Governance and Organizational Change

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Introduction

'Governance' is a term which now features large in public policy, political science and in business management. In broad terms it refers to the actors, processes, mechanisms and processes which are involved in the making of policy, the setting of strategic direction and the monitoring of executive performance against these. Numerous corporate failures and outright catastrophes in recent years have been attributed to failures of governance. Examples of 'governance scandals' include Lehman Brothers, Enron, Worldcom and Tyco in the USA and RBS, Mid Staffordshire Hospitals Trust in the UK. Indeed, some attribute the root cause of the global banking crisis to a failure of governance. The passivity of Non-Executive Board members has been especially noted and so too the failure of the regulators. In response, various reviews (including, for example, one into the failings of the banking system by the Walker review in the UK) (Walker 2009)have begun to sketch out further reforms to governance. In the USA, earlier concerns about governance failure led to the Sarbanes-Oxley Act in 2002 which introduced new standards for public company boards; the post 2008 events in the financial institutions prompted calls for further reforms.

But, by what mechanisms and processes does, and should, governance operate? Why has governance figured so little in most analyses of organisational studies when compared to traditional topics such as structure, strategy, leadership and change? What is the proper scope of governance? What would good governance look like? These are the questions examined in this chapter. For illustrative purposes, reference is made to governance and organisational change in the public sector – most especially with reference to the UK National Health Service and also to developments in the private sector most notably with reference to the governance aspects of corporate failures.

The chapter develops the argument that good governance can be an invaluable and at time essential support for successful organisational change.

What is governance?

There are multiple forms and multiple levels to the governance phenomenon. At the societal level, governance is about the mediation of political power. At this level, choices fluctuate between an expanded and a reduced role for the state and its institutions. Conversely, the market as a governance mechanism may be constrained or unfettered. Within states, power may be centralised or devolved to nation-states or regional assemblies. It may also be devolved to multiple agencies within nation states. In the other direction, there may be increasing or decreasing involvement in supranational organisations such as the EU, the World Trade Organisation or the UN. At the organisational level, private and public sector organisations have their own patterns of governance. These can be modes which involve external oversight or are insular. Power may be concentrated or distributed. Information may be open and transparent or safeguarded and hidden. As we will see, at the organisational level, governmental choices are very much influenced by developments at the societal level.

Economic behaviour normally involves some mode of exchange – or transaction such as a purchase or a sale. In his development of the field of Transaction Cost Theory (TCT), (Williamson 1975) contends that markets and hierarchies are the two main alternative choices for governing transactions. The market form of governance uses prices, competition and contracts as the mechanisms for governing transactions. The hierarchical form of governance brings parties involved in an exchange under the control of a boss. Both mechanisms – markets and hierarchy – have their advantages and disadvantages and likewise it is possible to argue that conditions can be specified when each is to be preferred.

A key behavioural assumption underpinning transaction cost theory and indeed behind the perceived need for governance is the notion of opportunism. This concept goes beyond conventional economic assumption of actor's pursuit of self interests. Williamson's presentation of TCT suggest that behaviour may potentially extend towards guile (Williamson 1975: 26). The notion of opportunism implies the potential capacity and risk of cheating and misrepresentation. As Williamson observes, it 'refers to the incomplete or distorted disclosure of information especially to calculated efforts to mislead, distort, disguise, obfuscate or otherwise confuse' (Willamson 1985) p. 47.

The risk of opportunism prompts the need for some form of governance. But this may take a number of forms. Market governance can put a check on opportunism through competition. One advantage of this form is that it requires little cost in the form of governance infrastructure. But there are conditions where the market form of governance has disadvantages. A notable condition is when transaction specific investments are required. Thus, in the marketised NHS, if all hospital foundation trusts merely competed on low cost there would be a lessened scope for significant capital investment in technologies needed to treat specialised illnesses. Trusts need some reassurance from purchasers (commissioners) that a sufficient volume of demand will be forthcoming and be paid for over a number of years to amortise the investment in equipment and in specialised medical staff. Likewise, in private sector buyer supplier relationships, if a supplying firm invests heavily in plant, equipment and distribution in a manner designed to fit rather specific needs of a particular buyer then it is at risk of opportunistic behaviour from that buyer. One resolution to this risk is for vertical integration – that is for the supplier and buyer to become part of one firm.

