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# **GOOD GOVERNANCE:**

**DEVELOPING EFFECTIVE BOARD-MANAGEMENT RELATIONS  
IN PUBLIC AND VOLUNTARY ORGANISATIONS**

## **Final Report to CIMA**

**1997**

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Chris Cornforth  
Charles Edwards

## **Foreword**

This is the report of a research project, “Developing Effective Trustee-Management Relations”, undertaken by the Open University Business School (OUBS) between June 1995 and December 1996. The project was one of a series of studies of organisational governance in the non-profit and public sectors to receive financial support from the Chartered Institute of Management Accountants (CIMA).

The research was conducted by a team of four OUBS researchers (Chris Cornforth, Charles Edwards, Aude Leonetti and Jill Mordaunt) under the leadership of Chris Cornforth and Professor Roland Kaye, who respectively chair the Public Interest and Non-profit Management (PIN) and the Management of Knowledge and of Innovation (MKIRU) research units at the Open University. PIN works in and across sectors to publish research and inform teaching relating to the governance and management of public and non-profit organisations. One of MKIRU's concerns is the role which information, in particular financial information, plays in the management of organisations.

## **Summary of Findings and Recommendations**

This report presents the results of a research project on the relationship between boards and managers in public and non-profit organisations. The motivations behind this study stem from two sources. First was the growing public concern about the ability of governing bodies to carry out their duties effectively. Secondly, from an academic perspective, organisational governance is still very under researched. There have been relatively few in depth empirical studies of what boards do in practice. The research helps to fill that gap.

Much of the existing literature on boards is prescriptive in nature. It has been criticised for giving an idealised view of boards and not adequately taking into account the many demands, constraints and difficult dilemmas board members face in practice. As a result much of the advice has been difficult to put into practice. The intention of this project was to examine in detail how boards actually work in practice. As a result a case study methodology was adopted. Four cases were examined; a School and a Further Education College from the public sector, and an overseas development agency and a local voluntary organisation from the voluntary sector. Data was gathered using interviews with board members and the managers they work with, the analysis of board documents and minutes, and the observation of board meetings.

The research aims to contribute to the development of good practice by: developing a greater understanding of the roles and relationships of board members and senior managers; identifying how the information and other needs of boards are best met; and examining how boards and their members can be developed to carry out their responsibilities effectively. The research's contribution is necessarily limited by the small number of cases upon which it is based. The issues the research addressed were, however, informed and framed by other research studies, and the depth of the research across the four cases meant that issues could be exposed more thoroughly. The main findings from the research and implications for practice are set out below. These are taken from the findings and implications for practice identified in each Section 5,6 and 7 of this report, and the recommendations are fleshed out in more detail in the concluding Section 8.

### **Main Findings**

#### **Becoming and developing board members**

- Boards face a tension between choosing board members who in some way represent or reflect the concerns of the communities or stakeholders the organisation works with, and those who have skills and experience to bring to the organisation.
- Whatever system of choosing board members is used, there are often important gaps on boards in terms of people with particular expertise or who can reflect the views of important stakeholders. Co-options and advisers to the board are only occasionally used in attempts to fill important gaps and achieve a more balanced board.

- In all four cases, irrespective of whether board members are elected, selected or appointed by external stakeholders, extensive use was made of informal networks in order to find potential board members. Whilst these networks facilitate the search for competent board members, the process is not always open or transparent to outsiders, with the danger that it can lead to a narrow, closed group of board members.
- Where initial training on the role and responsibilities of being a board member is readily available it is taken up and valued by many board members. However, this training tends to concentrate on the legal responsibilities of board members. It does little to develop either the skills which board members need in order to make an effective contribution, or their understanding of different approaches to governance.
- Attention to induction, team-building and regular review of board performance are important in developing effective boards. Senior managers and chairs have an important role in encouraging or discouraging these processes.

### **Roles and relationship**

- It is far easier for managers than for boards to exercise real power in non-profit and public organisations. The two principal conditions for there to be a genuine partnership in which power is shared, first, that the board contains competent and experienced members, and second, that management welcomes and/or expects boards to make an important contribution.
- Governance easily drifts into a confused involvement with operational matters. It happens less where boards have clarified their distinctive role, and careful attention is paid to structuring board agendas and meetings in order to focus on key issues.
- There is no correct amount of information for board members to receive, rather a permanent tension between receiving too little and too much. Board members obtain valuable information from informal sources and from having access to the organisation.
- All, even apparently weak, boards perform minimal *stewardship* and *accountability* roles: as a check and balance on management; as a source of managerial legitimacy; as a link to key stakeholders; as an additional and often complementary source of knowledge of and commitment to the organisation. However, both roles tend to be undeveloped in terms of the potential contribution which boards could make.
- Boards find it hard in practice to play the *strategic* roles they often aspire to, particularly in smaller organisations. This is partly because they lack competence, time and information and partly because operational and strategic roles are in practice problematic to isolate. Apparently excessive attention to operational matters does not necessarily mean that governance serves no useful purpose.

- Most organisations are not clear about the respective roles of board members and managers in their organisations and the contribution that boards are expected to make. This leads to an under-utilisation of boards by managers.

## **Finance**

- In all four cases boards perform two basic functions of financial monitoring openly and, essentially, adequately: routine consideration of actual income and expenditure against budget; routine considerations of projections of future income and expenditure.
- Boards thereby act as a structure and a discipline for the financial accountability of public and non-profit organisations. This accountability is rooted in a public reporting tradition rather than a management accounting one. Boards' roles in financial monitoring are constrained by this tradition. The objective of compliance with regulations squeezes out the role of monitoring financial information as a means of identifying trends and patterns upon which to act.
- The existence of an internal audit function can provide an effective way for boards to contribute to i) the holding of management to account, ii) continuous improvement to the efficiency and propriety of systems and procedures, and iii) organisations' exposure to practice elsewhere. Larger organisations appear more able to oversee financial procedures than smaller ones, who lack resources, expertise and an awareness of what is possible.
- The key factors in the effectiveness of boards' contribution to financial issues are i) the financial expertise of both board members and the managers who report to them, ii) whether the relationship between senior managers and board members allows for 'questioning' as well as 'explaining', iii) how involved of board members become in the organisation. Board members who understand the essential cost structure of their organisations make more useful contributions.
- Boards can, but generally do not, make a significant contribution to strategic financial management. Involvement in the budget-setting process is one way in which they can contribute: it enhances stakeholder participation in raising strategic questions
- Boards contribute little to how effective organisations are in converting resource inputs into performance outcomes. A financial accounting tradition holds sway over a management accounting tradition, resulting in under-use of methods which could help boards to assess and develop their performance: benchmarking, ratio analysis and the calculation of added value.

## **Main Recommendations**

### **For boards and senior management**

- (1) **Boards need to periodically review how they can try to achieve an appropriate mix of skills and experience among members.** Boards should compare the roles they play in their organisation, or desire to play, with the capacity of existing members to perform them. Members with financial, and particularly management accounting, expertise should be included within the portfolio of board member expertise sought. Recruitment and co-option options which go beyond reliance upon informal networks, should be used.
- (2) **Boards and senior management need regularly to review their respective roles and the contribution they make to governance.** The roles they choose to prioritise may emphasise stewardship, accountability or contribution to organisational strategy. The choice should accord with the values and history of the organisation, the expertise of members, the resource constraints they face, and the changing demands of the external and regulatory environment.
- (3) **Chairs and CEOs need to ensure that board development is continuously undertaken.** Development should aim to equip board members to make useful interventions in the organisation. It may include induction, support, team-building, arrangements for access to the organisation's operations, and training in governance process skills.
- (4) **Board members need to clarify what degree of involvement within the organisation is appropriate.** Board members need to establish with senior management how they can best be kept abreast of the organisation's work and what types of involvement within the organisation, beyond attendance at meetings, are appropriate to their role and to their areas of expertise.
- (5) **Chairs and CEOs need to give a higher priority to the management of the governance function.** In particular, they should regularly assess the provision and quality of board-level information and the organisation of meeting agendas and sub-committee reports.
- (6) **Boards should consider establishing a means of regularly reviewing financial systems and procedures.** An option for larger organisations is an Audit Committee. If this is not feasible for smaller organisations, alternative and less formal means of ensuring that there is an effective internal audit function should be developed.
- (7) **Organisations should consider making more use of management accounting approaches in their governance.** Board members and senior managers should use accountancy expertise not only for financial accounting purposes, but for developing means of assessing the performance of the organisation against its objectives, especially the effectiveness of the organisation's conversion of resource inputs into performance outcomes.

## General

(8) Management accountants and their professional bodies need to be more aware of the opportunities for them to play governance roles in public and non-profit organisations. Such organisations can benefit significantly from the range of experience and expertise which management accountants can add to boards. Management accountants as board members can contribute to organisations' accountability, performance assessment, and measurement of effective use of resources. As board members, management accountants can develop their own expertise, experience and contribution to the community. The mutual benefits arising from mere accountants serving on these public and non-profit boards can also lessen any prejudices which commercial accountants may have of the tasks and challenges faced by such organisations and which some in the voluntary or public sector may hold about the limited value and perspective of management accountants.

(9) Accountants and other professionals who serve on or advise the boards of non-profit organisations need to understand their distinctive context, needs and goals and be able to communicate effectively with 'lay' board members if they are to be fully effective.

Bringing expertise and understanding from the business world can bring new insights and disciplines to the governance of non-profit organisations. However, there are also potential dangers. Viewing non-profit organisations too narrowly in business terms can undermine an organisation's social goals and values, and may generate damaging conflict. There can also be a gulf in language and understanding between professional and 'lay' members of boards. Those professionals who are able to make the most effective contribution show an awareness of the distinctive aspects of non-profit organisations and an ability to communicate effectively with non-professionals. Professional bodies could play an important role in developing this awareness and skills among their members. In particular, as part of accounting bodies' communications with members on continuing professional education, it may be possible to develop and promote training opportunities which explore possibilities of non-profit governance and demonstrate how contributions can be effective.**10) The accounting profession has potentially an important role to play in helping non-profit organisations find new ways of assessing their performance.** Traditional accountancy tools have limited utility in helping non-profit organisations to assess their effectiveness. The accountancy profession could play a role in introducing emerging techniques for performance assessment - such as social auditing and bench-marking - to non-profit organisations. Such roles need not replace the valid and proper traditions of financial accounting, and which accountants can help organisations perform them better. But they can add a dimension to governance which is consistent with some of its nobler aspirations: helping and ensuring that organisations deliver more effectively those social benefits for which it was established.

- (11) **The accountancy profession can contribute a broadening of the content of board development and training programmes.** The accountancy profession, government and umbrella bodies can foster training and advice for governing bodies which goes beyond their statutory duties. It should also emphasise the choices, constraints and dilemmas which board members are likely to face, and develop the knowledge and skills they will need to deal with them. It is particularly important that accountancy bodies do not follow the example of some legal firms in promoting board training which focuses exclusively on the formal responsibilities of boards (in this case their financial ones). Such a focus can frighten all board members, lead to excessive attention to the stewardship role and not develop the process skills which all governors need in order to make effective governance contributions.

