Enhancing the Effectiveness of the Corporate Governance of Public Bodies in the Northern Ireland Public Sector – An Exploratory Study

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Executive Summary

Acknowledgements

Introduction

1. Well functioning corporate governance systems and strong leadership have the potential to transform the quality of public service delivery. They can do this by enhancing decision making in public bodies and, as a result, ensure citizens receive services as efficiently and effectively as possible. At a time of significant and sustained resource constraint, this issue has never been so important. In contributing to this debate, the ultimate aim of the research was to propose a series of workable, practical suggestions for the enhancement of the corporate governance of public bodies in the Northern Ireland public sector.

2. The research study, involving Chief Executives' Forum (CEF)/Chairs' Forum/CIPFA/Ulster University (the research partners), has been progressed through a range of meetings of the Steering Group comprising all of the research partners and chaired by Mr Stephen Peover, Chair of the Chief Executives' Forum. The research strategy decided on was qualitative in approach. This involved the initial completion of a scoping questionnaire; this constituted Phase One of the research. Phase Two of the research involved a range of semi-structured interviews to probe in greater depth the issues emerging from Phase One. To put this strategy into practice, it was decided that the selection frame of reference should be the 'Public Bodies' document published by the Office of the First Minister and Deputy First Minister (OFMDFM), ensuring comprehensive coverage of the constituency of interest.

Phase One

3. Phase One was conducted in late 2014 (between October and December) with the launch of a preliminary, scoping questionnaire to: explore issues important to board members of Non Departmental Public Bodies (NDPBs) in Northern Ireland; and gather opinion on the effectiveness of corporate governance practice, in their experience. Invitations to participate in Phase One of the research were extended to board members of public bodies in Northern Ireland through the awareness raising activities of both fora (Chairs and CEF) in late 2014. There were 100 responses to this invitation. The initial phase of the research, given its exploratory purpose, was focused on developing familiarity with the subject area, in anticipation of a more in-depth analysis to be completed in Phase Two. The 100 responses to the scoping questionnaire provided a significant range of opinion about following issues: board effectiveness; decision making processes on public body boards; and stakeholder engagement.

4. Initial conclusions drawn from Phase One report helped develop the research. Respondents identified the following issues where boards were seen to be most effective, these being: promoting effective working relationships with

executive management; working to agreed deadlines; and fostering a culture of constructive challenge. Less effectively, the following issues were identified: increasing citizen awareness of public body activities; Continuing Professional Development (CPD) of board members; taking a structured approach to succession planning; and the use of technology in supporting board processes.

5. Of the range of other board issues respondents provided opinion on, it was encouraging to evidence from Phase One the overall positive tenor of views on the effectiveness of board processes currently in place. Despite this, the scoping instrument provided a forum for the identification of areas where practice could be enhanced in light of areas of more negative commentary, e.g. process trumping outcomes, risk aversion and avoidance, the slow pace of decision making and, fundamentally, the lack of clarity around roles in corporate governance in the public sector, given that there are so many players on the same pitch effectively.

Phase Two

6. Interview guides for Phase Two were therefore designed to explore board effectiveness issues. These included: what made people join a public body board; what makes an effective board; board size; how public body boards use information; strategic succession planning; risk management; how to delineate between strategic and operational issues; and stakeholder engagement, both with the Sponsor Department and the wider public.

7. In relation to why people joined boards, interviewees drew attention to a range of disparate motivations, some more altruistic than others, including: a sense of public service; people wanting to make a contribution to wider society; broadening their network; and as a symbol of status. There was opinion voiced across a range of participants about the need to improve the diversity of people joining boards, particularly in terms of age profile.

8. Exploring what the key ingredients of an effective board were, this part of the interview process elicited the bulk of commentary. Summarising some of the key issues arising, these included:

   a. there should be a strong emphasis on outcomes, not process driven outputs; there is a need for effective sub-committees with power; it is essential that members should demonstrate an understanding of risk and how it is managed, particularly emergent risk, as well as financial literacy; that board members prepare themselves effectively for meetings; and there should be a greater awareness of the need to link the agendas of the NDPB, the Sponsor Department and the priorities of the Programme for Government;