A further consideration apart from opportunism is that of incentives. The market form of governance tends to be often favoured because of its strength on this criterion. Markets incentivise individuals and groups to aspire to compete and gain advantage. Success in meeting demand results in direct reward. Hierarchical forms of governance while ameliorating opportunism (though as we will see not eliminating it) may do so at the price of blunting incentives. Hierarchy and rules which penalise departures from conformity may not be conducive to risk taking or creativity and innovation. This, governance is concerned with the modes and mechanisms which enable oversight and regulation of decision making (including managerial decisions making).

It can take multiple forms and operate across multiple levels. Its function is to reduce opportunism and corruption and to enhance efficiency, effectiveness and fairness.

If one of the key functions of governance is to counteract opportunism and corruption, then it follows that it must have a role to play in the effective handling of organizational change. From a post-modern and constructionist perspective Hatch argues that:

> In a socially constructed world, responsibility for environmental conditions lies with those who do the constructing. . . This suggests at least two competing scenarios for organizational change. First, organization change can be a vehicle of domination for those who conspire to enact the world for others . . . An alternative use of social constructionism is to create a democracy of enactment in which the process is made open and available to all . . . such that we create opportunities for freedom and innovation rather than simply for further domination (Hatch, 1997, pp. 367–368 and cited in Burnes 2009).

In this chapter we explore the potential for governance to play an important part in the latter, alternative, approach. A 'democracy of enactment' for organizations can be conceived as realised through governance.

Macro-societal level

At a macro level, governance can be seen as shaped in varying ways and to varying degrees by the state. In a fully state-controlled planned economy, social and economic decision making can be accrued at the centre. Production decisions are made centrally and functionaries are instructed and held to account through plans. Increased complexity and dynamic uncertainty has induced many governments to reduce their attempts to govern from the centre and instead they have sought ways to distribute and devolve governance and accountability. The transfer of power and accountability to agencies, and through privatisation, to private sector and voluntary sector organisations has led, it has been suggested, to a draining of governance from central government. This has resulted, it has been claimed, in a 'hollowing out' of the state. How governance is then accomplished by the multifarious agencies becomes the crucial question.

According to Rhodes (1997) the discussion about governance among political scientists and analysts of public management is normally, in effect, about *changes* to governance: that is, movements towards 'a new process of governance' (Rhodes 1997) p. 15. He notes that the term has been used widely to refer to aspects such as the new public management and the minimal state. Governance has been described as having achieved the status of a 'defining narrative' in policy circles (Rhodes, 1997). The 'governance turn' has become so pervasive that it has even been suggested that 'new public governance' represents the latest paradigm shift displacing the much vaunted 'New Public Management' (Osborne 2006).

The shift from central government control to 'governance' was often seen as a key component of New Labour's modernisation project. It was related to devolution and to strategic change; hence change and the governance mechanisms to drive and deliver it become closely intertwined. Modernisation and governance can be seen as part of a related discourse embracing such ideas as a shift from producer interests to client interests; from uniform standardised services to ‘choice’ and a demand-led approach activated by the intelligent consumer; and from central to local decision-making. The extent to which these declared policies have been realised in practice is of course open to debate. For example, the dual tendency to both decentralisation and centralisation has been widely noted (Greener and Powell 2008).

Changes to governance have had somewhat different dynamics in the private and public sectors. In the private sector, the agenda has been driven by concern about laxity by Non-Executive Directors as manifested in problems relating to executive remuneration and bonuses, excessive risk taking and the neglect of shareholder interests. In the public sector, while some of the above has found reflection in institutions such as the BBC and the newly public owned financial institutions such as Northern Rock, the dynamic has, in the main, been somewhat different and has been wrapped-up in the debates about ‘modernisation’ and fundamental policy shifts of the kind noted above.

