The role of corporate governance and boards in organisational performance

Book Section

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1. Introduction

For more than two decades, successive UK governments have been concerned with modernising the delivery of public services and seeking performance improvements. As part of this drive, corporate governance arrangements across the sector have been reformed and much greater attention has been paid to the training, development and support of those serving on governing bodies and boards. An underlying assumption of these shifts in policy is that improvements in corporate governance arrangements, and in particular the working of boards, will lead to improvements in effectiveness. This chapter examines what evidence there is to support that assumption.

Before proceeding it is important to be clear about what we mean by corporate governance. The term governance has become an important concept in a variety of different disciplinary and practice arenas including management, public administration, public policy and politics. It has its roots in a Latin word meaning to steer or give direction. As Kooiman (1999) notes in a useful review article the term is used in a number of different ways which can lead to confusion. He suggests one useful way of distinguishing between different usages is in terms of levels of analysis. The focus here is on the organisational level, and the term corporate governance will be used to refer to the structures, systems and processes concerned with ensuring the overall direction, control and accountability of an organisation. It is important to distinguish this from the terms used at higher levels of analysis to refer to new patterns of government and governing, in particular the shift away from the unitary state to a more fragmented and arms-length system of government where a range of non-governmental bodies participate in the delivery of public services and policy formulation (Rhodes, 1994). These new patterns of political governance and public service delivery are of course an important part of the context in which the corporate governance of public bodies and agencies takes place.

The language used to refer to the governing body and those that act as governors varies widely across the public sector, for example council, governing body and board. In this chapter we will use the terms ‘governing body’ or ‘board’ to refer to the body at the organisational level with the overall responsibility for directing and controlling the organisation, and governor or board member for those elected or appointed to the governing body. In this chapter the focus is particularly on the role these boards play in performance improvement.

In the private sector modern systems of corporate governance evolved with the increasing separation of ownership from the control in 'public' companies. As owners became separate from those that managed companies the shareholders appointed boards to act on their behalf, and wider systems of reporting, regulation and audit were developed to try to ensure corporations were run in their owners' interest and subject to constraints of the law (Pointer, 1999). In the UK, companies have unitary boards consisting of executive and independent or non-executive directors (NEDs). Many of the recent corporate governance reforms in the private sector (for example Higgs, 2003) have been concerned with strengthening the position of NEDs, so they are better able to hold executives to account.

There are parallels in the development of democratic government and public services. As public institutions developed it became necessary to put in place people who could run and control those institutions on behalf of the public. In central and local government these 'governors' are elected through public vote. However, since the 1980s with the advent of 'New Public Management' (Ferlie et al, 2005) government has reformed the way many public bodies are structured and governed. There has been an increase in the formation of public bodies that operate at arms length from government and a move away from having elected governors to public appointments or other hybrid systems of choosing members of governing bodies. A number of these reforms were modelled on private sector practices and the language and many of the private sector practices of corporate governance have become commonplace in many parts of the public sector.

One important difference between organisations in the public sector and those in the private sector is that they are not fully independent, but are subject to a degree of political direction and control from government. Hence, the governing bodies of public service organisations are often constrained in their ability to steer the organisation, for example by central government funding decisions and policies. There are also considerable differences in governance arrangements and the degree of central government direction and control between different fields of public service. Although it is now more common for executives to have a place on governing bodies of public organisations they are usually very much in the minority except in the health sector.

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The chapter is divided into five sections. Section two focuses on theory and compares contrasting theories of corporate governance and what they have to say about the link between the board's role and performance. A fundamental issue is the relationship between boards and management and what influence boards actually have. Section three gives a brief historical overview of some of the main corporate governance reforms and developments in the public sector in recent years. It highlights a number of common trends such as the move to smaller boards and development of codes of practice, but notes that there are considerable variations in different fields of activity such local government, health, education and partnerships. Section four examines empirical evidence of the relationship between governance and performance improvement. Section five draws out some of the main lessons from this analysis of the theory and evidence, and discusses the main implications for policy and practice.

2. Theoretical perspectives on corporate governance

As noted above one of the major changes in government since the 1980s has been the transfer of many public activities from direct government control to quasi-governmental organisations that operate with their own boards, many of whose members are not directly elected by the public (Skelcher, 1998). At the same time there has been a growing adoption of private sector practices in the public sector, and many governance reforms have borrowed from the private sector. It is therefore relevant to ask whether theories of corporate governance that developed in the private sector can help shed a light on the challenges for corporate governance in the public sector and whether good governance can improve the performance of public sector organisations. Four sets of theories seem particularly relevant in trying to understand the relationship between boards and performance: agency theory, stewardship theory, board roles and theory about board power.

2.1 Agency theory

Principal - agent theory, or agency theory for short, has been the dominant theory of corporate governance arrangements in the economics and finance literature. It is based on the assumption that the owners of an enterprise (the principal) and those that manage it (the agent) will have different interests. Hence the owners or shareholders of any enterprise face a problem that managers are likely to act in their own interests rather than to benefit shareholders. While free markets are seen as the best restraint on managerial discretion, agency theory sees corporate governance arrangements as another means to ensure that management acts in the best interests of shareholders (see Keasey et al, 1997: 3-5). In this perspective the board is central to corporate governance arrangements, and its main function is to act as a monitoring device to control management. This suggests that a majority of board members of companies should be independent of management, and that the primary role of these NEDs is to ensure managerial compliance, that is to monitor and if necessary control the behaviour of management to ensure it acts in the shareholders' best interests.