## **(1) Introduction**

### **1.1 Aims**

During the last two decades there has been expansion in the number and in many cases the powers of regulated public and voluntary organisations in the UK. In part this growth has been stimulated by changes in government policy, such as the contracting out of public services, the local management of schools and the establishment of NHS trusts. These changes have been accompanied by a growing public awareness of the significant role that non-profit organisations are playing in public life.

At the same time, paralleling developments in the private sector, the governance of these organisations has come under increased public scrutiny. Serious questions have been raised about the ability of what are often lay boards to effectively supervise senior managers, to oversee financial management and to protect the interests of relevant stakeholders and the public.

These concerns have also led to renewed academic interest in organisational governance and a growing literature. Much of this literature is prescriptive in nature and aimed at addressing the perceived shortcomings of governing bodies. However, it has been criticised for oversimplifying the problems, underestimating the conflicting demands and pressures that board members face, and presenting solutions which are difficult to implement in practice. There have been relatively few detailed empirical studies of what boards do in practice, and one motivation for this research was to help fill that gap.

A particular focus for the research was to investigate how board members perceived and carried out their financial responsibilities, and how this was influenced by the different pressures and constraints that they faced. However, we felt that this could not be properly understood in isolation from the other roles and relationships that board members fulfil. In particular the research started from the premise that the effectiveness of any board would depend crucially on the relationship with senior management.

Specifically the project set itself four main aims:

- (1) To examine the financial background and expertise of trustees and the challenges they face, in particular how they view their financial responsibilities and their ability to carry them out effectively.*
- (2) To examine the division of responsibilities and the relationship between trustees and senior staff, in particular the relationship between the treasurer and senior finance officer and between them and the rest of the trustees.*
- (3) To identify good practice in how organisations can develop their trustees and appropriate board level information systems.*
- (4) To examine the relevance of wider debates about corporate governance for the role of trustees.*

Although the remit of the research extended to broad issues of organisational accountability and governance/management relationships, three specific outputs pertinent to CIMA's objectives were identified in the project proposal:

- Developing a greater understanding of the role that management accounting plays in the governance of voluntary and non-profit organisations
- Identifying ways in which trustees and governing bodies may be developed to carry out their financial responsibilities more effectively.
- Promoting good practice and improvement in the management information available to trustees.

## **1.2 Terminology**

The term 'governance' is used in this report to embrace all the functions performed in organisations by the members of their governing bodies. Governing bodies have many different names in voluntary and non-profit organisations: management committees, boards of trustees or directors, corporations, councils, etc. These different terms may carry different meanings, both symbolically and practically: a 'management committee' emphasises the power of the committee over the organisation's operations and any staff it employs, whilst a 'board of trustees' emphasises the disinterest of those entrusted to ensure that the mission and resources of the organisations are safeguarded. For the purposes of this report, we use the general terms 'board' and 'board member' to cover the different titles found in public and non-profit organisations, although when referring to a particular case we also use the particular terms used there.

## **1.3 Methodology**

The project sought to be innovative in two respects. First, it sought to compare practices in organisations of different types and sizes in both voluntary and public sectors. Second, it sought to move beyond the highly prescriptive models of good practice, which dominate the literature on organisational governance to explore in depth what actually happens in the practice of governance. There have been few empirical studies of what actually happens in the boardroom, and the study was intended to help fill this gap.

To meet these aims, it was decided to adopt a case study methodology (Yin, 1989). Four organisations were chosen for study, which would allow comparisons to be made concerning variables such as sector, size, and board composition, without sacrificing the in-depth character of the case study method.

The four cases were

- a local voluntary organisation (LVO), providing services in the community
- a small national voluntary organisation (NVO) working in overseas development/aid

- a local education authority school.
- a regional further education college,

The cases were selected against the following criteria:

<b>Sector</b>	<b>Voluntary:</b> LVO; NVO;	<b>Public:</b> School; College;
<b>Remit</b>	<b>National:</b> NVO;	<b>Local/regional:</b> LVO; College; School;
<b>Size</b>	<b>Budget &lt; £1 million:</b> School; LVO; NVO;	<b>Budget &gt; £1 million:</b> College;
<b>How boards ‘chosen’</b>	<b>Mainly selected:</b> LVO (by existing board); College (by existing board according to govt. criteria);	<b>Elections important:</b> School (parents and staff elect some governors); NVO (organisations’ members elect committee);

Previous studies of board behaviour have been criticised for their over reliance upon one source of data, usually the perceptions of board members gathered through interviews or questionnaires, because of the lack of any independent confirmation of actors’ accounts (Peck, 1995). In order to overcome this weakness, the study drew on three different sources - observation of meetings, actors’ accounts and board documents - as follows:

- structured observations of board and sub-committee meetings. In each of the four cases, two researchers attended at least two full board meetings and at least two finance, audit or other relevant sub-board meetings. These were observed over a cycle, i.e. we attended the full boards which delegated and received items from the intervening sub-committees which we observed. The two researchers logged the content, source and level of agenda items, the detail of board-manager interaction, the quantity and quality of supporting information, and the nature of board action and behaviour.

- semi-structured interviews with key participants in both the management and the board of the organisations. In the LVO and the NVO all board members were interviewed. In the School and College, with larger boards, a cross-section of board members were interviewed, including the Board Chair and the Chairs of sub-committees dealing with financial matters. The managers we chose to interview also depended upon the character and size of the organisation, but always included the chief executive officer and those managers who reported to the board on financial matters. The interviews were of between one and one and a half hours duration. They were tape recorded, transcribed and analysed. Between 8-10 were conducted in each organisation.
- an analysis of board documentation and information systems. We collected and studied copies of all the papers which board members received before and during the meetings we observed, including financial reports. We looked at formal documentation relating to the remit and regulations of particular committees. To check whether the sample of meetings we observed seemed representative, we also sought copies of agendas, minutes and, where appropriate, supporting papers relating to the previous cycle of meetings.

#### **1.4 Structure of the report**

The next two sections of the report provide a context for the findings from the study. Section 2 maps out some of the most significant social, political and legal changes that have affected organisational governance across the private, public and voluntary sectors. Section 3 examines different ways of understanding governance drawing on the academic literature. It suggests that these different perspectives are not mutually exclusive. Whilst the perspectives can and do co-exist in organisations, they also generate tensions and ambiguities which are central to an understanding of governance.

Sections 4 to 7 present the empirical findings from the research. Section 4 introduces the four cases and in particular how the governance function is organised in each of them. Section 5 reports on the composition of boards: the sort of people who are board members in the four cases, how and why they were appointed or elected, what expertise they bring their organisations and how this is used and developed by the organisations. Section 6 reports on how governance was practised in the four organisations: the reality of relationships between board and management, the perceived and actual roles played by boards, the types of contribution which the boards make and their accountability. Section 7 reports on the contribution of boards to organisations' financial management under the specific headings of financial monitoring, financial procedures and financial management.

Section 8 concludes the report. First this draws together some of the main findings from each case. This is done by an assessment of the key questions: do boards make a difference? And if so, in what way? This is followed by a discussion of the implications for improving practice. A series of recommendations are made for boards, senior managers and others the accountancy profession to consider.

## **(2) The changing context of governance**

Until recently the way organisations are governed has not attracted a great deal of attention. There appears to have been an implicit assumption that what matters in organisations is the way they are managed. Since the mid 1980's this picture has been changing. Stimulated by public concern over the behaviour and accountability of some senior managers there has been a growing interest in how to improve the quality of organisational governance, an interest which spans the private, public and voluntary sectors. This section of the report maps out some of the most significant changes and developments affecting governance in each of the sectors.

### **2.1 The private sector**

Typically in the UK publicly quoted companies have what is called a unitary board, which consists of directors who are executives in the company (executive directors), and independent or non-executive directors. (This contrasts with a number of other European countries, which have a two tier board system, a supervisory board and below that an executive board.)

A potential weakness of the UK's system of corporate governance concerns the ability of boards to hold senior managers to account when the board may be dominated by these executives. There have been various initiatives to address this and related problems. As early as 1973, the Watkinson report for the CBI recommended the greater use of non-executive directors, and in 1980 various City institutions, lead by the Bank of England, set up the organisation PRO NED to encourage the greater use of non-executive directors (Charkam, 1995: 269). However, perhaps the most significant influence on change has been the report of the Cadbury Committee (1992), on the financial aspects of corporate governance.

The Cadbury Committee was established in May 1991 by the joint sponsorship of the London Stock Exchange, the Financial Reporting Council and the accountancy profession. It arose because of concern over the low level of confidence in company financial reporting and auditing (Pettigrew and McNulty, 1995: 846). In addressing these issues the Cadbury Committee probed quite deeply into issues concerning the structure and systems of corporate governance. Going beyond issues of financial audit the Committee developed a Code of Best Practice in Corporate Governance. The Code was based on principles of *openness*, *integrity* and *accountability*. In essence it strengthened the position of NEDs, and tried to ensure a balance of power on boards and greater accountability of executives, for example through the establishment of internal audit committees under the control of NEDs.

The Cadbury Report was published against a background of growing public concern over the ability of boards to curb the excesses of some senior executives. A series of corporate failures and scandals at companies such as Polly Peck, Guinness, BCCI, and the Maxwell affair, where weak corporate governance was perceived to be a contributory factor, kept the Cadbury Report in the public eye. This and the threat of Government legislation if

business did not put its own house in order created a climate for change and a willingness among many firms to take action. Research by Stiles and Taylor (1993) showed that 73% of the top 100 UK firms were complying with at least 4 out of 6 key elements of the Code.

However, the Cadbury Code has not been without its critics (Morris, 1995). On the one hand it has been criticised by a number of business leaders for putting too much emphasis on monitoring and control, and the importance of NEDs. This echoes a broader argument voiced by the Harvard academic Pound (1995) that the debate on governance has focused too much on the control of senior executives and not enough on improving the quality of top decision-making. On the other hand Cadbury has been criticised as a voluntary code with no clear means of ensuring compliance.

## **2.2 The Public Sector**

Much of the public concern about governance of public service organisations stems from the widespread structural reforms of the public sector during the 1980's and 1990's. This has led to many public services being removed from the direct control of elected local authorities and Government Departments to be run by 'quangos' operating under contract with central government. Key reforms include the establishment of independent trusts to deliver services in the NHS, the establishment of Training and Enterprise Councils and Local Enterprise Councils, and the removal of Further Education Colleges and the former Polytechnics from local authority control. In an attempt to improve efficiency the Government has also sought to introduce greater competition and a range of management practices from the private sector. Common changes include: separating the purchase of services from their provision, replacing elected board members by appointees (often with business experience), and making greater use of performance indicators and multiple audits.

The rapid growth in the number of quangos, the variety of their governance arrangements and the perceived increase in central government control have led to concerns about the membership and accountability of these public bodies. Plummer (1994: 1), for example, suggests that the governance structures of these bodies 'were created without clear and consistent principles and methods' leading to what he calls a 'governance gap' and 'deep public unease about the legitimacy of many of the quangos'. Skelcher and Davis (1995), in their study of the membership of what they call locally appointed bodies, warn against the dangers of creating a new closed professional elite controlling these bodies. At the same time the rise of managerialism in the public sector (Pollitt, 1993) has challenged the rather simplistic assumption that it is lay councillors or board members who make policy and officers who carry it out.