In both sectors, debates about modes of governance are inevitably tied to ideas about power/authority and its distribution. Accordingly, much of the debate about governance is essentially about accountability. Who should be accountable to whom? What should be the appropriate mechanisms for giving account and receiving accounts? For what aspects of work should agents be held to account and how should performance be measured? What sanctions are appropriate for inadequate performance and what incentives/rewards for good performance?

Illustrations of macro level governance issues in the NHS

In the NHS, ‘governance’ has been projected to a prominent position through a series of policy reforms and reorganisations which have attended to the idea and apparatus of governance in a very explicit way. The ideas, principles and mechanisms constituting governance in the NHS derive from an amalgam drawn from corporate governance, public governance and a variety of other sources. The resulting miscellany, presents directors, managers and senior clinicians, who are charged with undertaking governance within specific realms, with a considerable sense-making challenge.

Recent developments include an NHS Constitution and proposals for a new mode of governance in the shape of an ‘Independent NHS Board’. Representatives from each of the main political parties have put the idea of an independent board on the agenda. There is already an NHS Management Board but it is the element of independence in the new proposal that would introduce a novel governance dimension. Meanwhile, the Constitution sets out principles, values rights and responsibilities. It seeks to state clearly and definitively who (e.g. ministers, regulators etc) is responsible and accountable for what. The NHS operates with a massively complex governance system and it has been argued by the Kings Fund that accountabilities and responsibilities have not in the past been at all clear (Dixon and Alvarez-Rosete 2008) (Dixon and Storey 2010)

Governance in the modern sense tends to be associated with a system constituted by devolved bodies assuming a range of responsibilities while subject to regulations, scrutiny and oversight (Bartle and Vass 2007). It has increasingly been used in the public and voluntary sectors to refer to the oversight of executive power, it sets the expectations for executive agents, it sets parameters, and it grants decision rights and conditional authority, it monitors performance against targets. Powerful new regulatory bodies (Monitor and the Care Quality Commission) have been created in the UK National Health Service which, in subtle ways, re-draw the nature of governance (Dixon and Storey 2010); (Storey et al. 2010).

Dedicated machinery or apparatus of governance may be established in order to steer, oversee or control the executive function. It has been suggested that the key function of governance is to control and discipline management (Daily and Dalton 2003). This approach accords with agency theory, the main perspective used in governance research and theorising. In the context of the NHS it can be extended to also include control over clinicians. From this perspective, governance represents a means to control 'self-interested behaviour by agents' (Jensen and Meckling 1976). In the NHS, these 'agents' may be viewed as both managers and clinicians. Depending on circumstances, the part of the controlling principals may be played by directors or by regulators. The senior team acting as a corporate board of directors may enact governance and seek to ensure due diligence as part of its overall set of activities. There can thus be a blurred line with 'corporate strategy' and with 'leadership'. The assumption of the need to control for self-interested behaviour of agents by principals is not shared by all theories of governance. Stewardship theory which works from the assumptions that there can be alignment between intrinsic service motivations and organizational interests offers a significant alternative (Davis et al. 1997).

Policies and experiments in the realm of governance of the NHS represent a particular manifestation of a confluence of forces and ideas. They reflect the influence of market ideology and the reform of public service provision. They also reflect responses to widely publicised scandals which prompt a desire to manage risk and reputation as well as prompting a desire to learn from the experiences of others (Benz 2007). Both main political parties have honed a narrative about the NHS which suggests the need for a 'movement from a "failed" bureaucratic model to a system of entrepreneurial governance that would help it to survive' (Currie and Brown 2003).

The emergence of new governance arrangements can also be interpreted as response to complexity – a recognition by the state that it needs to share power – a phenomenon that has been described as a shift to 'co-arrangements' (Kooiman 2003). This is reinforced by other factors: citizens are better educated and less deferential. They expect to be consulted and be involved. They are 'challenging bureaucratic or paternalistic modes of administration' (Johansson 2005)p.104.. Thus, on an optimistic reading, the changes to governance in the NHS can be interpreted as part of a wider change towards more advanced modes of citizenship. Such a change would reconstitute clinicians and patients as active, participative, agents. There are a number of institutional innovations which might support such a reading.