One difficulty in applying agency theory to public service organisations is that there is much more potential ambiguity over who the principals are. Is it for example the general public, taxpayers, users of the services or the government itself? Nevertheless, many aspects of this perspective still have relevance. It can still be argued that the mission and objectives of public service organisations are at risk from managers pursuing their own interests or not managing the organisation efficiently and effectively, and so a key role of the governing body is again to monitor management and ensure their compliance in furthering the organisation's objectives.

2.2 Stewardship theory

Stewardship theory (Donaldson and Davis, 1991; Muth and Donaldson, 1998) is grounded in a human relations perspective (Hung, 1998) and starts from opposite assumptions to agency theory. It assumes that in general managers are motivated by more that their own narrow economic self-interest. Managers want to do a good job and will act as effective stewards of an organisation's resources. As a result executives and shareholders of the organisation are better seen as partners. Hence, the main function of the board is not to ensure managerial compliance, but to improve organisational performance. Applying this perspective to the public sector the role of a governing body is primarily strategic, to work with top management to set the direction of the organisation, add value to top decisions and improve performance.

2.3 The 'conformance' and 'performance' dimensions of board governance roles

Both agency theory and stewardship theory, (along with other theories of corporate governance) have been criticised for only illuminating particular aspects of corporate governance and board roles. As a result there have been calls for frameworks that combine the insights of different theories (Hung, 1998: 108; Tricker, 2000: 295; Cornforth, 2003:11).

One useful model that helps integrate the insights of these different theories has been put forward by Garratt (1997) drawing on an earlier model by Tricker (1980). Garratt suggests there are two main dimensions of the boards role, what he calls 'conformance' and 'performance'. *Conformance* involves two main functions *external accountability* including compliance with legal and regulatory requirements and accountability to shareholders or other stakeholders, and *supervision of management* through monitoring performance and making sure that there are adequate internal controls. This conformance dimension matches quite closely with agency theory perspective on governance. In contrast the *performance* dimension is about driving the organisation forward to better achieve its mission and goals. This again consists of two main functions *policy formulation* and *strategic thinking* to take the organisation forward. The performance dimension is in keeping with stewardship theory of corporate governance. These four main functions of boards are shown diagrammatically in figure 1. This framework suggests that boards need to be concerned with both the conformance and performance dimensions of corporate governance.

	Short term focus on 'conformance'	**Long term focus on 'performance'**
External focus	*Accountability* • Ensuring external accountabilities are met, e.g. to stakeholders, funders, regulators. • Meeting audit, inspection and reporting requirements	*Policy formulation* • Setting and safeguarding the organisation's mission and values • Deciding long-term goals • Ensuring appropriate policies and systems in place
Internal focus	*Supervision* • Appointing and rewarding senior management • Overseeing management performance • Monitoring key performance indicators • Monitoring key financial and budgetary controls • Managing risks	*Strategic thinking* • Agreeing strategic direction • Shaping and agree long-term plans • Reviewing and deciding major resource decisions and investments.

Figure 1: The main functions of boards (adapted from Garratt, 1997:45-7)

What do these theories have to say about the relationship between corporate governance and performance? Agency theory with its emphasis on conformance suggests that the monitoring role of the board, supported by processes such as external audit and reporting requirements, is likely to reduce problems of management pursuing their own interests or performing poorly. The emphasis is on avoiding performance problems stemming from poor management or inappropriate use of managerial discretion. Interestingly much of the recent interest in improving corporate governance in both the private and public sectors has been stimulated by high profile failures and scandals.

In contrast, stewardship theory's emphasis on strategic performance suggests the main role of boards is to improve long-term performance by the board working with management to develop appropriate policies and strategies. Hence, rather than avoiding poor performance or managerial failures the emphasis is on improving future performance.

Despite their different emphases both theories assume that non-executive board members are able to exercise influence over senior management, and that it is through this influence on management that they are able to bring about change and influence organisational performance. However, other corporate governance theories, which focus on the relative power of non-executive board members with respect to management, seriously question whether boards are able to exert significant influence on management.

2.4 Theories of board power

The dominant theory of board power has been managerial hegemony theory, which relates back to the thesis of Berle and Means (1932) that although shareholders may legally own large corporations they no longer effectively control them, that control having been effectively ceded to a new professional managerial class. This theory suggests that managers, through their professional knowledge and control of key power sources such as information and other organisational resources, are able to exert most influence over key organisational decisions. Over time a variety of empirical studies have, with a few caveats, lent support to this thesis. For example Mace (1971) in his study of US directors concluded that boards did not get involved in strategy except in crises, and that control rested with the president (chief executive) rather than the board. Herman (1981) came to similar conclusions but argued that managerial power was always in the context of various constraints and the latent power of stakeholders such as external board members. From this perspective the board ends up as little more than a 'rubber stamp' for management's decisions. Its function becomes essentially symbolic to give legitimacy to managerial decisions.