Perhaps the most significant attempt to address these and related issues to date is the Nolan Committee's (1996) Second Report on Standards in Public Life, which focused on what are called Local Public Spending Bodies, including further and higher education bodies, grant-maintained schools, TECs and LECs, and registered housing associations. While the report makes detailed recommendations for each of the sectors that it looked at,

it also establishes some general principles and recommendations. It concludes that best practice conforms to the seven principles of public life set out in the first Nolan report, namely: *selflessness, integrity, objectivity, accountability, openness, honesty and leadership*. It proposes that where taxpayers money is involved the government or local authority must retain responsibility for ensuring the interests of both taxpayers and users are safeguarded, and local mechanisms should exist to ensure local influence and accountability. It recommends that various principles of good practice be adopted with suitable modifications across the sectors on: appointments, training, openness, codes of conduct, conflicts of interest and whistle blowing.

It is too early to say yet what impact this report will have, although there is little evidence to suggest that the principles and approach adopted by Nolan will be contested.

### **2.3 The Voluntary Sector**

During the 1980's the size and importance of the voluntary and non-profit sector increased dramatically. This was partly due to changes in Government policy, particularly the contracting out of public services. For example, housing associations rather than local authorities were used as the main vehicle to provide social housing and many social services were contracted out to private or non-profit organizations. These increasing demands on the sector and a recognition of its growing importance led to a concern to improve the standards of management and governance. Again this concern was heightened by a few well publicised problems and failures. By the late 1980's the possibility of abuse was recognised, and the efficiency scrutiny of the supervision of charities, conducted by Sir Philip Woodfield in 1988, called for action to remedy the situation (Holden, 1996: 31)

In England and Wales the Government responded to these concerns by introducing the new Charities Act in 1992 and 1993, which tightened the regulatory regime for charities. In addition the Charity Commission, the main body overseeing charities, was revitalised and began to take a more active supervisory role. As part of this work it devoted effort to trying to improve standards of trusteeship by directing greater attention to the role and responsibilities of trustees. In 1991 the Charity Commission and the National Council for Voluntary Organizations (NCVO) established a Working Party on Trustee Training, which produced the report 'On Trust' (NCVO, 1992), the aim being to improve the quality of governance among charities and other voluntary organizations. A survey for the Report came up with the rather startling evidence that only 1 in 3 of those trustees surveyed knew that they were trustees. The report made a number of recommendations aimed at trustees, voluntary organisations, support organisations, the Charity Commission, funders and Government. The thrust of these was to provide more advice and training for trustees. An important recommendation to be implemented was the establishment of a Trustees Services Unit at the NCVO in 1993, with the brief to maintain a strategic role in developing advice support and training services for trustees. It was also tasked to produce a comprehensive handbook for trustees (Kirkland, 1994).

Housing is an area of charitable activity where issues of governance have received greatest attention. The 1988 Housing Act exposed housing associations to greater competition and to commercial risk taking. This led to concerns about the ability of housing associations and their boards to operate effectively in the new environment (Holden, 1996: 32). In response the National Federation of Housing Associations (NFHA) set up an independent inquiry, under Sir David Hancock, into the corporate and financial governance of housing associations in England, which published its report in 1995. The report (NFHA, 1995) included a draft Code of Governance, which was later accepted by the housing association movement. The Code sets out guidance on a range of issues including: the constitution, function and operation of the board; the responsibilities of the chair and chief executive; the role of members and tenant involvement; openness; audit and probity. The report and the code were guided by four key principles, namely that Associations should be *competent, accountable, independent and diverse*.

Most recently the Commission on the Future of the Voluntary Sector looked at governance as one of many important issues confronting the sector (NCVO, 1996). It recommends that voluntary organisations should clearly define the respective roles of chair, board members, chief executive and staff; ensure that boards have an appropriate balance of members; do not become too large; and have adequate recruitment and induction procedures. The report also commends the codes of practice developed by the Nolan Committee, and suggests they could be used more widely in the voluntary sector.

## **2.4 Emerging issues**

Historically the traditions of governance in private, public and voluntary organisations are quite different. However, with the government reforms of the public sector, and the growing introduction of management practices derived from business into the public and voluntary sectors, the boundaries between the sectors has become increasingly blurred. This has been true at the level of governance where ideas and practices have been transferred between sectors. Increasingly it is relevant to ask what are the similarities and differences between governance in different sectors, and what lessons is it possible to learn which may have relevance across sectors.

Much of the attention and interest in governance in all three sectors has focused on what we may call the stewardship role of boards - the ability to hold management to account and to see that the resources of the organisation are used properly. The main response to these concerns has been to try to improve self-regulation through the development of voluntary codes of practice. This raises two important questions. First, has the attention on the stewardship role of boards meant that other important roles are in danger of being neglected, in particular the ability of boards to add value to decisions concerning the organisations policy and strategy? Secondly, is voluntary self-regulation effective or is tighter external regulation required?

Another common issue concerns the accountability of boards themselves. In the private sector there has been a concern the board members are too removed from shareholders and may not adequately represent their interests or be accountable to them. In the public

sector the removal of many public bodies from local authority control and the move to more corporate style boards has raised alarms about the ability of boards to represent or be accountable to the local communities they serve, their users, or other legitimate stakeholders.

### **(3) Making sense of governance: perspectives and models**

The growth of public interest and debate on governance has also stimulated a growing literature. Much of the literature is prescriptive in nature. It starts out from perceived problems of governance and suggests what can be done to overcome these problems. Much of this advice is broad ranging and comprehensive. It offers what appears to be an idealised, or *heroic* account, of what Boards should be able to do and achieve, and fails to adequately recognise the limited time and expertise that board members may be able to bring to their work, or their different motivations and interests ( Herman, 1989; Cornforth, 1995).

Literature based on empirical studies and observations of what boards actually do in practice is much rarer. As Pettigrew and McNulty (1995) have observed, this is still very much a neglected area of management research. However, the findings to date from empirical research are very much at odds with the prescriptive accounts, highlighting some of the difficulties and constraints board members face and suggesting a more limited, and *human* account, of what is possible (see for example Middleton, 1987; Herman and Van Til, 1989; Peck, 1995).

This chapter which presents a model for understanding governance which was used to guide the research and helps to explain some of the different problems and tensions that governing bodies face. The model is based on two key ideas. The first is that there are different traditions or ways of thinking about governance that are deeply embedded in society - what we will call a *stewardship or agency* model, a *managerial* model and a *political* model. The second important idea is contingency. How boards are structured and behave will be influenced by the circumstances they face, for example the size of the organisation, its history and culture and the regulatory regime that it faces. Of particular importance is the influence of the state, which will be examined in more detail below.

These different ways of thinking about governance and the wider contextual influences lead to contradictory tensions or pressures on boards, which are outlined in the last part of the chapter. Our contention is that effective boards will need to find appropriate ways of managing these tensions dependent on their circumstances, rather than be pulled to one extreme or another.

#### **3.1 Three perspectives on governance**

##### **A market perspective on governance - the agency or stewardship model**

In a market-oriented view of society, individuals are assumed to be rational and instrumental, and the exchanges that individuals engage in are seen as the primary influence on social arrangements. This view of society permeates much political thinking on the right. These assumptions also underlie much economic theory and related theorising about organisations, such as institutional economics, public choice, rational actor models, and agency theory.

Agency theory is of particular relevance as it directly addresses the issue of governance. According to agency theory the owners of any enterprise face a problem, because managers (their agents) are likely to act in their own self-interests, rather than the owners' interests. From this perspective the main function of the board is to control the behaviour of managers. This suggests that directors of companies should be independent of management, and their primary role is one of *stewardship* - to make sure the resources of the organisation are safeguarded and to monitor and, if necessary, control the behaviour of managers.

As we saw in the previous chapter, this view of governance has been reinforced by recent public scandals, such as the collapse of BCCI and Robert Maxwell's use of pension fund money, and concern over senior management pay, particularly in the privatised utilities. Both the Cadbury Committee (1992) and the Greenbury Committee (1995) on directors' remuneration produced codes of practice which essentially reinforce the power of non-executive directors to carry out their stewardship role in order to safeguard the interests of shareholders and the public.

In many ways the principles and regulations concerning charitable trusts, which affect many voluntary organisations, embody similar ideas on the role of governance. Under trust law the trustees of an organisation are appointed to look after the money and resources donated by an individual or group and to see that their wishes, as set out in the trust deed, are carried out. It is enshrined in trust law that the trustees themselves can not benefit financially from the trust, and so employees of a trust cannot normally be trustees. Hence the principal role of the trustees of a voluntary organisation is to see that the staff or management of the organisation carry out the objectives of the trust. As there is a complete separation of the board members from staff or management, it could be argued that trust law is even more in line with a stewardship model of governance than company law.

In the context of voluntary and non-profit organisations Harris (1994) has called this stewardship model of governance the 'traditional model'. She calls it traditional because it reflects the legal and constitutional status of many voluntary and non-profit agencies'; it appears to underpin much of the prescriptive literature on non-profit governance and it mirrors the historical form that many early charitable organisations took.

### **A managerial perspective - a partnership model**

A governing body or board of directors can be regarded as the apex of a management hierarchy. It is not surprising in this context that ideas and practices from management should be applied to governance, for example: that board members should be selected on the basis of their expertise and contacts so that they are in a position to add value to the organisation's decisions rather than just select, monitor and control management; that boards, like managers, will require careful induction and training; that they will need to know how to operate effectively as a team. Ideas such as these are common in much of the prescriptive literature on non-profit boards, (see for example Kirkland (1994)).

The managerial perspective is also evident in various newer models of governance that have been put forward. For example, Pound (1995) suggests what he calls the 'governed corporation model' of governance. In this model the board, and major shareholders, are seen as a partners of management, and the prime function of the board is to add value to the organisation by improving its top decision-making. In order to carry out this role Pound recommends five changes from the stewardship model of governance: board members should be selected for their expertise; boards should focus on new strategies and policies, not just reviewing past performance; directors should be given better access to company information; board members should devote a substantial proportion of their time to governance; they should be rewarded appropriately.

### **A democratic perspective - a political model**

Democracy is a central institution in Western societies. Key ideas and practices include: open elections on the basis of one person one vote; pluralism i.e. that representatives will represent different interests; accountability to the electorate; the separation of elected members, who make policy, from the executive, who implement policy decisions. Democratic ideas and practices have influenced thinking about the governance of organisations, particularly public and voluntary organisations. For example many voluntary and non-profit organisations are established as membership associations, where it is enshrined in the organisation's constitution that the governing body should be elected by and represent the membership in some way. The constitution of many organisations also allows that some other stakeholders, such as funders or users, may be represented on the board.

A democratic perspective on governance suggests that the role of the board is to represent the interests of one or more stakeholder groups in the organisation. This leads to a *political model* of the role of boards; a means of expressing, resolving or choosing between the interests of different stakeholders and setting the overall policy of the organisation, which can then be implemented by staff. Central to this view is that anyone can put themselves forward for election as a board member. Expertise is not a central requirement, as it is in the managerial perspective.

### **3.2 The influence of the State**

The State has a variety of important influences on the governance of voluntary organisations through legislation and regulation, for example through the laws governing the different legal forms they may take, and the work of regulatory bodies such as the Charity Commission, the Registrar of Friendly Societies or Companies House. Nevertheless the influence of the State is essentially indirect.