On the other hand, a less optimistic reading would suggest that the changes reflect the state's intent to exercise control and influence in more effective and fiscally-affordable ways. To a considerable degree, whatever the initial motive, the course of the outcome will be determined by the behaviour of managers, clinicians and patient representatives within the devolved arrangements. As previous analyses have shown, there is also the element of symbolic behaviour to be taken into account (Freeman and Peck 2007) in its actual performance.

The Francis Report on the Mid Staffordshire NHS Foundation Trust revealed failures in the macro governance system as implicated in the ongoing organizational failures (Francis 2010). The regulators continued to endorse an institution which, it turns out, was failing in fundamental ways. As a result, the Inquiry recommended a further investigation into the wider regulatory regime.

Illustration of macro-level governance issues from the private sector of the economy

In the private sector, there are other aspects of macro-level governance to note. The governance of private sector firms is largely left to the boards of those firms - but not entirely. These corporations work within a framework of laws and regulations. Long battles have been fought over this issue of 'state interference' – notably the factory acts of the19th century and more recently with regard to health and safety, equal opportunities, low pay etc. The concept of a National Minimum Wage is in operation in a many countries - including the United States as well as the UK. Recently, the pressure group Compass has called for a High Pay Commission to explore the potential to regulate high levels of pay. The idea is to mimic the Low Pay Commission which has successfully set minimum wages for over a decade. The reasoning is that the extent of the gap between high and low pay can become so wide as to threaten a society's sense of social justice and the sense of a shared financial destiny. This has proved a controversial proposal but it nicely illustrates some of the issues surrounding choices about governance and regulation.

Following the global economic crisis there are pressures for an increased role for governance and regulation of business. There is a marked increase in the mistrust of business. Numerous corporate and investment scandals have been well publicised and prominent figures such as Bernard Madoff have been sent jail. Notably, the US regulator, the Securities and Exchange Commission, had previously conducted investigations into Madoff's business but had failed to uncovered the fraud. Following the Enron scandal, the mighty Arthur Anderson accounting firm was discredited and had to change its name and rebrand. As (Reich 2009)notes 'Every major US accounting firm either admitted negligence or paid substantial fines without admitting guilt. Nearly every major investment bank played a part in defrauding investors, largely by urging them to buy stocks that the banks' own analysts privately described as junk' (p96). In the UK, the level of bonuses paid by financial services firms has been widely condemned as excessive. The case of the former chief executive of RBS, Sir Fred Goodwin, became a special case of note in the media with a range of senior politicians including the Prime Minister publicly condemning payments made to him. Staff had incentives to take excessive risk with apparently few penalties if the risks played out in a negative way.

The perceived lack of governance of these processes was compounded when bonuses continued to be paid even in banks which had become publicly owned as a result of bailouts. The furore included the unusual spectacle of a group of business professors writing a collective letter to the *Guardian* newspaper denouncing the idea that high levels of bonuses for bankers could be justified. [Aug 2009]. Central to the debate here is whether scarce talent will flee across international borders in order to escape higher taxes or tighter regulation. Not surprisingly bankers tend to play the international mobility card very quickly. The business professors' letter suggested that this is a bluff and that there is plenty of latent talent ready to replace any lost financiers. We know that investment bankers often operate in teams and whole teams or parts of teams do move between firms. That in itself provides some barrier to the free entry of new labour. The possibility of whole firms relocating and thus taking job opportunities (and tax revenues) with them is another matter. But the risk and uncertainty raises the question whether, in a global economy, these firms are beyond governance. To date, national regulatory systems have seemed incapable of regulating global enterprises. There have been some tentative moves towards international cooperation between governments in pursuit of a more regulated world – most notably with the restrictions on tax havens.