Although this theory was developed with respect to large business corporations, many of the processes it describes are just as relevant to public institutions: for example the separation of the public or users of public service organisations from those that control them, and the increasing growth and professionalisation of public management. Indeed it can be argued that the largely voluntary and lay nature of board involvement in public sector may mean that board members power is even more limited than in the private sector. Various empirical studies have lent at least some support to that thesis (e.g. Peck, 1995; Steele and Parston, 2003)

However, there has been stream of thinking that whilst recognising the considerable power that executives can often wield, has challenged the view that non-executive board members are powerless. Zald (1996) supports a contingency approach to board power relations arguing that power relations will be shaped by contextual, situational and personal variables. The contingent nature of board power relations has been supported by a number of recent empirical studies. Most notably, Pettigrew and McNulty (1995, 1998) argue that board power is shaped by contextual and situational variables and the will and skill of board members in building up and mobilising power resources. Like other studies (e.g. Lorsch and McIver, 1989) they recognise the influence of non-executives is likely to peak in times of transition and crisis. They also suggest it is easier for non-executives to exercise negative influence by refusing to sanction proposals than exercise positive influence. Stiles and Taylor (2001) in their research on private sector boards also conclude that non-executive board members are able to constrain managerial opportunism, by establishing organisational values, setting the boundaries for key decisions and proposals and using control mechanisms to keep a focus on organisational goals and performance.

While agency theory and stewardship theory highlight some of the different ways in which boards may attempt to influence management and subsequently organisational performance, these theories of board power suggest this influence cannot be taken for granted, but will be dependent on a range of contextual, situational factors and the skill and will of board members to develop and use various power resources. Furthermore, and seemingly obvious, these sets of theories indicate at least the potential - if not the practice - for boards to exert considerable influence on the performance of the organisation which they are there to govern. The rest of the chapter will examine the changing structures of boards in the public sector sphere. Given the growing convergence between private and public sector models of board structures, the literature relating to boards and performance in the private sector is examined, and finally the extent to which there is evidence about whether and how the new public boards are impacting on performance.

3. Corporate governance reforms in public sector services

A new conception of public administration from the 1980s onwards (Hood, 2005) was accompanied by structural reforms in the way in which public sector services were governed. Based on the main tenets of New Public Management, this involved the deployment of private sector models of management and organisation (Ferlie,1996). Mindful that the focus here is on governance at the level of local organisations, rather than at government civil service level, whether arms length or non-governmental bodies, three sectors are explored, local government, health and education. The rationale for the choice of sub-sectors relates to their significance, in terms of volume and impact, as providers of public services. In addition there is a brief review of partnership organisations and their boards.

3.1 Local Government

In local government organisations, the notion of elected members or councillors, working collectively as a non-executive council and supported by professional civil servant bureaucrats has endured. More recently in the UK, the Local Government Act (2000) requires that all local authorities move away from the traditional committee style of decision-making, where all members had a formal decision making role, to one of four executive models, that is, leader and cabinet, mayor and cabinet, mayor and council manager, or alternative arrangements, with other elected members adopting a non- executive scrutiny role. Early findings (www.local.odpm.gov.uk/research) suggest that four out of five councils have opted for a leader and cabinet model, with only one authority going for a mayor and council manager approach.

At the same time, whilst still explicitly 'serving' the council, the local authority chief executive role itself has also shifted over the years from an essentially administrative role of 'town clerk' to having a more policy-shaping and strategic emphasis. This echoes Hill's analysis of the central government civil servant who plays a more extended part in relation to policy implementation than as mere administrator (Hill, 2005). It was also previsaged by recommendations which were accepted in the health care sector in the groundbreaking Griffiths Report (1983) written by an ex chief executive of the Sainsburys supermarket chain that the NHS would benefit from a general management approach to drive its business.

In addition to legislation requiring the reorganization of decision-making structures, the 2000 Act also required every local authority to adopt a Code of Conduct that sets out rules governing the behaviour of its members. All elected, co-opted and independent members of local authorities, including parish councils, fire, police and national park authorities, are covered by the Code.

3.2 Health Services

In health, having adopted a private sector and smaller board member model in place of the stakeholder model for its local bodies in 1990, the English NHS moved quickly to embrace lessons from the corporate failures of the 1990s. Key recommendations from the Cadbury Report (1992) to separate the roles of chair and chief executive, and to strengthen audit and establish remuneration committees were swiftly adopted. One of the products of the Nolan Committee report on standards in public life, the Code of Conduct, with its crucial public sector values of accountability, probity and openness, first issued in 1994, remains – with some updating - in force (Code of Conduct, Code of Accountability in the NHS, 2004).

Local boards in the English NHS are derived in structure from the Anglo-Saxon private sector unitary board model which predominates in UK and US business (Ferlie et al, 1996, Garratt, 1997). The unitary board typically comprises a chair, chief executive, executive directors and independent (or non-executive) directors who are, with the chair, in the majority. All members of the board bear the same responsibility, individually and collectively, for the performance of the organisation. Despite successive reorganisations in the NHS this model has survived more or less intact since 1990, although an alternative governance model is now being developed with the introduction of NHS Foundation Trusts.

NHS Foundation Trusts are independent public benefit corporations modelled on co-operative and mutual traditions. In part they are a response to criticisms of a lack of local accountability of boards in the NHS. Although subject to national targets and standards, they have greater freedoms than other types of NHS hospitals. They were created to devolve decision-making from central government control to local organisations and communities so they are more responsive to the needs and wishes of their local people. The introduction of NHS foundation trusts represents a profound change in the way in which hospital services are managed and provided. Governance arrangements are locally determined and board members are appointed by the governors of the hospitals, rather than by the NHS Appointments Commission, but there is still a requirement for non executive directors to outnumber executive directors.