However, there are a growing number of non-profit organisations which are part of the public sector but have some degree of self-governing status and policy-making authority, such as schools, hospital trusts, and colleges (Skelcher and Davis, 1995). These state-mandated public bodies all have governing boards with some degree of independence, but

are subject to much more influence from the State than other independent voluntary organisations.

As Skelcher and Davis (1995: 3-8) note there is a good deal of variety concerning how the boards of these bodies are appointed and structured. However, since the mid 1980's there has been a discernible trend away from a political model of governance towards a private sector model of corporate governance, which has been brought about by changes in Government policy. This has manifested itself in three main ways. The first has been increasing government control over who is appointed to these boards, and a move away from locally elected members or nominations by local government, to a system of appointments either directly by Ministers or according to central government guidelines. In many cases these guidelines have favoured the appointment of people with business experience and skills. A second has been to allow senior managers to be board members, so blurring the distinction in the political model of governance between elected members and officers. For example executives hold five out of the eleven places on the boards of District Health Authorities. A third has been to establish many of the bodies as companies or corporations where the legal duty of board members is to further the interests of the organisation, rather than represent particular groups and interests.

Overall, the influence of government policy has been to reinforce the stewardship and managerial roles of governance and play down the political or representational role of governing bodies of public organisations.

### **3.3 Towards a synthesis: governance as paradox**

In practice, the three models of governance described above do not exist in pure form. They are better thought of as ideal types. In reality most boards draw on different aspects of these models, and experience contradictory pressures or tensions. As a result governance is perhaps better seen as *paradoxical*, where the behaviour of boards can be seen as arising from the contradictions between the three different perspectives on governance. (This model of governance is similar to that put forward by Wood (1996: 5-7), except that she sees the paradoxes arising from contradictions embedded in the law, rather than different from different perspectives and practices embedded in society.) Some of the common contradictions and tensions that boards experience as a result are set out below.

#### **The tension between lay representative and professional board member**

The political model (and to some extent the stewardship model) of governance stress that board members are lay representatives. In contrast the managerial model stresses that board members should have expertise and experience which can add value to the performance of the organisation.

This can raise an obvious tensions for non-profit boards - should members be chosen, or encouraged to stand for election, because of their expertise or because they represent some stakeholder group? It also raises dilemmas for board members. Are they expected

to represent particular stakeholders or to give expert guidance? The professional role also demands a close involvement with the organisation. This may conflict with board members' unpaid status in most non-profit organisations.

### **The tension between the stewardship and strategic roles**

Related to the previous dilemma, the different models of governance put different emphasise on whether the main function of the board is to be a careful steward of the organisation's resources or to develop strategy and policy. The stewardship role demands careful monitoring and scrutiny of the organisations past performance and is risk averse. The strategy role demands forward vision, an understanding of the organisation and its environment and perhaps a greater willingness to take risks. Again, boards face an obvious tension concerning how much attention they should pay to these contrasting roles.

### **The tension between controlling and partnering management**

The stewardship and political models stress the importance of the board monitoring and controlling the work of managers (the executive). In contrast in the managerial model stresses the role of the board as a partner to management, improving top management decision-making.

The need to both control senior management and be their support and partner in decision making can be a source of role conflict and tension for board members. . To what extent should board members push the interests of particular stakeholders if this is against the wishes of management? This tension is vividly illustrated by the following comment on an European Union report on parent participation in education by the convenor of the Scottish Parent Teacher Council:

*'Quite often the parents on school boards cease to take parental point of view and start to identify more with management...in some cases you can see parents on boards closing ranks around the head teacher rather than lobbying on behalf of parents'*

(From the Scotsman, Page 6, 27/12/95)

### **Multiple or ambiguous accountability**

There may be tension concerning to whom board members are accountable. The agency perspective suggests that board members are accountable to the owners of the organisation. The political perspective suggests that there may be other stakeholders who have a legitimate interest in what the organisation does, and should in some way be able to hold it to account. For example, board members may feel accountable to those who elect or appoint them, to the organisation's beneficiaries or users, to other board members and to staff. Board members may experience tension because they feel accountable to more than one group, or because they are unclear or differ over who they are accountable to.

## **(4) The Four Cases**

This section presents an overview of the four organisations which were selected for study. As each organisation operated within a different regulatory environment, provided different services and had different governance structures, the section summaries key characteristics of each organisation which are relevant to the report's later consideration of their governance.

### **4.1 The school**

#### **Regulatory environment**

There is a statutory requirement for publicly maintained UK schools to have governing bodies. Regulations which specify what they must, should and may do are prescribed by the Department for Education and Employment (see, for example DfEE 1996). In addition the DfEE publishes guidance on good governance produced in consultation with head teachers' and governors' associations (DfEE 1996a). This addresses issues such as accountability, relationships between the head-teacher and governors, conduct of meetings, and what information governing bodies receive.

#### **Characteristics**

The school was an urban primary with approximately 400 pupils aged from 5 to 12, and it also ran a nursery. The school employed one Head teacher, one Deputy who taught virtually full-time, 14 full-time teaching staff, one full-time secretary and various educational and non-educational part-time ancillary staff.

It was run by the Local Education Authority, who delegated 85% of the 1995/96 budget of c.£700,000 to the school to manage under the Local Management of Schools (LMS) scheme. This was but one element of a process of reform to the relationships between schools, their governing bodies, local authorities and central government, which was set in motion by the 1988 Education Reform Act and subsequent legislation. A key feature of these reforms was the increase in the power of central government and its agencies in matters of curriculum, inspection and funding arrangements at the expense of local authorities' powers. A parallel feature of the reforms was an increase in the formal responsibilities of school governing bodies over matters such as expenditure of delegated budgets, reporting to parents, producing School Development Plans, and health and safety.

Our overall impression of the school was that it was a stable, efficiently run and friendly school which enjoyed a good local reputation. This impression was confirmed by a positive inspection by OFSTED (Office for Standards in Education, a statutory government agency) subsequent to the research. There was an active parents' organisation which raised funds for the school.

## **Governance**

The full Governing Body normally met once a term, with agendas averaging 17 items and meetings typically lasting 2 to 3 hours. The local education authority suggested draft agendas, which the school usually followed.

There were 16 governors, comprising 4 elected parent-governors, 2 teacher governors, 5 local authority appointed governors (1 by the Town Council, 4 by the County), 4 co-opted governors and the Head.

There were the following committees:

*Premises & Finance* : met 5 times a year

*Pupils and Personnel* : met 4 times a year

*Curriculum* : met 3 times a year

*First and Pay* : met once a year and in emergencies.

*'Chairs'* : less formal meetings of Chair, Head & Committee Chairs, which were held when necessary (approximately once a term), in theory to co-ordinate preparation and follow up to full board meetings.

The LEA provided model terms of reference relating to the duties of governors, the roles and powers of sub-committees, the delegation of responsibilities to Head and sub-committees and other matters. The school followed these guidelines. Most governors were allocated some formal responsibility: Chair of a Committee, link person with other school governing bodies, or with the parents association. In addition each governor was formally allocated to make links with particular year groups.

The board was serviced by the clerk, who was also the School Secretary. She was the extent of the school's non-teaching administrative resource, and appeared to see servicing the Governing Body as an administrative matter within her line management responsibility to the Head.

## **4.2 College**

### **Regulatory environment**

The College is regulated by the Further Education Funding Council (FEFC), a government appointed body which specifies how colleges are governed and funded and which prescribes (with varying degrees of discretion) what services they may and may not provide. Central government legislation removed all UK Further Education Colleges from local authority control in 1993, and they were established as independent incorporated bodies whose governors took on responsibilities equivalent to those of company directors.

All colleges are subject to rigorous FEFC quality assessments every 4 years: our research took place immediately after such an inspection.

FEFC regulations about college governance are extensive and include matters such as:

- who board members should be;
- how they should be appointed;
- what committees there have to be (e.g. an Audit Committee);
- what powers and duties these committees have.

### **Characteristics**

The College operated from four principal sites located in the main towns in the part of the semi-urban county it covered. It was the only FE college serving this region, although local students were free to enrol elsewhere and the College attracted students living nearer to other neighbouring colleges. The College comprised three previously separate colleges, which had their own governing bodies.

It had an annual budget of £25 million, the bulk of which came from a student-related block grant from the FEFC. It also generated some income from local partnerships and franchise arrangements. The College provided education and training services to post-16 students and adults in five broad curriculum areas : Science & Humanities; Business & Administration; Service Industries; Technology & Computing; Visual Communication.

The College was managed by a Principal (CEO), to whom reported an Associate Principal responsible for all finance, personnel and administration matters and a Curriculum Vice-Principal responsible for academic matters. The College's five curriculum areas were grouped under faculties, each headed by a dean. In addition, each of the main sites had a manager responsible for the running of that particular site.

The research was undertaken in the context of major changes in the funding and role of UK further education. Major voluntary redundancies had been and were continuing to take place nationally and in this College. Student retention and examination result performances of colleges were being exposed to public scrutiny and comparison, increasing the sense and reality of competition with other providers of post-16 and adult education and training. Our impression was that the College was meeting these challenges neither exceptionally better nor worse than other FE colleges.

### **Governance**

The Board (or Corporation) consisted of 16 members, of whom 8 were independent, as stipulated by the FEFC, 3 co-opted, one was nominated by the local Training & Enterprise Council (TEC), 2 were elected from the staff, 1 from students and 1 was the Principal. The Clerk to the Corporation was accountable to the board, had office

facilities, attends all meetings and, in this case, is a former senior manager of the college. Senior managers attend and report to both full board and relevant sub-committees.

The main sub-committees were: Finance & General Purposes; Personnel; Audit. In addition, there were Search (for board appointments) and Remuneration sub-committees.

The full board met 6 times per annum, and also outside the formal cycle; typically one away day per term to tackle strategic matters free from the normal agenda. The sub-committees met to tie in with the full board cycles and with key stages in the accounting and budget-setting cycles. The F & GP met 9 times per annum, the Audit Committee 5 times.

Individual board members were also tasked to work with individual managers on particular issues.

### **4.3 Local Voluntary Organisation**

#### **Regulatory environment**

The local voluntary organisation is both a company limited by guarantee and a registered charity. The former means that it is subject to the UK Companies Acts, but unlike a commercial company it has named guarantors rather than shareholders and their liability is limited to a nominal amount specified in a Memorandum and Articles of Association. These Acts require the company to have a Board of Directors elected in accordance with the Memorandum and Articles: in legal terms the Executive Committee of the LVO served as this Board.

Registration as a charity places the LVO under the auspices of the Charities Acts, and the specific regulatory framework of the Charity Commission. The LVO's Executive Committee also serve as the trustees required by charity legislation: they must have no pecuniary interest in the charity and their primary purpose is to ensure that the organisation promotes and safeguards its charitable objectives.

#### **Characteristics**

The LVO was set up in 1975 by a group of volunteers concerned at the lack of support for victims of domestic violence in the area. In 1977, it opened a home for families in need of temporary accommodation. By 1996, the LVO ran 6 such homes, two advice centres and a telephone advice line, and had thus become very much a service-provision organisation. In this time it changed, under the influence of its present Chief Executive, from being a collectively run organisation in the 1980s to the more formal and conventional organisation structure we encountered (Chief Executive, Deputy, Finance Officer, etc.).