The extent to which, and the manner in which, new governance oversight of business will occur in the future remains uncertain. In the current climate it seems highly likely that the pendulum will swing from a sentiment in favour of free markets to a more regulated settlement. The damage caused to jobs and wealth prompts and enables such increased regulation. The form it will take is open to question. Robert Reich (2009) argues that the new mode of regulation and governance will witness increased government 'activism' but of a mode which emphasises incentives rather than restriction. Even in the US context this may imply governments mandating changes to bonus payment systems. Reich (2009) argues that 'By better aligning the incentives of executives and traders with the needs and goals of investors, we'll avoid rigid restrictions that tie the hands of executives with regard to all sorts of specific decisions' (Reich 2009) (p 97).

In the UK, one of the responses to the economic crisis was the establishment of a review by the Financial Reporting Council (FRC). The FRC issued a consultation document and reactions from corporations tended to argue that the existing Combined Code of governance was an appropriate framework (despite its failure to prevent the various failings). Root and branch reform was not supported. For example, a senior figure from BT observed: 'A prescriptive approach to corporate governance is likely to damage rather than improve the effectiveness of governance. We strongly believe that future efforts should largely go into improving the provisions of the Code rather than radical reform' (Scott 2009). Responses to the consultation document about the Combined Code reveal debates about the weight to be given to experience of non-executive directors, their independence and the degree to which they are team players while also being willing to challenge the chief executive.

Organisational level

Organisations operate within the changing milieu outlined in the previous section. It could be claimed that the very possibility for many organisations simply to exist results from the changes to governance noted at the macro level. The withdrawal of the state from direct delivery of many services has been effected through increased marketisation including privatisation which transfers opportunity from the state to private sector organisations (e.g. privately operated prisons, refuse collection etc).

Additionally, new organisations are created in the semi-public, voluntary and social enterprise sectors also as a result of devolution of responsibility to agencies and other bodies which are independent of the state albeit subject to regulatory bodies such as the Audit Commission.

The role of boards

Whether the organisations are private sector companies or quasi-state bodies, an important aspect to note from the point of view of organisation theory is the problem of 'agency'. When hierarchy is chosen as the governance solution some form of organisation has to be created. Whichever mode is developed (for example, highly centralised or highly decentralised) the 'owners' (be that the state or a diverse body of shareholders in a publicly quoted company) will want reassurance that their 'agents' (the firm's directors and executives) are acting in the owners interests and not their own personal interests in a way which is detrimental to the owner's interests (shareholders or citizens). This reassurance is found, or at least sought, through various mechanisms of holding to account. In the private sector, corporate boards of directors are required. These contain a mix of full time executive directors (the firm's most senior managers) and independent external directors the non-executive directors. These mechanisms are forms of governance.

As more and more public services are delivered by these independent bodies concern is raised about their accountability and questions are raised about a 'democratic deficit'. In response, more attention has been paid to the governance of these bodies. The main device for meeting these anxieties has been the establishment of Boards of Directors to provide oversight of these bodies. Boards allow for a meeting at the strategic apex of executive and non executive directors. The latter are supposed to bring external perspectives to bear, to champion the interests of the owners and to provide challenge to the internal, full-time executives. Also, non executives can, it is hoped, seek to reassure service users, stakeholders and the public at large that the organisations are being run in a manner which is responsible and which balances service quality and financial stability. The Nolan Committee on Standards in Public Life in its first report established the seven key principles of 'selflessness, integrity, objectivity, accountability, openness, honesty and leadership' (Nolan 1995).

Different models of corporate governance

Despite this attempt to establish universal principles there are various types or models of governance. These types reflect different theories and they also find reflection in different roles played by boards that follow one or other of these theories (Carver and Oliver 2002; Cornforth 2003; National Leadership Council 2010). Drawing on these different sources it is possible and useful to delineate seven main types or models of governance.

Agency theory we have discussed above. At its heart is the principal-agent relationship. The driving notion is that governance is essentially about the means whereby those occupying governance roles ensure that agents (for example, managers and others) act in a manner approved of by the principals. The model therefore emphasises compliance, monitoring, control, targets, performance measurement, incentives and sanctions. A sub-set of this is the Carver model which still retains the principal-agent distinction but does so in a more sharply defined manner (Carver and Oliver 2002) (Carver 2001). It emphasises 'policy governance' by drawing a clear line between the board's role in setting a policy framework and the managers' role as operators who have freedom to manage operational matters as long as they work to the policy framework. This form of 'policy governance' thus shies away from the close monitoring of performance suggested in the first form of agency theory above.