3.3 Education

In education, since the Education Reform Act 1988, government reforms have devolved key responsibilities from local education authorities to governing bodies within schools in England and Wales. These school governing bodies are now corporate bodies. The term 'local management of schools' came into being with evolving school-level responsibility for finance and staffing, and by implication, responsibility for the quality of education provision. Three main roles for governing bodies of schools now are to set the strategic framework within which the head teacher will manage the school on a daily basis, to act as a critical friend, by supporting the work of the school, while offering an element of challenge through regular monitoring and evaluation of progress against agreed objectives, and to ensure accountability through the provision of information both to, and from, the governing body (www.teachingexpertise.com). In terms of being held to account, and in a further decentralising twist, there is some evidence to suggest that governors have a stronger sense of accountability to parents and students rather than to government, inspecting bodies or to local education authorities (Farrell and Law,1997).

The composition of school governing bodies is in marked contrast to health trusts as the stakeholder model remains strongly embedded with typically up to eight categories of governors from the different constituencies of interest (for example, staff, parent, education authority, faith group and so on) and between nine to twenty governors depending on the size and category of school(www.teachingexpertise.com).

The governing bodies of the new school academies set up to take over failing schools in deprived areas and with private sponsorship funding mark a radical departure from this approach and draw upon models from the third sector. Academies are state-funded all-ability schools but they are also companies limited by guarantee with charitable status. They have smaller boards and the sponsor is allowed, in agreement with government, to appoint the majority of the trustees (governors) and to determine the governance arrangements. There are plans to have 200 academies in England by 2010 (www.standards.dfes.gov.uk).

3.4 Partnerships

The use of networks as a way of coordinating and delivering public services has increasingly come under the spotlight both in the academic and public management practitioner communities (Klijn, 2005). A manifestation of this is the recent phenomenon in English local governance of the growth of local partnership bodies which have been formed in attempts to mitigate the problems of service fragmentation and the risks of service failures. These can vary along a continuum from informal information sharing to formal merger and, in terms of breadth, range from two agencies coming together (for example in Mental Health and Social Care Trusts) to a multi-agency partnership (for example Local Safeguarding Children Board). The boards of these partnership organisations vary as greatly in their membership. (Glasby, 2006).

Four main trends can be detected from this brief review of new structures and working arrangements for public sector boards: the continuous devolution of functions, whilst government sets targets and monitors performance ever more closely, the development of codes of practice to guide the standards of board members' conduct, the gradual adoption of private sector styles of working, and the move towards the creation of smaller but more powerful boards. The evidence is generally weak but there is some suggestion, which will be explored further below, that these trends are associated with marginal improvements in organizational performance.

4. Evidence on the relationship between governance and performance

A search of relevant databases reveals that the evidence about how public sector boards can or do influence organisation performance is tentative and embryonic. The practitioner literature is more extensive than the academic literature. This subject is of course particularly subject to problems of attribution and may be prone to overstated claims for credit when things go well. A way forward can be found however even in the light of the paucity of available material by broadening the scope and addressing three main questions. First, given the widespread adoption of business models for public sector boards which has been described in section three above, what are the lessons emerging from research carried out in the private sector on boards and performance, particularly in relation to differences in structures, focus of effort and behaviours? Second, what are the factors which appear to impact on public sector organisation performance which boards, by virtue of the role they might or do play, may have influence over? Third, what is indeed emerging about what public sector boards in practice do, or do not do, which may have an impact on performance? Along the way, the utility of theories of board governance outlined in section three will be re-examined in the light of these questions.

4.1 Evidence connecting boards and performance in the private sector

4.1.1 Board structures in the private sector

Despite legislation in the US and codes of practice in the UK which prescribe good practice with regard to board membership and board committees, the quest for the ideal board form seems, from the evidence so far, to be as marginally relevant in the private sector as, it has been argued, it is in the public sector (Cornforth, 2003). In a meta-analytic review of board composition, leadership structure and financial performance, Dalton and colleagues found no links between these (Dalton,1998) and nor did an analysis a decade later focussing on CEO chair dualities and insider/outsider composition (Heracleous, 2008) .

During bad times, however, there is evidence from the work of Perry and Shivdasani (2005) that boards with a majority of outside (non executive) directors are more likely initiate restructuring, lay offs and secure subsequent improvements in operational performance. The authors conclude that board composition has a material impact on board performance. Whilst the relative numbers of outside directors is of interest, this may also endorse the different role of boards in times of crisis and the contingent nature of board power relations (Lorsch and McIver, 1989; Pettigrew and McNulty, 1998). In another study, which connects with the stress-inertia theory outlined by Jas and Skelcher (2005), Boeker and Goodstein (1991) found that, amongst hospital boards in California, poorer performers were more willing to initiate changes in board composition than stronger performers. They concluded that boards do change their structures to adapt to environmental contingencies but that the performance of their organisation moderated the rate of their response.

Public sector boards are usually constrained in ways that private sector ones are not by the fact that their structures are predetermined by statutory guidance. There is sometimes (for example governing bodies in the field of school education, and particularly for school academies) some leeway in choosing the size and membership of the body and its committees. Given some (weak) evidence emerging from the private sector, corroborated by the public sector as we shall see below, about size of boards and the positive impact of having a majority of non executive directors, boards may need to consider strategies to mitigate against any potentially deleterious effects where this is not the case. This may be particularly pertinent in the health sector which has seen board member numbers ‘creep’ upwards, particularly in Primary Care Trusts, from the original eleven posited in the 1990 health governance reforms for their predecessor bodies, local health authorities.