Its annual budget of £320,000 came principally from three main sources: local authority grant aid, premises supplied by Housing Associations and the local authority, and rent

from the families staying in its homes (which in practice is paid by the government through the Housing Benefit scheme)

### **Governance**

The LVO had six Directors, one Company Secretary and attending representatives from the housing associations, local authority and staff. Four staff did most of the Committee servicing - the CEO, her Deputy, the Finance Officer and the minute-taking Administrative Officer - but all other staff were invited to observe Executive Committee meetings. The Directors were approached by the CEO or other prominent members of the existing committee from the ranks of organisations and professions with which the LVO works: the police, social services, solicitors' practices, community organisations, etc.

Committee meetings took place approximately every six weeks. Different interview respondents report different roles, structures and frequency of meetings of sub-committees: there seemed to be one, possibly two, infrequent ones covering finance and personnel, and a group established to help on the Business Plan.

Committee meetings were friendly and chatty, with approximately two or three substantive items on each agenda. The organisation was experiencing some financial problems but appeared to enjoy the respect and support of its funders and agencies with which it worked.

## **4.5 National Voluntary Organisation**

### **Regulatory environment**

Like the LVO, the NVO is a registered charity and a company limited by guarantee. It is thus also regulated by the requirements both of company law and of the Charity Commission.

### **Characteristics**

The NVO was set up in 1979 to work with partner organisations in some of the world's poorest countries by providing technological aid and support appropriate to their needs and circumstances. It had seven paid staff operating from two UK sites. The NVO also ran a development education programme in the UK and lobbied government and larger aid agencies. Annual income of £2 - 300,000 came from workshop rents, grants, international aid bodies and donations.

Set up by a group of volunteers, the founder of the organisation left the staff in 1995 and the NVO was in a period of transition, with the majority of staff being recent appointments.

### **Governance**

The national organisation had members, who elected the seven trustees (who also act as Directors under company law) by postal ballot before the Annual General Meeting. In addition there were about 70 local groups affiliated to the national organisation. Many of the members were active in these local groups.

The board of trustees met approximately 4 times per annum, in different locations. There was also an annual week-end meeting after the AGM, which focused on strategy and provided an opportunity for new board members and staff to get to know each other. Full board meetings averaged 15 to 20 items on their agendas and often lasted from mid-morning to late afternoon.

There were five sub-committees, each meeting between 2 to 4 times a year:

- Partnership & Requests - which dealt with overseas partner organisations and aid;
- Group & Development Education - which dealt with local affiliated supporters' groups and with the development education work
- Finance - including fund-raising
- Workshop & Site
- Employment

The sub-committees were serviced by staff members working in that particular area. Each sub-committee had two to three directors on it, one of whom chaired it.

At the time of the research, the organisation appeared to be well established and respected. There were occasional tensions between providing aid, and the development and educational work of the organisation.

## **(5) ‘Choosing’ and developing board members**

There are essentially two main ways of improving the competencies and skills of board members to carry out their roles more effectively. One is by trying to improve the quality of candidates who put themselves forward through better recruitment and selection, or nomination and election, procedures. The other is by providing better opportunities for existing board members to develop their knowledge and skills and their ability to work together. This chapter examines how, in each of the cases, people became board members and what opportunities they had to develop their skills, in order to see what lessons can be learned.

### **5.1 Becoming a board member**

*‘But there is, and will continue to be, a tension between the management driven and output related approach which is central to many recent changes, and the need for organisations providing public services to involve, respond to, and reflect the concerns of the communities which they serve.’ (Nolan, 1996)*

Historically, in many public and voluntary organisations there has been a strong tradition that those on the board should represent the communities the organisation serves. Two different mechanisms have been used to achieve this end, direct elections of board members from a defined constituency, or through giving key stakeholders the right to appoint members to the board. In Section 3 we called this a political model of governance. Over the last decade due in part to the changes in public policy mapped out in Section 2, there has been a shift in emphasis towards a more managerial model of governance with its stress on efficiency and effectiveness, and the competencies that board members need to fulfil their role effectively. This creates an important tension for voluntary and non-profit organisations; should board members be ‘chosen’ because of their expertise, or as lay representatives of particular groups? This section examines the different methods used to choose board members, and some of the perceived advantages and disadvantages. In selecting our case studies we deliberately chose organisations to include those where most board members were elected or appointed by external stakeholders ( the NVO and the School) and those where they were mainly selected (the LVO and the College).

#### **Composition of the boards**

As schools have been given greater autonomy, and FE Colleges have been taken out of local education authority (LEA) control, the way governors are chosen has changed significantly. In the past a system of political appointments operated, where most governors were nominated by the LEA. Now in schools, local authority appointed governors are a minority, and local councillors can only be co-opted members on the boards of FE Colleges.

These changes were reflected in the composition of governing bodies at our two case studies. At the School there were 4 parent governors and 2 teacher governors who were

*elected*, 5 governors who were *appointed* by the local authority (two of whom were parents with children at the school), and another 4 *co-opted* governors. At the College there were 16 governors of whom 8 were defined as independent. The independent governors were required to come from the business and professional community and were *selected* by the existing board. These included senior managers from large and medium-sized local businesses and an accountant from a local firm. The other governors comprised a nominee from the local TEC (a requirement); two staff members and a student member who were elected; the College Principal and three co-opted members. The co-opted members were drawn from the public sector: a university lecturer, a nurse education specialist and a barrister active in local politics.

Although both the voluntary organisations in the study were formally membership organisations they differ substantially in how new directors were chosen. The NVO had a wide external membership. The organisation was governed by a board of 7 directors (currently 6 because of a resignation) who were also trustees of the charity. The directors were *elected* by the membership using a postal ballot (if elections were contested) at the time of the AGM. Directors were elected for a period of 3 years, with 2 or 3 standing down each year. At the LVO the only members were the current board. Hence new board members were essentially *selected* by the current board. There were 6 directors (currently 5, because of a resignation). There were two representatives from housing associations with which the organisation works and an observer from the local authority, but formally these were not directors.

### **The perceived impact of political appointments**

In both the School and the College senior managers and board members felt quite strongly that the changes in the composition and role of the governing bodies following recent legislative changes had been an improvement. Most of those interviewed had experienced boards both before and after these changes. There was a perception that the old system of political appointments led to a ‘talking shop’, and brought into the organisation wider political difference and divisions. The Head at the School commented on a previous governing body:

*‘I’ve had it happen in other schools - in my previous headship . And that was for political reasons basically. You suddenly find the governing body divided on political grounds and they’re scoring points off each other and in between you’re left trying to run the school.’*

There was also a feeling that the old system produced governors that were not so committed to the organisation and more concerned about representing particular interests. One governor at the College put it:

*‘The old board was not as committed, it was an extension of the old boy network whose time had passed. Gradually, we have asserted a more vigorous role’*

In contrast some commentators have expressed concern about the loss of local accountability. However, this view was not shared by governors or staff interviewed at the School or College, and no one expressed concern over the reduction in political appointments.

### **Selection**

At the College the move to a new corporate structure and the new rules about who could be a governor had been used to change the composition of the board. The Board now had the power to select the majority of its members. Led originally by the Principal, and then by the Board as a whole, people in senior management and professional positions in local firms were approached to join. The dominant view was that they needed to attract people with business and management skills that could help the College survive in what was perceived as an increasingly uncertain and competitive environment. As one member of the Board's Search Committee put it:

*'We are seeking to fill those [vacancies] with industrial members rather than otherwise, so there is a clear feeling that we need more weight on that side to help us survive the future. It's an increasingly cold, business-like financial environment.'*

There is a strong perception among board members and senior managers that bringing in governors from the business community strengthened the ability of the Board to carry out its role. The board was now more questioning of what management did and was able to bring in relevant experience from elsewhere. As one governor said:

*'[the corporation is] bringing together a diverse group of people who have in common that they've operated at a senior level in another organisation and creating as a result of that a sort of chemistry that challenges, excites, motivates and persuades the College to look outwards and to identify best practice, to bring on board best practice ... I honestly think they would go down the drain if they didn't have the Corporation.'*

The Principal of the College felt that an acid test of this new level of competence was that the Board would now have the confidence to sack him if necessary:

*'they're enhancing [this organisation] in so far as I now feel that they have the self-confidence to sack me. Now that is actually very significant.'*

One of the common criticisms of boards (or groups) that select their own members is that this can lead to a narrow self-perpetuating elite. Some members of the Board were concerned that the Board did reflect a rather narrow group that was unrepresentative of the wider college community:

*'My only concern is the fact that it's the middle aged, middle class, comfortably-off syndrome if you are not careful. You're not representing the majority of the College in that respect...Sometime I would like to see a bit more youthful dynamism ... I feel as though you're probably a very narrow field of people controlling the whole College.'*

At the LVO all board members were self-selected. Selection was very much an informal process. Usually people would be suggested who were known through the networks of the Director, or occasionally those of other board members. For example the Director described how she had tried to get someone from an ethnic minority on the Board:

*'I suggested to [the committee] that they might like to make another attempt to recruit somebody from the ethnic community and I asked them if they'd take that on because I'd run out of places to look...'*

As a result of this selection process, most board members had some previous contact with the organisation, often in a professional capacity. For example one member who was a solicitor worked for a firm which had done legal work for the organisation, and two had been Council representative on the board prior to their retirement.

The implicit strategy of the Director in suggesting board members was to try to get people who would be sympathetic to the organisation and who could add value through their professional knowledge and networks. Board members had links with a variety of important stakeholders such as the Police, Social Services and the local authority's Homelessness Unit.

*'its very local ... you've got people ... who between them have got a knowledge and a lot of contacts about the town and how it works.'*

This selection strategy had benefits in terms of the organisation's external relations. It has led to a supportive and well connected board. However, it has also contributed to certain board weaknesses. The emphasis on selecting people for their professional knowledge and contacts concerning the service of the organisation, rather than their knowledge or experience of governance or management, had contributed to the Board being unsure of its governance role, and less capable of challenging or developing the management of the organisation.

### **Representative systems**

The two cases where representative systems of choosing board members were dominant were the School and the NVO. As we have seen, at the School elected and externally appointed governors formed the majority on the governing body. At the NVO all board members were elected from the wider membership. In both these organisations there was a recognition that involving people who had a very direct interest in the organisation such as parents and members had certain advantages. These people were likely to be more committed to the organisation and more active than other board members. As the Head at the School said:

*'Of those groups, however, it tends to be the parent governors that are the most active in everything that is going on, , they are the ones most interested in what is happening, and they are the ones that will be here for all the meetings and no doubt many School events as well.'*

The main disadvantage of a representative system is that board members may not have the expertise and experience it would be desirable to have on the board. At the NVO, staff members tended to see deficiencies in the board in relation to their own area of expertise; financial management, personnel management and development education were all mentioned. At the School the Head would have liked more governors who could bring experiences of management or governance from other organisations.

However, there is an issue about what skills board members can realistically be expected to have when they are chosen through elections. One of the Co-ordinators at the NVO felt that the advantages of this system had to be weighed against any possible disadvantages:

*'The way the board is formed, ... somebody who is elected by the membership, is totally unrealistic to expect to have those type of people sitting around in the membership waiting to sit on your board. I think you only get that type of people on if you are co-opting people on and then you lose the interest bit and the dedication bit, which they have got.'*

### **Informal networks**

So far this section has looked at some of the differences in methods of choosing board members and their particular advantages and disadvantages. However, there was one similarity between all the cases - how in practice all the methods relied quite heavily on the use of informal contacts and personal networks. In both the College and the LVO, where selection was the main method used to choose board members, personal contacts and networks were used to suggest people suitable for nomination to the board.