Managerial hegemony theory is a variant of the agency theory except in this mode the managers have taken over and the external representatives are so well-controlled by the expert managers that they merely serve to rubber-stamp proposals from the executive as they lend a veneer of legitimacy to the dominant group.

Stewardship theory suggests a possibility for shared interests and shared values between 'owners' and managers. Seats at the board are mainly therefore reserved for various experts who seek, in a balanced way, to improve performance. The underlying model is one of partnership.

The stakeholder model suggests a set of competing as well as overlapping interests within organisations and those they seek to serve. The work of the board is therefore to balance these varying priorities of interested parties, to involve stakeholders and to ensure all stakeholders are content that their interests are being safeguarded.

The democratic model emphasises a different aspect – namely, the idea that the purpose and function of governance is *representation* of public interests. The work of the board therefore is to reconcile competing interests and one way in which this might be assessed is in the extent to which different interests can be seen to have a representative on the board voicing the concerns and wants of the constituents.

The co-option model derives from the resource dependency theory of governance. This focuses on external relations and the need to secure and maintain resources from outside. The work of the board is to assuage the concerns and win the trust of these resource-providing stakeholders.

Finally, the **generative governance** model emphasises active and ongoing dialogue and shared sense-making between the board members, the staff and the service users (Chait et al. 2005). This model is deemed especially suitable for the governance of non-profit organisations where engaging service users and staff in an ongoing interpretation of needs, priorities, information, opportunities and plans is a crucial element of success.

These various 'types' of governance of course often overlap and exist in less than pure form in practice. Boards, as active governing bodies, grapple with the forces, paradoxes and tendencies identified in the different models (Demb and Neubauer 1992). There are a number of classic dilemmas facing governing boards and these are reflected in the different emphases shown in the models above and we now turn to an examination of these tensions and dilemmas.

Tensions and dilemmas of organisational level governance

The first point of tension stems from the question *who* should be doing the governing? In other words, who should be appointed to serve on boards and how should they be selected? The model which privileges democracy would tend to suggest that election to board positions is important and that members should represent constituents. Conversely, a stewardship perspective would stress expertise and this would imply a selection process based on appointment.

A second tension is whether board members should emphasise *monitoring and conformance* or should themselves seek to *drive performance*? The conformance role would mean monitoring executive behaviour; the performance role would also involve monitoring but with a stress on the attainment of high performance and the setting of higher targets. A further tension can be found in the extent to which board members – especially the external representatives - seek to shape not only the overall purpose and mission but also the strategic objectives of the organisation.

A third tension and dilemma concerns the degree of *involvement in operational matters*. If, for example, a hospital board agrees to a plan to reconfigure wards (with repercussions on staff numbers and roles) should the board be kept involved in the working through of the changes or should this be considered managerial, operational detail? At Stafford hospital just such a reconfiguration of wards occurred and with deleterious outcomes; the board was not kept informed nor did it seek to keep itself informed of these developments and it was criticised by the subsequent inquiry for this. But a board operating with the Carver model in mind (policy governance as above) would not even be trying to exercise this kind of oversight.

A fourth tension and dilemma is an extension of the previous choice between a stance which involves not only close monitoring of executive managers in their implementation work but a further step which involves joint problem-solving in a seamless *partnership approach*. The alternative would be for governors to maintain a critical distance (for example, by refusing to have non executive directors sit on sub-committees).

A fifth tension concerns how to govern using reported data. Determining which data to seek and how much of it is not an easy task. Too much detail will swamp a board; but too little or in too much of an aggregated form and the ability to read the meaning of the data and information becomes problematic. Board members may become too easily assured by executive summaries and or by external regulatory endorsement. Knowing how far to dig and to insist on relevant data is a challenge for non-executive directors in particular. Individuals may be perceived as awkward if they press a point following a general assurance from a chief executive or another executive director.

