boards – not least because the remit and accountability of Boards remain unclear.

The new Coalition Government, however, has made explicit commitments to strengthen departmental Boards and foster a more business-like culture through a number of structural reforms.

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Major structural changes to Boards are underway, and these reforms will be undermined if departments fail to articulate the role of their Boards, the responsibilities of its members, and the expectations on the performance of those in the boardroom.

Having explored board structures in our previous report, *Shaping Up*, this project focuses on the performance of those

individuals serving on Boards, seeking to understand what characteristics are most associated with effective Board members and what is required for these characteristics to flourish. Our full report is planned for publication in February 2011.

New-look Boards

The Institute's earlier research on Whitehall Boards reached the central conclusion that the role of these Boards is often poorly defined. From this central problem springs a number of issues adversely affecting Board performance including: poor engagement between the Board and ministers; a lack of challenge in Board discussions; misallocation of Board time and focus; ineffective use of non-executive directors; and opaque accountability arrangements.

These issues have not gone unnoticed by the new Government. Shortly after the General Election, the Cabinet Office outlined the Coalition's vision for governance reform, publishing an enhanced protocol for departmental Boards. The protocol represents a genuine shake-up of Whitehall Boards and is buttressed by strong political support from the Prime Minister and the Minister for the Cabinet Office. The protocol introduces several significant changes including:

- Installing Secretaries of State as Chairmen of their Department's Board
- Altering the composition of Boards to include junior ministers

- Reducing the number of officials on Boards and
- Creating the new position of lead non-executive director for each Board.

Lead NEDs will have a key role to play on these new-look Boards. They will serve as a mentor and adviser to the Secretary of State in his/her role as Chairman of the Board. Lead NEDs will also be responsible for coordinating regular meetings with the rest of the department's NEDs. They will regularly liaise with the government-wide lead NED (Lord Browne of Madingley), providing him with feedback on the performance of the Board and its members. Finally, lead NEDs will be asked to assist in the recruitment of new non-executives to their Board.

The addition of lead NEDs to departmental Boards will significantly alter the nature of the relationship between non-executives and Permanent Secretaries as the latter will no longer have unilateral power of appointment over the former, as was previously the case.

Setting out a clear role for departmental boards

While these structural reforms aim to improve departmental governance, they fail to resolve the core issue afflicting departmental boards – namely that neither the government nor departments have yet set out whether these boards will be supervisory or advisory in nature.

The enhanced protocol sets out the main areas of responsibility for Boards.

However, the ambiguity over the extent to which Boards might be drawn into matters of a political in nature rather, than focusing exclusively on execution and delivery of policy could lead to confusion of roles.

The ambiguity of boards' role in decision taking on policy and operation will likely prove problematic.

This problem is reinforced by the absence of corporate ownership which binds boards together as a corporate decision making body. There are few mechanisms in place to deliver the sanctions and rewards required to support corporate decision-making. Under proposed arrangements, the Board will take responsibility for setting strategy and resource allocation. However, the Board's ability to do so will be impacted by the fact that policy decisions, which necessarily affect resources and strategy, will take place outside of the Board.

Identity crisis: advisory or supervisory?

Lord Browne and Francis Maude have described the new-look Boards as being both advisory and supervisory¹. However the protocol emphasises the former. As a result, boards will need to clarify roles,

¹ House of Commons Public Accounts Committee, *Accountability*, Corrected Transcript of Oral Evidence (To be published as HC 740-i), 19 January 2011, Q3.

remit and accountabilities, not least to ensure that new Board members do not have false expectations of what is required of them and how their expertise may be utilised.

In his role as the government's lead NED, Lord Browne will want to address this issue as the newly appointed lead NEDs are unlikely to accept ambiguity about their responsibilities, be they advisory or supervisory in nature.

An effective Board member

While these structural reforms are underway, the future performance of Boards will depend heavily on the characteristics and behaviours of the individuals who serve on them. Even the best structures cannot guard against poorly performing individuals. Bearing this in mind, the aim of this project was to build a better understanding of board performance at the level of the individual.

Over the course of six months, we completed thirty-seven interviews with Board members from eight different government departments. Interviews were conducted with executive and non-executive Board members, including twenty-seven directors general (executive board members), seven non-executive directors, and three permanent secretaries – who until recently served as chairs of their Boards.

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The results of the data analysis reinforce

the primacy of understanding and executing the most basic board functions. The aggregated data across all interviewees reveals that the most frequently identified descriptors associated with individual effectiveness are "Management of the Board" and "Decisiveness". "Management of the Board" refers to skills/behaviours such as having a professional approach to the board, being well prepared, driving the agenda, demonstrating good time management skills, and knowing how to get the most from board meetings. "Decisiveness" refers to being outcome focused, enabling clear decisions and creating a sense of urgency. That these were top of the table in terms of prevalence reflects the significance of getting the basics right.

The conditions for success

The structures and processes around governance are critical to the performance of Boards, and, as our previous research has shown, this is often lacking in Whitehall boardrooms. While interviewees frequently associated professional management of the Board with effectiveness, they did not necessarily see it exhibited. As one interviewee told us, "excess process means that you're ineffective. Boards [that I've been on] which haven't worked very well have had voluminous papers, endless discussion, and most of it on issues of tangential relevance to the real running of the department".