4.1.2 Board focus in the private sector

Turning now to board roles, Unseem's research on good practice in the boardroom identified a series of actions that are associated with boards of high performing organisations (Unseem, 2006). These include having an annual calendar: this echoes Garratt's work on board functions and the cycle of board tasks (Garratt, 1997). Clarity about matters which should be reserved for the board is important and these include areas which are symbolically as well as strategically important. Unseem goes on to argue for a relatively hands on approach to strategy formulation and execution, including breaking down large strategic decisions into smaller sequential ones for board-level consideration, researching and reviewing decision options before approving a plan of action, remaining engaged in secondary decisions that flow form primary strategic decisions and requesting and evaluating explanations and assumptions for proposed executive decisions. Unseem sums up by arguing that improved decision-making in the boardroom can be generative as well as protective.

Lorsch and Clark also counsel for more of a focus on the long-term and leadership from the board (Lorsch and Clark, 2008). They argue that there is currently a danger of too much board time spent in the area of compliance, and that the board is too hands-off in the area of strategy, which risks the destruction of shareholder value in the longer term as the organisation, potentially unnoticed, goes into decline. From their survey of directors of Fortune 200 companies, they identified three key areas for boards: defining the long-term, and taking the lead in finance discussions, strategy discussions and developing talent. This all adds up to an assumption here that the executive and non executive directors are closely and jointly involved in a common endeavour, with more of a focus on Garratt's 'performance' rather than conformance half of the dyad. The approach also fits closer to the stewardship than to the agency theory highlighted earlier in section three.

4.1.3 Board behaviours in the private sector

Not all research on the private sector has focussed solely on board structures and functions. Roberts and colleagues advocate for a focus on actual effectiveness of the working of boards rather than 'distant perceptions of board effectiveness' (Roberts et al 2005:s5) Pye and Pettigrew argue that the study of board processes and what comprises effective behaviour in different board contexts provides grist for the development of an alternative paradigm to the agency theory of boards which has dominated the discourse on corporate governance. They further suggest that effective boards are more than the sum of their parts and, although this is so far under-researched and poorly theorised, it is the dynamic of board members working together which adds value to the organisation. This dynamic includes non executive directors who are 'extraordinary' in terms of their capacity to articulate clearly, their capability and their conceptual awareness and whose relationships are characterised by respect, trust and integrity (Pye and Pettigrew, 2005).

Roberts and colleagues in their report for the Higgs Review characterise the effective non-executive director as 'independent but involved', 'challenging but supportive' and 'engaged but non-executive'.. These couplets also provide a means of constructing a creative tension between agency and stewardship theories of boards and relate also to Sundaramurthy and Lewis' (2003) proposal that boards should practise both control (agency) and collaboration (stewardship) behaviours. This also maps on to Garratt's notions in his two sets of board tasks regarding monitoring compliance and contributing to strategy (Garratt, 1997). Forbes and Milliken (1999) argue that effective boards combine task effectiveness with group cohesiveness but that this is theorised as curvilinear: both positive interpersonal relations and task oriented disagreement are high.

In research which examined the effects of the board's working style on board task performance, Gabrielsson and Winlund found that in addition to the significance of formal board structures, the level of board member involvement and the extent of clearly defined working styles was important (Gabrielsson and Winlund, 2000). This echoes the argument adduced by Pettigrew and McNulty alluded to earlier about the extent to which members have the 'will and skill' to exercise board power.

The admittedly scanty evidence linking behaviours of effective boards in the private sector with organisation performance leans towards a comparatively 'hands on' board with able and relatively engaged non executive directors. In learning from the private sector, this has implications for the workings of public sector boards aiming for improved organisation performance and, whether they are called the members and officers, the governors and officials, or executive and non executive directors, calls for the framing of a new set of relationships between the two constituencies on the board.

4.2 Role of boards in public service performance

What role can public sector boards actually play in performance improvement? Boyne's review of the relevant literature argued that although existing evidence on determinants of public service improvement was weak, inter-organisational differences are not random. The concept of public service improvement is contestable but there are elements likely to be valued by all constituencies. His review selected seven headline dimensions of performance: quality and quantity of outputs, efficency, equity, outcomes, value for money, and consumer satisfaction. Two sets of variables from his work in particular emerge as having the most consistent influence on performance: resources and management, whilst the evidence for three others (markets, regulation and organisation) was conflicting. His advice to reformers is therefore to leave regulation arrangements, organisation and market structures as they are and to focus on more resources and better management (Boyne, 2003). There is a clear message here for boards in terms of where they should concentrate their energies and this relates to both strategy and control.

Davies and colleagues suggest that there is a weak link between governance and performance because of context and intervening variables. In their wide ranging review (Davies et al, 2005) of different forms of the governance of health care organisations, particularly contrasting markets, hierarchies and networks, including an examination of the causal chain between governance, incentives and outcomes, they found, like Boyne, that management and leadership both matter and markets less so, although the impact of different organisation forms and of regulation was more complex than the latter would argue. Davies and colleagues raise another issue however about what is meant by performance. In a line of thinking which relates to Moore's creating public value theories (Moore,1995) they argue for a broader set of measures than those (for example targets) which are defined by the currently elected government, and press for linking organisation activity and performance to collectively determined goals and the need to encompass 'democratic anchorage' as outlined by Skelcher and Mathur (2004).