In practice, board members often veer between different stances. None the less, distinct patterns can sometimes be observed as a board culture develops in favour of one stance or another. Strong chairmanship can steer a board towards a particular style, posture and associated set of behaviours. The ability of chairs to hold appraisals of board members can bestow upon them a power to shape behaviours.

The interplay between governance and organisational change will depend very much upon which of the above models is followed by the governors of an organisation. It will also be dependent on how board members handle the dilemmas identified above.

Illustrations of organizational level governance issues from the NHS

There are different forms of governance regulations cascading down through the reformed structure of the NHS: directives, standards, assurance frameworks, regulations, incentives, codes of conduct and standing orders. There are also a large number of vehicles for ensuring compliance. There is, in addition, the requirement on trusts to develop three-year local delivery plans which address national targets. Hence, although governance in the NHS is now a highly dispersed phenomenon, these all serve to indicate the 'web of constraints' within which acute and primary care trusts must function. The complexity presents board members and FT governors with an interesting set of challenges.

The corporate level in the NHS is organised around 'Trusts'. These are self-governing entities (or businesses) which may be responsible for a number of hospitals and other health service units. At trust level, overall governance is effected through sets of arrangements based on models borrowed to a considerable extent from the corporate world. Extensive guidelines detailing how trust boards should be structured and should behave in order to mimic 'effective boards' have been promulgated by the Appointments Commission in conjunction with Monitor and Dr Foster Intelligence (2003; 2006; 2010). The guides state the purpose of NHS boards: to set strategic direction, to oversee progress towards strategic goals and to monitor operational performance. In one interpretation, these new governance arrangements give very considerable autonomy to FT boards. Some boards choose to act as though these freedoms are real and extensive.

But, other boards are more cautious. They point to the array of 'guidelines' against which they are inspected and audited. Monitor, the Appointments Commission and the CQC between them variously define the principles which guide how each of the organisations (SHAs, acute trusts and PCTs) should operate, they stipulate the role of the boards, outline the precise information requirements needed in order for boards to discharge these responsibilities, they provide model board agendas and an annual cycle of board activities. In other words, there is very considerable guidance and thus scope for relatively uniform practice. And given that trusts are overseen and judged by the bodies issuing these guidelines, there is considerable incentive to take serious note of their suggestions. Foundation Trusts need to satisfy Monitor that they have in place systems and procedures that meet their criteria.

In addition to the guidance about procedures, there are numerous external audits of performance outcomes. Of crucial importance here is the Care Quality Commission which evaluates performance against a detailed list of 'standards'. But at the theoretical axial point to the whole apparatus is the notion of 'corporate governance'. This denotes the machinery and processes at Board level which are designed to allow supervision and policy direction of trust management in primary and secondary care. The intense concentration on enhancing the capabilities of Trust Boards in recent years through investments in careful recruitment, selection and development is indicative here.

'Clinical governance' occurs within the envelope of corporate governance and is to a large degree a tributary of corporate governance. In essence, it refers to a series of protocols, institutions and processes which are designed to help ensure that there is some oversight of clinical judgement, practice and outcomes. Individual clinicians and clinical teams are thus held to account. In recent years, trusts have appointed directors of clinical governance and have established clinical governance committees. Whether this is conformance ritual or genuinely useful risk management is a further question.

NHS Trusts which have not yet gained Foundation Trust status, continue to be answerable to their SHAs. Although they have Boards of Directors their governing capacity is thus significantly curtailed. In contrast, Foundation Trusts as semi-autonomous devolved bodies, freed from direct control by SHAs and governed by Boards and by Members Councils, ought to reveal even more accentuated aspects of governance than was the case with other acute trusts or with PCTs. FTs are supposed to be accountable to their local communities through their members and governors. As devolved bodies, Foundation Trusts are expected and indeed required to operate with diverse lines and types of accountability. These include remnants of traditional hierarchical accountability to the Department of Health, contractual accountability to commissioning bodies, accountability to regulators, partnership accountability to agencies such as local authorities and local accountability to governors, members, patients and the public. These types of accountability are mapped in Figure XX for NHS Foundation Trusts