While the behaviours and characteristics most commonly associated with effectiveness were linked to the basic functions of Boards, the hallmarks of more developed Boards were conspicuously scarce. Those behaviours that would likely

be seen in high-performing private sector Boards² such as “analytical thinking”, “candidness”, and “strategic thinking”, were among the least commonly observed by our interviewees.

When looking at interviewees’ perceptions of ‘effective NEDs’, the most consistently high-scoring clusters included “innovative thinking” and “candidness”

Similarly when looking at interviewees’ perceptions of ‘effective NEDs’, the most consistently high-scoring clusters included “innovative thinking” and “candidness” yet they were infrequently mentioned by respondents. An explanation for the absence of these traits could possibly be linked to the lack of clear accountability of the Board and its members. With key decisions resting with the Secretary of State and Permanent Secretary there is probably little incentive to challenge or deviate from the status quo.

Making the transition

Amending the Board structure without a comprehensive review of members’ roles will reinforce the same behaviours and norms that have hindered Board performance

² See Boudreaux (1997), Brown (2007), Conger and Lawlor (2003), Coulson-Thomas (2007), and Lee and Phan (2000)

For Lead NEDs, the varying quality of professionalism in board management and the absence of collective board accountability represent a very different operating environment. Without addressing these two issues, Lead NEDs will find it very difficult to perform an independent challenge role successfully. Moreover, there will likely be institutional resistance to any changes to the status quo in departmental governance. This resistance could frustrate any attempts to use Boards as effective mechanisms of accountability within departments.

For Secretaries of State the reform of Boards represents a huge opportunity to influence further the running of their departments and to introduce appropriate business-like practices. Much of the Boards’ work will focus on the monitoring of performance, risk and other technical issues, all of which will demand a deep understanding of organisational change and financial management. In this context, the role of Chairman will be fundamental in driving the content, tone and style of debate at Board meetings. But with ministers serving as Chairmen, will the quality of professional management and collective accountability improve or deteriorate?

Key recommendations

There is considerable potential in the Cabinet Office’s proposed reforms for departmental Boards. The prospect of a powerful triumvirate of Secretary of State, Permanent Secretary and Lead NED operating in concert at Board level is an exciting one. The diversity of skills,

knowledge and expertise that all three bring to bear will be a massive resource for the Board. However, based on the results of our interviews with board members, and taking into account all aspects of the Cabinet Office's new Boards' protocol, we identify a number of risks.

The recommendations below are designed to address these issues and make the transition to the new-look Boards workable. Despite the scale of interest from the centre of government, we still see an uphill battle for the successful reform of departmental Boards. In reality central guidance on the reform of Boards can only go so far and the success of these new Boards will ultimately rest with those in the boardroom.

1. **Departments must address the lack of clarity that affects too many Whitehall Boards.** This must begin with clearly outlining the accountability structures of the Board and the responsibilities of each member, depending on their role. Lead NEDs, should be required to appear annually before their departmental Select Committee. This will create a clear link of accountability between them and elected representatives. It will also serve to strengthen their status on the Board. An early Select Committee hearing following the appointment of each Lead NED would also help in this aim.
2. **The most significant structural reform of the new Boards protocol is installing Secretaries of State as Chairs of their departmental Board.** The Chair is paramount in the functioning of the Board, and if Secretaries of State are to take up this mantle, they need to be serious about it. Attendance at meetings must be

consistent; discussions and decisions at Board level must be focused on the Board's remit; and chairing responsibilities must not be delegated to junior ministers. While we believe the Secretary of State should strive to attend every Board meeting, the experience and independence of Lead NEDs would be put to good use as Deputy Chairs.

3. **The performance and operating of the Board should be made transparent to conform to the Government's Transparency agenda.** Annual Board reports, progress against Business Plans, Board attendance, and summary Board minutes should be published for public scrutiny.
4. **Sound corporate practice in the private sector calls for annual evaluation and regular external evaluation of the Board.** Each departmental Board should follow this practice and receive periodic independent evaluations to assess the performance of the Board in delivering good governance and setting direction in the short and longer term.
5. **Board development is essential to the success of the new regime for Whitehall Boards.** It will maximise performance and build an environment where Boards can work creatively and fully as teams. A combination of Board activities should cover team effectiveness work, individual coaching, mentoring and feedback to enhance group and individual skills, knowledge and behaviours.
6. **The Board Secretariat function is crucial to a well functioning Board.**

Some departments have made progress in elevating the significance of this role and improved capability. This should be an SCS role in all departments. The secretariat should actively support the Secretary of State, the lead NED and the other NEDs in the performance of their function and should not report into the Permanent Secretary. The views of the Chairman and Lead NED should form the basis for the appraisal of the Board Secretary.

- 7. Lead NEDs should be involved in the performance appraisal of ALL Board members, including officials and politicians.** This should drive up Board performance, encourage corporate behaviour and empower Lead NEDs to drive better performance in the boardroom.

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