   b. the Chair/CEO relationship was identified on many occasions as being the key, critical ingredient in whether a board is effective, or not. These observations were also supported by a variety of other related comments, including: the quality of Executive Director/Non-Executive Director relationships was conditioned by the health of the Chair/CEO relationship; the need for measurable value added be demonstrated from all board members in terms of contribution, having regard for the range of roles different board members can play; having effective skills mixes; the importance of fostering good relationships among members between board meetings, in the process building a culture of trust and confidence; facilitating a good line of sight into the business by improving the relationship with the Senior Executive Team/Senior Management Group; the need for a greater sense of 'corporacy' and the true meaning of 'corporate responsibility'; and assessing the effectiveness of what was happening through the use of quantitative and qualitative indicators of performance;

c. as far as the independence of NDPBs was concerned, there were calls for a greater awareness to be developed about what the NDPB is there to do, and for everyone involved in the governance process to be clear about accountability relationships. It was thought this process would also greatly assist with the process of role clarification;

d. in relation to strategy and operational issues, a number of interviewees commented that the present fiscal environment was conditioning how these issues were seen. Essentially, the 'firefighting' necessary to deal with financial and resource pressures making themselves felt within the NI public sector presently meant that operational issues were 'in the face' of board members, as a consequence making it difficult to delineate between the two in the current context;

e. Phase One highlighted concerns around information used by boards. Developing this theme further, participants remarked that: in some organisations there was use of technology evidenced in supporting board meetings; there were good amounts of material available, but there needs to be a happy medium in this regard; there are potentially negative consequences if agendas and information provision are not managed effectively; and a need was identified for information updates between meetings, an ongoing process rather than for the event of the board meeting;

f. with regard to the size of the board, a range of opinion was apparent. Some respondents thought a smaller board was preferable, particularly in terms of managing the business of the board and building up relationships with individual board members. Others thought absolute numbers were not as important as the quality and competencies of those who sat on the board, any negative size effect being counteracted by an effective sub-committee structure;

g. strategic succession planning was, on the whole, seen as a matter that could be conducted in a much more effective manner. Reasons for the present problems were seen as emanating from a series of underlying issues: the process heavy nature of the public appointments system; how competitions are currently framed – how do you get a more diverse pool of applicants released from their day job to become a public body board member?; and levels of remuneration attracting a particular profile of applicant; and

h. risk was seen by many being better managed than it had been previously in the public sector, but this was an area identified as being particularly process heavy, often associated with 'red tape'. One interviewee commented that this area had become an industry in itself, others making interesting observations about how the political system,

and its functioning, had an impact on how risk was being managed at the NDPB level as a consequence. A need to greatly simplify the risk management process was suggested by a number of individuals.

9. As far as stakeholder engagement was concerned, opinion was provided in this regard from a number of different dimensions:

    a. firstly, regarding the more general aspects of stakeholder relationships, they were identified as being particularly time and resource intensive – and needing to be underpinned by an effective communication strategy if they were to have traction; moreover, this needs to be a continuous process if these initiatives are to be sustainable. Given the prevailing pressures on resource presently, this is not an easy task;

    b. secondly, in relation to stakeholder relationships with the Sponsor Department, variability of experience was evidenced, mention being made by a range of respondents in relation to the effectiveness of engagement with sponsorship staff being grade dependent in terms of outcome. This phenomenon was linked too to the issue of volume and regularity of disparate information requests from a range of people within the same department, or from a range of departments; and

    c. thirdly, it is difficult to secure effective engagement with the wider public unless the matter the public body is dealing with affects them directly. This fact notwithstanding, Northern Ireland is a good location for developing such initiatives, given the proximity to the local populace. Resource constraints were identified as being a factor that would potentially impact these activities in the future, prompting comment to be made on the usefulness of social media as a way to counteract this effect.

Conclusions and Suggestions for Enhancement to Governance Practice

10. In considering the results generated from the research, the following conclusions and suggestions are made as a result.

i. Reaching Role Clarity

Responding to a number of comments made by research participants, it is suggested that a review of public body board governance be undertaken, in particular around: the roles and functions of boards specifically; and NDPBs more generally. Public bodies in Northern Ireland cover a wide variety of activities. Whilst key, official governance guidance issued by the Department of Finance and Personnel considers issues of structural design and propriety in relation to the conduct of boards – e.g. Management Statement and Financial Memorandum (MSFM) or the Codes of Conduct for Board Members of Public Bodies (NI) - it is suggested that other stakeholders could take forward a project potentially focusing on the wider aspects of board effectiveness in relation to public bodies. This could consider the 'softer', interpersonal aspects of how governance relationships function, so as to complement the official guidance.