4.3 Public sector board practices and organisation performance

Having identified that public boards do have a role in performance improvement, the way is clear to determine the evidence for ways in which this function is discharged. The relationship between board effectiveness and organisational effectiveness in non-profit or third sector organisations has been a focus for research, particularly in North America (see Ostrower and Stone (2005: 619-623) for a review). As Ostrower and Stone note, this research has been bedevilled by the difficulty of defining and measuring both board and organisational effectiveness. Many studies have relied on the perceptions of key actors, such as chief executives, while a few have also attempted to use more objective measures such as financial indicators. Others have argued that effectiveness is a social construction and have attempted to use the perceptions of number of different stakeholders (Herman and Renz 1997; Herman et al, 1997).

Despite these problems, a number of studies have suggested an association between board effectiveness and organisational effectiveness using a variety of different measures of effectiveness and research approaches. Broadly, exactly as with the private sector, the evidence suggests that board processes and inputs, rather than structural variables, are most commonly linked with performance. In terms of structural variables, a small size and good administrative support for the board emerge as having some significance. The board processes can be grouped into three clusters around role, setting the organisational culture and board dynamics. One of the most frequent findings is that, again similar to the private sector, the board’s involvement in strategic planning is related to organisational effectiveness (Ostrower and Stone, 2006: 621). Other studies have highlighted the importance of board composition, behaviour and culture, for example the important role of the chief executive in helping or hindering the development of an effective board (Herman and Heimovics, 1990; Chait et al, 1991) or the emergence of a core group of board members that are important in getting things done (Murray et al, 1992).

The four areas of board structure, focus, organisation culture and dynamics will each be explored in turn in more detail, using emerging findings from within different parts of the public sector in relation to the literature on boards and performance.

4.3.1 New forms of public sector governing boards

Section three above described the new forms of public sector governing boards that have developed since the 1980s. There is tentative evidence that new organisational forms are connected with improved performance.

In local government, with the advent of cabinet and mayoral forms of governance, improvements have been recorded with regard to swifter and more efficient decision making and stronger and more focussed leadership, but also there is evidence of disengagement of non executive councillors and some confusion about the scrutiny role (www.odpm.gov.uk).Greasley and John (2008) noted a long line of literature from US urban politics that suggests that strong mayoral structures are associated with performance improvements, and found that the number of powers of local government leaders was a predictor of public satisfaction and trust. The strengthening of the mayoral or cabinet leader role begins to indicate the emergence of a quasi-executive role, perhaps akin to the executive chairmen or chairwomen found in some private sector organisations and moving into the chief executive space. Interestingly, good practice in the private sector argues for the separation of chair and chief executive roles.

In the health sector, the newest organisational form is the NHS Foundation Trust accountable to the regulator, Monitor, rather than to government. The financial regime underpinning Foundation Trusts is significantly more rigorous and the consequent expectations by the regulator of board performance in ensuring financial control are also therefore markedly enhanced. The plan was for all acute hospital trusts to acquire foundation trust status by 2009 but this has now been put back as Monitor has rejected or deferred applications and indicated that a significant number of organisations do not yet meet the standards required, particularly in terms of soundness of business strategy. There is clear evidence (Monitor, 2008) that, in general, Foundation Trusts perform better in terms of providing high quality and safe care and value for money (although with some notable exceptions). There may be some attributional difficulties here as these were high performing organisations prior to becoming Foundation Trusts

In the education sector, The Joseph Rowntree Foundation has reported that school governors are under-resourced to carry out their full range of functions and experience some confusion over their representative role versus their expert contributions in support of the work of the school, and that a smaller and more strategic body may be better suited to fulfill the governance requirements (Dean et al, 2007). Both the Centre for Public Scrutiny and PriceWaterhouseCoopers have also recommended a more slimline governance model including a separation of the executive and scrutiny functions of the governing body (Centre for Public Scrutiny,2006; Price Waterhouse Coopers, 2007) which would bring the structure of school bodies more in line with local government governance structures.

The evidence so far also indicates that school academies, which are allowed much smaller boards headed by influential sponsors, have been able to drive up pupils' educational attainment faster than the national average but that the intakes in some schools have become overall less disadvantaged (for example as measured be eligibility for free school meals) than before (PriceWaterhouseCoopers, 2007) which may indicate a digression from their original mission.

The conclusion from this account is that smaller and more powerful boards accountable to powerful regulators may have the will and capability to drive through performance improvement more easily than their larger albeit more representative equivalents.

4.3.2 Roles and focus of high performing public sector boards

Structures are nevertheless not as critical as the execution of key board functions. It is becoming somewhat clearer that board focus on strategy is associated with positive organisation performance in the longer term (for example Unseem, 2006 and Lorsch and Clark, 2008).

In a study of 21 English NHS Foundation Trust boards, Emslie (2007) used a board performance tool which had been developed and widely used in the US (Board Self Assessment Questionnaire) and found an association between board and organisational performance. The six dimensions of the tool were contextual, educational, interpersonal, analytical, political and strategic. Previous research has shown that these factors are important in high performing boards (Chait, Holland, and Taylor, 1993). Four of these relate broadly to Garratt's four board tasks and the remaining two a (educational and interpersonal) are behavioural and mirror the increasing understanding about the need for boards to pay attention to group cohesion, reflection and development. Using publicly available data about financial and non-financial performance of Foundation Trusts, Emslie's study found two particular associations: firstly that as well as a higher overall score, board attention to the area of strategy is strongly linked to good financial performance; secondly, that board focus on politics (defined broadly as relationships with internal and external stakeholders) is related to higher levels of staff satisfaction. Unfortunately, there was no evidence of a link between board performance and patient experience or outcomes, which of course is the primary purpose of Trusts.