Perhaps more surprisingly in the other cases where board members were chosen through elections or political appointments, extensive use was also made of personal networks in order to get people to stand for election or be nominated as representatives. As one of the Co-ordinators at the NVO put it:

*'...it's very difficult to get people to stand actually, so often when we know someone is coming off the Board, staff and the Directors will do a bit of chivvying round to see if anyone who might be approachable would be interested in standing...'*

At the School a network of people around the local church and the Liberal Democratic Party had been associated with the School for years and used to approach people known to them to put themselves forward to be LEA governors, co-opted as individuals or to suggest they stand for election as parent governors.

Using networks is often a relatively quick and easy way of finding willing people with the right skills and experience to be board members. However, it can also have disadvantages. Networks are limited and some groups will be excluded. Using networks is also essentially a private activity which lacks openness and transparency. It is difficult for those not in the know to see why certain people are asked to stand, or it can be

difficult for those outside the network to know how to put themselves forward as possible board members. There is a danger then that networks can lead to a narrow, closed group of board members. At all the organisations there was some concern about this. At the School the Deputy Head said:

*‘ the governing body is not as diverse as we’d like it to be’*

### **Cooptees, advisors and observers**

Various other methods were also used to bring people on to the board. Both the School and College used co-options either to get someone from a particular group that is not represented or to try to get people with certain skills on the board. In the College co-options were used to bring onto the board other public sector or community interests that were not represented. Of the three cooptions one was a university lecturer, another a nurse education specialist and the third a woman barrister from the Asian community, who was active politically. At the School the strategy was more to use co-options to bring people with particular expertise onto the board. However, in practice they had found this more difficult than the College. It is easier to attract professionals to the boards of large high status organisations such as the College than a small School. In addition, in a small town it was not always possible to find people with the skills who were willing to stand, as the Head said when asked if they looked for people with particular skills:

*‘I would like to think we do. But in practice it hasn’t been like that, because in practice it is quite difficult to find people to come forward. Certainly, in the past I’ve known it to happen. They’ve deliberately trawled for someone with particular sorts of skills’.*

The NVO and the LVO have used advisers and observers respectively to bring other people on the board. At the NVO a voluntary financial adviser was appointed to fill a recognised gap in the expertise of the board:

*‘We between us lack much experience or skill on formal financial matters and as a Board in the past we have recognised that deficiency and we have endeavoured to cover it by the honorary appointment of a financial adviser who currently is a Chartered Accountant.’*

The decision to appoint an adviser without voting rights rather than a cooptee was so as not to undermine the principle that board members were elected by the membership.

The LVO had three outside people who were invited to meetings but who were not formally members of the Board with voting rights, although some board members themselves had different opinions of their status. Essentially these people were seen as representatives or links with important stakeholders the organisation worked with. (In practice this was not that different from the way the rest of the board was used.) Two were called ‘housing association representatives’ and the other was an ‘observer’ from the Council, which was one of the main funders of the organisation.

## 5.2 Developing board members and boards

Opportunities for board members to develop their skills can be provided ‘in house’ through the experience of carrying out their role, and through processes such as induction, mentoring and training, or the provision of external training courses, advice and assistance. In 1992, the Working Party on Trustee Training, established by the NCVO and the Charity Commission, concluded that generally there was a serious lack of advice, support and training for trustees of voluntary organisations, and what there was often inaccessible or unsuitable. While the situation has improved somewhat since then provision is still very patchy. The availability of training for school and college governors is better. With the move to Local Management of Schools, LEAs have provided training courses for school governors. The regional associations of FE Colleges provide training courses for College governors.

### Initial induction and training

At both the voluntary organisations any initial induction or training was very limited. At the LVO board members were offered no internal induction. There was a sense for a majority that this limited their effectiveness:

*‘An assumption was made when I joined the organisation that I would know what I was doing...’*

Most board members had taken part in some training arranged by the local Council for Voluntary Service on the roles and responsibilities of trustees. However, this course was fairly recent and did not necessarily occur when board members needed it most:

*‘the [training] would have been more useful if I’d had it four years earlier’*

There was also a feeling that the course highlighted their responsibilities without giving them the skills to cope with them.

At the NVO little attention had been paid to induction in the past. One director who was elected nearly five years ago commented:

*‘I think somebody suddenly remembered to have one sheet of A4 which vaguely said ‘rules and responsibilities of being a Director’, but it was terribly vague and awfully outdated and there was absolutely no real induction.’*

The new Co-ordinator tried to make sure better information is available to directors. However even when information is available there may be a reluctance by directors to read it. One director who was elected more recently commented:

*‘[the co-ordinator] was a bit anxious about this sort of thing, rightly so, and she produced a big file, which is produced I think by the Charity Commission on the duties of trustees, some of which is relevant and some of which wasn’t. I waded through some of it but it took some wading through and... I wasn’t too keen on doing it.’*

The initial training for School and College governors focused primarily on their legal and financial responsibilities. Whilst in general among the School governors this was felt to be useful introduction, it was limited in two respects. First, the absence of any training in process skills was seen as a weakness. For example one new governor who felt the course was excellent also felt completely ill -prepared when she was asked to take over chairing a sub-committee. Second, the absence of any in-house induction still meant that many new governors were unclear of the particular contribution they could make to the School. Perhaps because of the experience and skills of those involved, the initial training for College governors was not mentioned by any governors as a significant part of their development.

### **Learning by experience**

The main way board members learned how to perform their role was through experience. However, because boards meet relatively infrequently, learning by experience can take a long time. At the School the Head felt that:

*‘..for any governors it takes the best part of a year before they become fully effective as a governor.’*

This experience was born out elsewhere. The most recently elected governor at the NVO still felt that he was very much a ‘new boy’ after serving as a board member for 18 months. Even though he had experience of working with the board of a small business he still felt it would take him his full term of office (three years) to become fully effective:

*‘By the third year I shall feel that I’m understanding what we are doing and know where I can and can’t use some muscle....’*

The way the board is run, and the way it is used and serviced by managers can have a significant impact on board members’ ability to learn from experience and become effective. This was most apparent at the LVO, where we identified a number of factors that inhibited the development of board members. The informal way the board was run and the rather patchy information it received meant that with one or two notable exceptions most board members felt out of their depth on some occasions or failed to realise the significance of some issues. As one member put it:

*‘I am not very good at [speaking up] partly because I don’t necessarily feel I’ve got all the information there often...’*

Another member commented about improving the financial literacy of the board:

*‘When you don’t talk about it , you never think about it, do you?’*

### **Opportunities for team building and reviewing the performance of the board**

The performance of a board depends not only on the expertise and skills of its members, but on how well members work together and with management as a team. As a result,

boards that pay attention to team building and regularly reviewing how they work as a board are likely to be most effective. Evidence from the case studies supported this proposition.

At the College the Chair felt that the formal nature of meetings, the many rules concerning what they could and couldn't do and the heavy agendas constrained the ability of board members and senior managers to work effectively together. As a result the Chair and the Chief Executive made use of informal meetings and governors' workshop to tackle particular problems and to develop more effective team working. The board also held a workshop without managers where they reviewed their performance as a board.

At the NVO they had an annual weekend meeting after the AGM so that new board and staff could get to know each other, and there was an opportunity for team building and to think together about strategy. The board had not, though, built into its programme any regular opportunity for reviewing its performance. However, the arrival of the new Co-ordinator and her desire to clarify the role of the board and its relationship with staff had led to a process of review which was valued by the majority of staff and board members.

In contrast, at the LVO it was the absence of any opportunities for review and team building that partly explained why some board members felt ineffective and why the Board relied so heavily on one long-standing member and the Chief Executive. Two different members of the board commented:

*'I would like to discuss roles and have an afternoon session or something with the full board, may be with a facilitator, to look at how we work and just get to know each other. Team building I suppose...'*

*'I don't think there's any space for us to review our decision-making process and whether that could have been assisted or changed..'*

The Chief Executive Officer (CEO) can play an important role in facilitating or inhibiting the development of the board. At the LVO the CEO did little to encourage the development of the Board as whole, indeed she seemed to perceive their working closely together as a team as a threat:

*'You could have a group who were ... chummy chummy..[and] go on away days and get to know each other, live in each others pockets maybe and who may function well as a group, but who may be even less use than they are now to the organisation... Because.. it may be dangerous as well because at the moment they will have their own opinions. They won't have been influenced by anybody. There won't have been any lobbying because that doesn't happen here.'*

### **5.3 Conclusions**

Below is a summary of the main findings from the research concerning the methods of choosing and developing board members, and the implications for practice.

## Findings

- Boards face a tension between choosing board members who in some way represent or reflect the concerns of the communities or stakeholders the organisation works with and selecting board members for their skills and experience.
- Whatever system of choosing board members is used, there are likely to be gaps on the board in terms of people with particular expertise or who can reflect the views of important stakeholders. Co-options and advisers to the board can often be used to fill important gaps and achieve a more balanced board.
- In all four cases, irrespective of whether board members were elected, selected or appointed by external stakeholders, extensive use was made of informal networks in order to find potential board members. This process was not open or transparent to outsiders and there was a danger that it could lead to narrow, closed group of board members.
- Managers in the School and College felt that boards that consisted mainly of external political appointments were less effective than those where members were selected or elected.
- The information that was available to new or prospective board members about their role and responsibilities was inadequate in some of the cases.
- Where initial training on the role and responsibilities of being a board member was readily available it was taken up and valued by many board members. However, this training tended to concentrate on the legal responsibilities of board members and did little to develop the skills which board members needed, or their understanding of different approaches to governance.
- Most board members learn about governance on the job, through experience. For most board member it took at least a year to become fully effective.
- Attention to induction, team-building and regular review of board performance were important in developing effective boards. Senior managers and chairs could play an important role in encouraging or discouraging these processes.

## Implications for practice

- (1) Boards need to periodically review the kinds of skills, experience, links and interests it would be beneficial to have on the board, and the strengths and weaknesses of the existing board.**

Without such a review, boards may be unaware of important gaps in their expertise and be unable to formulate ways of dealing with the problem. If boards are clear what gaps exist, they may be able to take steps to deal with them, for example through co-options or external advisers.

**(2) Many boards would benefit from adopting a more open and proactive approach to 'recruiting' new board members.**

Our study and other research suggests that many organisations rely heavily on informal networks to get board members to be nominated for selection, appointment or election. This has the advantage of being relatively inexpensive, and is likely to result in board members that will fit in with the existing board. However, it has the disadvantage that it may lead to a narrow board and exclude many people who have important skills or experience to offer the organisation. How boards can achieve a more open and proactive approach to 'recruiting' new members will depend on the method used for choosing board members. In those boards where members are selected it may be achieved through advertising for members with appropriate skills and going through a formal selection process. Boards where members are elected may want to consider how they can encourage a wider range of nominations, and get candidates to be explicit about what they can offer the organisation and what they would like to achieve on the board.