[Fig XX FT Accountability Map here]

Part of the work of governance undertaken by the Boards of FTs is to balance accountability to a number of different regulators and stakeholders. The Department of Health's (2002) Guide to Foundation Trusts stated clearly that Foundation Trusts are designed to 'introduce a new form of social ownership where health services are owned and accountable to local people'. Failings in clinical standards and/or in standards of care are increasingly likely to be seen as connected with failings in governance. The problems uncovered in the Mid Staffordshire NHS Foundation Trust were described in a letter from Monitor to the trust's governors as revealing "inadequacies in aspects of the quality of clinical and nursing care at the trust, alongside broader governance and senior management failings". It was prompted by high mortality rates, particularly in emergency admissions and subsequently many other failures in the standard of care were revealed. Governance was seen to have failed. But, apart from helping to ensure ongoing performance could governance be used to drive change? This is the subject of our final section.

Governance and organisational change

A governance perspective on organisational change highlights two main types of questions. The first is concerned with *who* initiates, drives and legitimates change? The second concerns the interaction between governance and change, most especially the impact of governance mechanisms and processes on change.

As we have seen, governance discourse assumes that multiple and potentially conflicting interests are to be expected and therefore mechanisms are required to mediate these interests. This, in turn, implies the possibility of legitimated and non-legitimated change attempts. Governance thus offers a mechanism to arbitrate between arguments and positions relating to proposed change. There has been an abiding concern with the management of change, but rather less attention has been directed to the governance of change. It has been argued in this chapter that the latter needs to be recognised as meriting a greater role.

Governance could be seen to be a positive force in relation to change for a number of reasons. Governance implies the legitimate airing of a range of diverse voices. Diversity and variety are often associated with positive change management. Not only may a wider range of options be considered so that more creative solutions are considered but the very process of enabling these voices in an appropriate forum may also serve to lend legitimacy to the eventual decisions which are taken. Additionally, governance suggests a detached, measured and strategic perspective rather than specific personal agendas and self-serving interests. In so far as this is delivered in practice then any change proposals emerging should have been considered with regard to a range of short, medium and long term consequences for a range of stakeholders. Further, governance tends to emphasise accountability and a sober consideration of risk and its mitigation. Ideally, change proposals emerging from the governance process will be in alignment with the organizations mission and strategy rather than merely short term and opportunist in nature.

On the other hand, governance could be argued to be *inimical* to organizational change. Governance processes are relatively slow when compared with executive action. They involve checks and balances and the exercise of these may drain some of the pent-up excitement and energy behind a change idea. Likewise, the sober consideration of risk which is noted above as strength could conversely be viewed as a weakness from a change perspective. Close, measured attention to risk may dull the edge of the kind of enthusiasm and faith in an idea which is sometimes needed to drive a change forward. Indeed, most reforms of governance and the associated regulatory measures - such as the Sarbanes-Oxley Act - attract critics who suggest that such governance requirements dull the competitive edge of capitalist enterprise.

But, these could be considered as self-serving criticisms. The central argument for urging a clearer and more insistent case for linking governance and change is that the process of change itself has to meet the ethical and participatory standards if it is to be sustainable and effective under current conditions. Burnes (2009) in his defence of Kurt Lewin's values-based approach to planned change mounts a spirited critique of the 'emergent' and 'political' change-management orthodoxy of the past couple of decades (Burnes 2009). This orthodoxy he suggests has, albeit unwittingly, given succour to the unethical abuses of power and privilege instanced at various points throughout this chapter. The role for governance therefore is to rediscover, defend, practice and require an ethical approach to organizational change.

The ultimate argument for good governance is that it enables sustained and defensible organisational behaviour. As seen in this chapter, good governance requires a mix of appropriate regulation, mechanisms, processes and behaviours. Good governance is required for long-term viability and sustainability - and it is most especially required for the successful enactment of change.

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