Like Emslie, McDonagh and Limbdenstock's empirical research found that higher performing boards did have better hospital performance (as measured by the Solucient 100 top hospitals ranking), most notably in profitability and lower expenses. Perhaps reflecting a very different context, they also found that a more favourable ranking was associated with a lower political score (that is less attention paid to and less well developed relations with stakeholders)

There are some worrying signs that the strategy space, either carved out for or by them, for public sector boards may not be very great. Addcott explored the role of cancer network boards in London and found limited strategic influence, with constraints due to the continued emphasis of centralised performance management and structural reconfiguration and a resulting confused and conflictual framework (Addcott, 2008). In the school education sector, Farrell found that school governing bodies were not involved in strategic leadership or policy direction, with headteachers more likely to play the lead role in these areas (Farrell, 2005). In the health sector, a documentary analysis of the work of fifteen primary care organisation boards in England and Wales uncovered that more attention was paid to 'second order' functions such as finance and administration than to clinical and service issues. The authors concluded that the board role in setting strategy and monitoring performance may be overshadowed by central government's activity in those areas but that the nature of their challenge was as part of a 'policy network' in an environment of multiple accountabilities rather than a simplistic top down model of an organisation accountable to a board (Abbott et al, 2008).

Using a configurational perspective, Lee et al (2008) have developed a taxonomy of board roles from a study of 1,334 American hospitals. They describe five distinct clusters, determined by the extent to which boards are active in the three areas of strategy, evaluation (performance monitoring), and external relations. The five types of boards which the authors have identified were: strategic active, evaluative and strategic active, balanced active, strategic and external active, and inactive boards. These appear to correspond closely to Garratt's four main functions of boards (see above) although policy formulation and strategic thinking have been conflated into one role. They found an association between environmental characteristics and the dominant roles which the boards have assumed, and argue that the effectiveness of the board and its impact on performance may be determined by the match between the balance of roles taken up by the board, the characteristics, attributes and composition of the board and the internal organisational and external environmental conditions.

This suggests that board focus on strategy in the public sphere is as important as it is in the private sector, but that it appears more difficult to sustain.

4.3.3 Public boards, organisational culture and performance

In addition to structure and role, there is growing evidence of a relationship between organisation cultures and performance. Research in the health sector is beginning to link certain types of culture with different outcomes: in contrast with Ogbanna and Harris' (2000) findings in the private sector, rational (that is goal driven and competitive) culture is associated in health service organisations with poorer performance; hierarchical cultures are associated with low waiting times and higher overall performance; clan cultures are associated with better patient experience and staff morale (Davies et al 2007).

Peck and colleagues (2004) argue that boards, as well as their instrumental impact, are important as a symbol of social solidarity and that their rituals reflect and reinforce different organisation cultures. It follows therefore in terms of organisation performance, that boards should have cognisance of the influence of their behaviours on organisation culture and, hence, on strategy, performance and outcomes.

The Audit Commission found in a study examining the role of corporate governance in ensuring the quality of services in the public sector that in addition to getting the balance of board tasks right, a culture of accountability with an outward focus and effective relationships were all important (Audit Commission, 2003)

Since certain leadership styles are also now found to be associated with performance (see Peterson et al (2003), Pounder et al (1995) Ogbanna and Harris (2000) for examples across different sectors), the role of the board in selecting the chief executive and other senior managers and overall talent management should also not be underestimated.

4.3.4 Board dynamics

The enhanced role of the non executive director in times of crisis has already been alluded to in the review of the literature about board power. Mordaunt and Cornforth (2004) also highlight the role of public boards in failure and turnaround. The role of the board committee comes to the fore here as potentially a safer place to ask searching pertinent questions which challenge the status quo. Most importantly, the authors found that for successful turnaround to happen, committed, hands on, emotionally resilient board members were required with access to know-how and willingness to take responsibility and sort things out and able to form a coalition for change. Jas and Skelcher (2005) also touch on the need to overcome the status quo in conquering poor performance. This requires cognizance of poor performance and leadership capability to address it. They elaborate on the "stress-inertia" theory whereby change only occurs when performance concerns are greater than the resistances applied by inertia.

McDonagh and Limbdenstock (2006) used the same board performance tool to ask a similar question of 64 non profit hospitals in the US and compared findings with an earlier study of 300 boards. Unlike Emslie, they found that a factor analysis comparing two groups revealed a strong single factor of collaborative board functioning. This supports the emerging body of knowledge about the necessity of group cohesion and positive group dynamics for high performing boards, relating most closely to the stewardship theory of boards.

In a study of primary care organisations, Abbott et al (2008) found that although it was part of their remit, board members often avoided a challenging style in their relationships with officers, although the possibility that members might challenge did affect how business was conducted. One obstacle was relative powerlessness particularly in the face of overload of technical information. The authors did however find that the influence of board members in sub-committees was more extensive than typically found in the private sector with roles as critical friends rather than as scrutineers. They conclude that these boards are better understood as part of a network in which accountability is embedded, strategy is emergent and the predominant mode is negotiation rather than command and control. This accords with the stewardship and stakeholder models of boards rather than agency or managerial hegemony theories. It suggests that hands on boards may use their 'will and skill' in more subtle ways than via formal board meetings.