**(3) Organisations should provide prospective and new board members with information about their responsibilities, role and likely time commitments.**

One way of setting expectations for new board members and helping them to clarify their role is to provide them written information about their responsibilities, role and likely commitments. In general the cases studied were poor in this respect. In one case very little information was provided, in another a lot of general information was provided but little specific to the organisation concerned.

**(4) Organisations should provide a process of induction and support to new board members.**

It takes a long time for most board members to gain confidence and become effective in their role. This process can be assisted through careful induction, training and support to new board members. This need not necessarily be an elaborate formal programme, for example linking new board members with experienced members can be helpful.

**(5) The chair and CEO need to build in opportunities for team building, review and development into the working of the board.**

Boards are often so busy getting on with their work that they neglect to consider their own performance and development. In particular it is important that boards and senior staff work effectively as a team. The chair, or failing that the chief executive, should take responsibility for board development.

## **(6) Board - Management Relationships**

This section focuses on the relationship between boards and managers across the four cases. First it analyses the balance of power between boards and managers. Then it assesses two of the key factors in shaping board-management relationships and how the governance function is enacted: the organisation of board meetings and information. These terms are defined widely: meetings include sub-committees and informal meetings; information goes beyond formal meeting-related papers to include the various ways in which board members inform themselves about the workings of the organisations they govern. Finally, it assesses the distinctive roles which boards play, and the contributions they make, using as a reference point the stewardship, managerial and democratic models of governance outlined in Section 3.

### **6.1 Patterns of Power**

One of the contradictions facing board members is that while they have formal responsibility for the organisation and are the ultimate authority within it, they are often depend on management for information, to formulate proposals and to carry them out. This dependence on management means that managers may be able to exercise considerable power.

Empirical studies suggest that the balance of power between governing bodies and management can vary considerably. Murray (1996) in a review of some of the empirical literature suggests four common patterns of power. He suggests the most common is the '*CEO-dominant*' pattern, where the CEO gathers information and formulates decisions to be ratified by the board as a whole. The next most common is the '*board-dominant*' pattern, often found in smaller, younger organisations, where a core group on the board plays the main role in formulating policies and proposals for the board, and the CEO is just one player in this process. Another pattern he calls '*staff-dominant*', often found in professional bureaucracies, such as universities and hospitals, where senior professional staff often have the power to devise strategy and the CEO and board feel constrained to go along with it. The final pattern he calls '*collective governance*' where there is an active coalition between different stakeholders and a commitment to consensual decision-making.

Wood (1992) has also suggested that the balance of power between boards and managers is likely to change over time. She suggests a life-cycle model where after an initial 'collective' phase the board tends to oscillate between a 'CEO dominant' pattern and, precipitated by some crisis, a 'board dominant' phase, followed by a gradual drift back to CEO dominance, until the next crisis.

Of the four cases two corresponded closely to patterns identified by Murray. The School was closest to the CEO-dominant pattern and the NVO to the collective pattern. In the LVO, the CEO in conjunction with a dominant board member exercised a dominant coalition. Whereas at the College neither the board nor senior management dominated.

Each was recognised to have a distinctive and influential role, which we will call a *partnership* pattern.

In two of the cases the research took place during a process of changing power relations. At the College there was a shift in power from the management to the board, from a CEO dominated to a partnership pattern. Whereas the NVO appeared to be moving from a collective to a more clearly defined partnership. All, however, exposed that there are constraints of time, expertise and information which influence board relationships with managers.

### **CEO domination at the School**

At the School the Head's power stemmed from two main sources: his professional expertise, and his ability to control the board agenda and the information and proposals that went to board. In contrast most board members regarded themselves very much as lay members, who with a few exceptions had little experience of management or boards. As two governors said:

*'We do feel that at present he has a powerful say. Governors fall in behind him rather than discuss matters fully and properly. Often the time pressure of the agenda limits debate. The Head puts situations verbally at the meetings and things go through on the nod. It's not necessarily healthy to be always leaving things to the Head's professional view.'*

*'It's very much introducing the items on the agenda and then handing over to [the Head] to explain, mostly..... he is the only one that knows, because he's put it on the agenda and basically I think items are put up and we've either got to say, yes we agree or no we don't.'*

This situation created something of a dilemma for the Head. On the one hand he was reluctant to cede power to the governors because he felt that as the employed senior professional, he had the time and knowledge which the governors lacked to be able to make the right decisions. He also felt that there was an ambiguity in the DfEE guidance on governing bodies (DfEE, 1996a) and that in reality he carried the can for what happened at the School.

*'...at the end of the day, if something does go wrong, although the governors may be legally responsible, it's my head that tumbles. They can all walk away and somebody else can be elected. There is a difficulty in School governance in my opinion at the moment.'*

On the other hand the Head was uneasy about exercising too much of a leadership role, and felt that he had to present governors with all the options.

*'In terms of my own leading of them or not... there are obviously occasions when I can see things which may not be in the best long term interests of the School and I set them up that way in the briefing papers or whatever. However, I try to be fair to them in all times'*

*and put both sides of things and all options there, and it is for others to judge how fair that is, because it is difficult to tell when you are involved in it.'*

The important proviso to the power of the Head was that it was with the consent of the board. The governors were conscientious in scrutinising the Head's proposals, and their consent could not be taken totally for granted. One recent decision had been taken to the vote when there was a concern that the Head may have over-stepped his powers. In general, although there was some recognition that it was not ideal for Head to have so much power, governors were content for this to happen because they trusted the Head to do a good job.

*'Personally, I see it as very much a supportive role for [the Head] and to the School, really. We can support him because he's doing such a good job.'*

### **A CEO-board member coalition at the LVO**

At the LVO there was also a recognition among most board members that the CEO had a good deal of power. This stemmed from her expertise, knowledge of what was going on in the organisation and control of information. Board members were selected for their contacts, and for their sympathy with and knowledge of the type of work the organization did, and apart from one member had little relevant business or management expertise or experience of serving on boards

*'We Board Members...., who are not part of the organisation, are so dependent on [staff] for the information and the understanding of what is going on, that it is almost like guiding and ratifying what they are proposing rather than much initiative coming from us'*

The CEO was far more comfortable with this non-challenging support, and helped to ensure it by keeping the board out of involvement with the organisation, and limiting the opportunities for the board members to work together to develop their role:

*'You could have a group who were....chummy chummy...[and] go on away days and get to know each other, live in each others' pockets maybe and who may function well as a group but who may be even less use than they are now to the organisation.....it may be dangerous as well because at the moment they come in, they will have their own unadulterated opinions. They won't have been influenced by anybody. There won't have been any lobbying because that doesn't happen here'*

*'The sort of management committee I deal with is probably verging on the ideal. I can't think of a way I would improve it. I actually like the distance with the comfort of knowing that they are there for me if I need them. It's like running home to Mum.'*

Not all board members were without influence. One member because of her business and financial expertise, close involvement with the CEO and forceful personality occupied a dominant role on the board. She had established an informal 'dominant coalition' with

the CEO to the extent that other board members let the CEO have her power *provided* this board member was behind her:

*I think that if it wasn't for XXX...the other people seem a bit lightweight....if [the CEO] really needed an opinion, a definite bit of advice, it would be XXX....I think perhaps she is the key to the board. The others are there for support'*

*'The others listen to what she says and if she thinks it's OK then....it's OK. Because they don't understand, especially on the financial side'*

The power of these two was reinforced by the poor management information systems in the organisation. This meant board information, particularly financial information, was often poorly prepared and difficult to interpret.

However the dimension of consent was also present in the LVO; the CEO saw her power as delegated by the board. The board, although often reliant on the advice of the dominant member, saw itself as sufficiently expert to *know* that what the CEO was doing merited their support:

*'there are different ways of achieving similar ends and my main concern is that through me upwards and downwards the organisation achieves its objectives....and to do that it needs to provide a service and stay solvent and both of those responsibilities are delegated by the management committee to me'* [LVO CEO]  
*The board, because it is not involved on a day to day delivery basis has the capability of being objective. It has between it the skills to emphasise and understand different elements of the work and convey those to the rest of the group....and thereby to support the policy suggestions of the Director. Without the board, the Director would be in a total vacuum.'* [LVO board member]

This notion of a vacuum is insightful. It relates to an issue raised in other cases, particularly the College : that the CEO is dependent on board backing in order to give legitimacy to their plans and decisions. In other words, the power the CEO, enjoys with staff and other stakeholders is simultaneously enhanced by and conditional upon the support of the board. At the College, this legitimacy was required by the circumstances of the CEO having to steer a troubled staff through financial cutbacks and change.

### **Changing from a collective pattern of governance at NVO**

At the NVO, historically a strong collective egalitarian ideology had prevailed in the organisation, which meant that there was no clear separation of the responsibilities of board members (directors) and staff. Board members, through things such as voluntary work and being involved in sub-committees, had a history of being involved in and informed about everything in the organisation, although the constraints of time and distance meant that in practice there was more policy prioritisation and monitoring than actual management. This collective pattern of governance was being challenged by the arrival of a new Co-ordinator, she felt the board was too involved in operational matters,

leading to confusion, and wanted to clarify the responsibilities of the board and staff. One board member described relationships as:

*' ... in a state of flux because.... the new Co-ordinator's.....come in with very different ideas about how roles should be apportioned. In the past, Directors tended to stick their fingers in almost any pie they felt like and certainly there was a lot of resentment by staff, who felt that the staff should be allowed to get on with their bit and the Directors should jolly well give a general overview and then let the staff get on . [The new co-ordinator] is very keen on defining....what is policy and what is operations, and that she has to get on with the operational bit and we [the board] should shut up'*

What appeared to be happening at the NVO was a change from a collective to a partnership pattern of governance, where board members retained a good deal of influence, but there was a clearer division over where they should exercise power and where management and staff should. The Board were actively involved with staff in planning, budget setting and monitoring. However, there was a recognition that their power was constrained in some areas such as strategy and policy development by lack of time and expertise. As the Co-ordinator said:

*'So XXX and I put some stuff together...and then we take that to the directors and ask for input in it.... they should put that together and then pass it around people, but that is pie in the sky; they are not going to have the time or even the hands-on experience to do it . You know, I mean if you are working at one job, you cannot do this job as well'*

The new Co-ordinator wanted to expose and redefine responsibilities and roles. Such issues had been avoided in the tradition of long unfocused meetings in which anybody could, and did, say anything about anything.

### **From CEO-dominance to partnership at the College**

The College presented a different scenario: there was a shift in the balance of power from CEO-dominance to partnership with a more powerful board, but with the CEO's approval.

As with the School, the changes in the regulatory environment were an important factor in the power relationships. Until 1993, the College had in effect been run by the professionals in the College and in the local education authority, with the governing body as a form of theatre where local politicians and community notables had their say. Since incorporation, the Board ( or Corporation) became legally where the buck stopped. The College could now in theory go out of business if it failed to attract and retain enough students, and it would be subject to regular and public financial and performance checks by the FEFC. New regulations removed many of the political appointees from the board, replacing them in the main with business people who would act as company directors.