Guidance that could be developed around board effectiveness matters for NDPBs in particular - moving away from a 'broad brush' approach to how we consider public bodies in Northern Ireland, and what they do - could greatly assist one of the key issues emerging from the research, i.e. articulating role clarity. Such an exercise would also clarify thinking and potential enhancements around another important matter identified by the research, strategic succession planning. This latter issue would need to have regard to the whole process of succession planning for boards, from the design stage – making arrangements for recruiting new board members – right through to how competitions are conducted, including Ministerial appointment processes.

Such a board effectiveness review should place greater emphasis on the strategic scope of what public body boards do. Practical steps to encourage this style of strategic thinking should be focused on, as one interviewee commented, 'building an appreciation of what good looks like'. By enhancing their strategic scope, boards could adopt a more effective outlook, fully focusing on outcomes, by considering how they can best meet their key objectives. Moreover, and also based on specific recommendations from interviewees, it is suggested any such review and guidance that would result, should include case study examples of what other high level guidance, such as the Nolan Principles, looks like in practice. This practical, case based approach to helping board members in public bodies in Northern Ireland would, in the words of one interviewee, 'move from the aspirational to the practical'.

ii. **Promoting Effective and Proportionate Governance Relationships**

It is suggested that the Civil Service undertake a review of engagement processes across all departments and their respective NDPBs, with a view to ensuring consistency of practice in how the sponsorship relationship is conducted. As part of this review, further consideration should also be given to the role played by all sponsorship staff, across all grades, and how they interact with NDPBs to achieve uniformity of approach, particularly at the operational level of functioning. The engagement review could also include a comprehensive appraisal of NDPBs as delivery entities, whilst in the process clarifying their role, function and purpose more precisely to allow for the development of greater degrees of mutual understanding about levels of autonomy and independence.

iii. **Training and Development at a Time of Austerity**

Sharing best practice and developing innovative training opportunities that are cost effective were issues that merit further exploration. Potential directions of travel could include the development of online portals and tools to facilitate cost effective distribution and dissemination of governance materials to board members at a reasonable rate – one such theme that might be initially tackled by such an approach is how governance should be best practised at a time of austerity and cuts.

iv. **Building Better Board Packs**

An area that warrants closer investigation from the research is the area of board papers and their development. Whilst Phase One of the research drew attention to the use of technology in board meetings as being the least effective area of board activity, Phase Two explored this issue in greater depth, and in particular the wider issue of volume and sufficiency of information provision for board meetings. Whilst Phase Two highlighted that there may be a lot of data available for board members, some participants felt that there was much less by way of useful information for decision making. Consequently, it is suggested that a practical outcome of this research would be to develop an appreciation of what a good board pack looks like. Specifically, this could include: how to shape effective agendas that fit with the strategic scope of the board; building effective agendas that focus on important issues, underpinned by sound evidence bases; assessing what an appropriate volume of papers would be; and providing guidance on when papers should be added and, equally importantly, dropped from board packs.

- **Self-Improvement Sources for Boards**

  In addition to the formal suggestions for enhancing corporate governance practice noted above, the following self-improvement tips are made on foot of the results of the research:

  o it is suggested that boards embrace modes of working that go beyond simple compliance issues, as is arguably the case with much governance guidance. A useful, practical guide in this area is the 'Enterprise Governance' report, published by the International Federation of Accountants (IFAC) in New York[1]. Getting the balance right – the sub-title of the IFAC report - between the 'conformance'[2] and 'performance'[3] aspects of governance, could help boards to become less bogged down in process, a recurrent theme of the research, and enhance, in the words of one interviewee, 'the strategic scope' of the work of the board; and

  o one interviewee helpfully suggested a template that could be used to consider how the personalities of individuals affect the functioning of boards. This individual directed the researcher to the work of Julia Unwin, Chief Executive of the Joseph Rowntree Foundation. Her work considers the interpersonal roles board members play in governance, not simply their functional or professional backgrounds. So, instead of, for example, thinking about board composition in terms of a certain person coming from a financial, legal, HR background or whatever, Julia Unwin's roles could provide a much more effective way to consider the contributions from board members. They are: peacemaker; challenger; history holder; compliance king or queen; passionate advocate; data champion; wise counsel; inspiring leader; fixer; risk taker; strategist; and user champion. As Unwin argues, 'the right mix of people combined with the right structures'. What is suggested, therefore, is for each board to consider who plays each of these roles, with a view to enhancing interpersonal relationships on the board and its effectiveness.

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[1] Available at: https://www.ifac.org/publications-resources/enterprise-governance-getting-balance-right

[2] 'Conformance is also called "corporate governance". It covers issues such as board structures and roles and executive remuneration'

[3] 'The performance dimension focuses on strategy and value creation'