In partnership boards, much research has been taken up with analysing the processes rather than the outcomes of partnership working (Dowling et al, 2004). An example of 'process' preoccupations and tensions between formal and informal communications as ways of organising comes out clearly in a review instigated by Mencap of the

Learning Disability Partnership Boards which have been in place in England since 2001. The research concludes that many have struggled with their dual mission of effective strategic planning and a place where the voice of users and carers can be heard (www.mencap.org.uk).

Theories around network governance (see for example Klijn) provide an academic understanding of the nature of multi-agency relationships and partnership bodies, although the dynamic between the formal and the informal may as yet be under-researched (Davies et al, 2005). Multi-level governance highlights the potential power of actors who can operate at different levels as well as across agencies (Eising, 2004). 'Governance between organisations' which comes from the health field (Bullivant et al, 2008) provides a response from the management community to the governance challenges mounted by more joint working across organisational boundaries and a greater interdependency across agencies on outcomes.

A paradox remains because of the apparent increasing influence of network and multi-level governance as evidenced both by formal partnership arrangements and by informal 'below the surface' inter-organisational relationships, and which constrains the influence of the single organization board with its solo client group or institutional focus.

In conclusion on the topic of board dynamics, research about public and non-profit boards mirrors that of the private sector: board behaviour is now identified as a key factor in board effectiveness: a combination of high trust, high challenge and high engagement appears to be particularly potent. The situation is further complicated in the public sector by the need for programme (which may be delivered by many agencies) as well as institutional effectiveness which calls for the same dynamic to be applied across boards and organisations as well as within boards.

5. Conclusions

There is some evidence from a variety of different fields that there is an association between good governance and good organisational performance. It is however difficult to prove any simple one-to-one relationship. Many factors potentially can affect organisational performance and disentangling a simple causal relationship is likely to be a holy grail. Some associations between boards and organisation performance are however emerging.

First, there is some association between board structure and performance. Although there is no ‘right or wrong’ model in either the public or private sector, there is evidence that smaller boards in the public sector with a greater concentration of power can achieve organisational improvement more easily. There is also evidence in support of having a majority of outside non-executive directors in order to provide independent challenge. And the significance of formal and regular functioning of sub board committees (such as the audit committee) to carry out some of the monitoring activities of the board is growing.

Second, board focus appears to be important. The emerging evidence is that high performing boards concentrate on shaping strategy, resource identification and use, and talent management. They also match the weight attached to different board tasks with the prevailing internal situation and external environmental conditions.

Third, in terms of behaviours, board dynamics is emerging as a crucial element with group cohesion and a combination of a culture of high trust and high challenge being important. This was described in a study by Chambers as the ability to 'have difficult conversations without the aftertaste' (Chambers, 2005:12). Where, however, boards manage challenge but with low trust or low group cohesion the outcome can be ‘the grumpy board’ (Chambers, 2008). There are under-researched subtleties in relation to board actions which set the tone for the organisation, and the development of 'under the surface' board member relations outside formal board meetings (for example in board committees) and across institutions.

The influence of non-executive board members is shaped by contextual and situational factors as well as the will and skill of board members in developing and using various power sources. Their level of involvement and influence may be greater in times of transition or crisis, for example in appointing a chief executive officer or responding to performance failures. Nevertheless, to counter the stress-inertia theory, it is proposed that even in 'normal times' boards still offer a constructive partner to managerial power by establishing common values, helping shape strategic decisions, keeping management focussed on organisational goals and addressing performance problems. It is equally important that executives understand the role of governance and are willing to develop an open and constructive working relationship with board members.

Two concluding notes of caution need to be sounded. There is no guarantee that improving governance will lead to improved organisational performance, although there is some evidence of an association between the two. Good governance is better seen as one of a range of mechanisms that can help bring about and maintain performance improvements. Many of the governance reforms in both the public and private sectors have been aimed at strengthening the conformance aspects of governance, and while this is important, more emphasis needs be given to performance dimension of governance such as strategic thinking, service improvements and innovation. Arguments have been made elsewhere, for example by Power (1999), about the over emphasis on the rituals of checking verification and conformance at the cost of improved long-term performance. This chapter has drawn together some evidence to suggest that organisations and boards would do well to continue to seek to redress this imbalance.

At the same time it is important to recognise the constraints on the power of board members in the public sector - the dependence on management, the part-time and often voluntary nature of the role - and not to have unrealistic expectations of boards. The effectiveness of boards or governing bodies will depend greatly on receptiveness and ability of executives to work constructively with all board members to develop group cohesion.

Summary Box

1. Constructing a path which connects structure, roles and behaviours of boards with evidence of impact on organisation performance is beset by theoretical difficulties and empirical shortfalls

2. Public management reforms in recent years have been accompanied by structural changes in public sector boards, governing bodies and councils which have tended towards smaller less representational bodies with a greater concentration of leadership, with some, albeit early and weak, evidence that this is leading to improved performance

3. New public sector boards bear significant resemblance to private sector models of corporate governance and therefore evidence about high performance in the latter may have relevance for the public sector

4. There is evidence from across different parts of the public sector, which matches the private sector, that relatively 'hands-on' and skilled boards especially in the areas of strategy, use of resources and talent management is associated with high performing organisations

5. There are significant contextual and situational differences which mitigate against a 'one size fits all' approach to the high performing board

6. Board behaviours as well as board roles are emerging as a critical element, with high trust group cohesion as well as constructive challenge, and resistance to stress-inertia swings, being important

7. Contributions of board members outside formal board meetings within and across organisations may also be important and is an area for future research

8. Theories about board roles and board power need to be updated in the light of recent evidence about the importance of board dynamics

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