The impact upon board relationships with the CEO and his senior management team, under the influence in particular of the Chair who took office in 1994, was significant:

*'Up until a year ago [the board] was operating in the old style...essentially advising the Principal...whereby the Corporation members now truly exercise a sense of responsibility as owners'*

The Principal welcomed the fact that a group of people whose management and business experience he respected now shared the ownership of and responsibility for the College, even though we observed that this meant frequent, powerful and effective challenge to him at and outside board meetings. He felt relieved of carrying the sole burden of responsibility himself. He observed wryly:

*'they are enhancing [this organisation] in so far as I feel that they have the self-confidence to sack me. Now that is a very significant change.'*

An example of board members willingness and ability to challenge management was when members of the Finance and General Purposes Committee refused to accept managers' explanations for a serious shortfall in budgeted income during the year - that more students had dropped out without paying their fees than could have realistically been anticipated. Board members did not leave the issue until the senior finance staff had agreed to change the basis for providing for such drop-puts in future budgets, and to change invoicing systems so that students paid at least something before peak drop-out times. What was significant about the intervention was that board members felt knowledgeable and confident enough to challenge management and force through a change in both the information which the board received and in the organisation's operational systems. This happened, unplanned in advance as far as we could tell, because board members clearly felt *confident* about their understanding of the issue, its importance and their own power.

At the time of the research, the power relationships were in an interesting state of flux. Board members wanted a partnership with a strong manager who managed in the way they thought was right:

*'The CEO is the person we got in there to run the College and I think he has to make the decisions and we have to make sure we feel comfortable that he is making the right decisions'*

*'I think if it were a partnership it would be ten times more successful.'*

However what was meant by a partnership was never clearly defined. On the one hand board members wanted to make it clear to managers that the board was a serious and important force in the organisation, that managers could no longer pull the wool over their eyes and that board members had expertise and experience which could and should be utilised by the management. On the other hand, their own experience as managers and/or senior professionals was such that they wanted strong leadership from a senior management team with a powerful strategic vision and the capacity to put it into effect. Similarly managers wanted a stronger board, one whose contribution would justify the time put into servicing it, but not one which interfered with their authority as managers.

The tensions between these various aims was evident during the research, particularly in meetings and issues around information.

Whilst only at the College at the NVO was there evidence that boards felt powerful enough to really challenge the CEO and senior management on their proposals, it should not be concluded from this that the other boards had no power in the relationship. In both the School and the LVO the notion of agreement, consent or conditionality was important; there was an element of discretion in not challenging managerial power, even if the capacity to do so effectively was limited by factors of time, expertise and distance. Each organisation had developed a *modus operandi* for sharing power, shaped by a complex mix of external regulations, ideological beliefs in the organisation, differences in expertise between managers and board members. In particular the attitudes of senior managers were important and their ability to influence the agenda for meetings and the information that board members received were crucial. These issues are examined in more detail next.

## **6.2 Board meetings and operational drift**

Board meetings are one of the central arenas where governance takes place and the relationship between senior managers and board members is played out. So how meetings are organised and run has a crucial influence on how governance is enacted and how effective it is. A common finding from all the cases was quite a high degree of dissatisfaction with meetings, yet apparently little action to surface and address the problems. A typical reaction was that board meetings were overloaded with information and spend too long going over details rather than being concerned with the broader picture. This was summed up by a board member at the NVO:

*'Directors' meetings are very cluttered with a lot of stuff which is why I would be happy to get a lot of the nitty gritty out of it, because we don't really have time to consider things and to make decisions that are long term. I think that's why we shy away from them so that we can worry about short term things.'*

Although all the organisations reported problems with meetings, the School and the NVO in particular seemed to get bogged down in operational detail, whereas the College and the LVO board showed more evidence of surfacing from the pressure of agenda items to discuss issues management or board members thought were of importance. At both the School and the NVO board meetings would typically have 15 - 20 items on the agenda. The items were usually not prioritised in any way so it was often difficult to distinguish which were important items and which were routine. Both organisations had a variety of sub-committees and included reports from these on the agenda.

The lack of structure and clear focus of the agenda lead to what can be called *operational drift*. People became bogged down in the detail of more routine and familiar items that arose. For example at one board meeting we observed at the NVO, members spent nearly 2 hours, just under half the meeting, discussing reports from sub-committees. This process seems to be reinforced by various psychological processes. There is a tendency

for people who report back to want to justify or share what they have been doing, which means they go into more detail than necessary. It may also be that people are more comfortable dealing with these operational issues rather than the uncertainties and dilemmas that surround long term strategy or evaluating how the organisation is doing.

*'... the board tends to repeat previous discussions of sub-committees ..... people want to justify what has been done.'* [NVO board member])

A number of factors appear significant in influencing the long and unstructured agendas for board meetings. One influence is the regulatory environment. This was particularly true of the School and College. As one governor of the College remarked:

*'We have too heavy agendas, too many rules about what we can do and what we can't do - it constrains us.'*

At the School a number of items arose because of changes in Government policy; in addition the local authority made detailed suggestions for what should be on the agenda. This heavy external influence perhaps meant that the governors failed to think through what their role should be and what best they could contribute to the School. Instead they reacted to external demands.

Another crucial factor was that often neither senior management or board members had a very clear idea what they thought the main functions of governance should be, nor of what contribution or value they expected the board to add to the organisation. Or, if they had, it was not related to how agendas for meetings were constructed. Hence items tended to get added to agendas if someone felt they were important without any clear flagging of why they were coming to the board, their relative importance or what the board was expected to do with them.

*'We get the agenda, and with the agenda we get all the minutes of the previous meetings. We get any papers that have come from County. We get all the draft policies. I think it wasn't so much the fact that we get those, but then we all get them again for the full governors' meeting. But then, if you haven't sat on the Curriculum Committee, you need to know what those policy documents are. So we do get wads of it to wade through. I've got four folders upstairs, of governors' stuff.....'* [School governor]

With the exception of the College and to some extent the NVO, the evidence was that board members felt powerless and lacking in confidence about changing matters for Board meetings to make a more effective contribution their organisations. It may have been that real change would involve an already busy staff in more work and effort in servicing meetings. In the Schools and the LVO, any member-driven change might also have involved challenging the control of meetings by the CEO, and in the School's case challenging the influence of the Local Education Authority.

This is not to argue that meetings served no purpose. They served as a means of members feeling involved in the organisation, as forums wherein staff and others could proclaim

and justify what they had been doing, as places where information could be shared. Members across all organisations expressed overall satisfaction with the way board members got on with each other and worked harmoniously for the good of the organisation. Long and sometimes tedious meetings did not seem to dent the overall feeling of the worth of the governance function.

To some extent there is an ever-present tension in governance between what the regulatory framework and operational realities impose upon governance agendas and what board members would like to see there. It is unlikely that this tension can ever be fully resolved, but it would appear from the four cases that some organisations manage to balance the pressures better than others. The College's relative success in utilising meetings can be attributed to a number of factors:

- the experience and expertise of board members, including meetings process skills (e.g. choosing the moment and the tone of a questioning intervention)
- the skill and experience of the chair, who had a reasonably clear vision of what governance involved and ensured that time was carved out for important issues, such as strategy
- the capacity to delegate matters, to sub-committees, special groups or to individual board members, without then re-considering them again in depth at subsequent meetings,
- the fact that the meetings were efficiently serviced by a clerk who was a senior figure in the organisation

### **6.3 Information**

The information presented to board members is an important influence on the effectiveness of any board, as well as being an indicator of the relationships between board and management. Do boards know enough either to scrutinise and challenge proposals from management, or to serve a useful performance-enhancing purpose, or to do both?

Information may be gathered through both formal and informal channels. Genuine board member access to an organisation's staff, premises, clients and operations can sometimes reveal far more than board papers. It is also qualitative as well as quantitative - copying for the board all of the documents and figures which managers use in their work does not necessarily mean that the board is well-informed. Its members can be swamped, or the board level implications may be unclear, thereby preventing the development of a well-formed overview of the key trends and issues affecting the organisation.

At both the School and the NVO there was a feeling that the board received too much information. In both cases one factor was that the full board received detailed information and reports from the various sub-committees they had established. One reason for this, particularly at the School, was that board members feared they would not

be fulfilling their statutory duties and responsibilities if they ratified recommendations from sub-committees without full information.

*'It didn't really feel that we ought to be passing a policy without having the full policy documents available - passing it from the full governors' meeting, even if a sub-committee had looked into it and passed it. Somebody said, 'Well, no, if I'm as a governor, at the full meeting, putting my name to it, I want to see the whole policy.'*

[School governor]

At the School the legal requirements and those of the local authority increased the load on the board. This was possibly exacerbated by the Head's style; he appeared anxious not to be leading the board too directly, which meant he often went over proposals in detail and tried always to present both sides of the argument:

*'It's always like the head has to go through it twice; he has to go through it with me and then present his report again there. But ..... I feel I need to be on top of it'*

[School governor]

*'I've tried to be fair to them at all times and put both sides of things and options there. It's for others to judge how fair that is, because it's difficult to tell when you're involved in it.....'*

[School head]

The College revealed a variety of views on whether more or less information was needed, with a general consensus that there should be less volume but more tailored to the needs of the board. In particular it was felt by some board members that they lacked good information on the College's performance and on how this compared with other similar colleges:

*'the area where we're not getting enough information and we're not knowing what's happening is in the area of the College's results, comparative success with other colleges and the measure of achievement.'*

Contrary to the other cases, the board at the LVO had too little information if anything. There appeared to be a number of factors which influenced this. The organisation itself lacked good management information systems, and there seemed a lack of understanding at least on the financial side among both board members and staff about what information the board should have. One staff member commented on the financial information the board had:

*'Basically the cash balances and where we are at with our money coming in and our spending of the money - that's about it. Beyond that they don't know very much. I have to say if I was one of them I would want to know more...'*

Most other information tended to be given in the Director's report which was often given verbally to the meeting. Hence the board was very much dependent on the director in knowing what was going on.

Apart from formal board information there was evidence from all four cases that knowledge about the organisation which comes from the informal contacts and organisational access can enhance the effectiveness of board members. At the School, conversations in the playground and in the local High St played an important part in keeping governors informed about issues, as did arrangements for governors to visit and take an interest in particular year groups. At the NVO, member and volunteer involvement in operations, coupled with a tradition of collective working, meant that board members were amongst the best informed. The Chair and CEO at the College were developing a range of ways of keeping board members informed about the College's activities including: informal meetings between board members and senior and middle management, visits to sites and classes, and linking board members with particular expertise to informally mentor particular managers.

Even at the LVO, where as we have already noted the CEO sought to ensure that there was little contact between board members and the rest of the staff outside meetings, some informal contact was important. The informal relationship between one board member and the CEO was such that she acquired significant information about the management of the organisation beyond that contained in formal meeting papers. Overall, however, the LVO board was probably the least well informed of the four.

While informal contacts can enhance the performance of boards, there is obviously a danger that this, just as with formal information, can become excessive and lead to an over-emphasis on operational matters. Overall, the evidence suggests it is difficult to identify what is the right level and amount of information. There is permanent tension between too much and too little. Board members will always have less information than managers about the issues they are considering, and thus there is an inevitable pressure for this deficit to be filled with more papers. Pressure can also come from management themselves, who may resent the board dealing with matters about which they know little. Opposing this is the danger that if board members are spending all their limited time reading papers and trying in vain to catch up with this information deficit, this will be at the expense of their thinking about the issues involved or becoming too bogged down in the detail. One College board member seemed aware of this tension, and also of the constant need to review the quantity and quality of information received:

*'it is very difficult to know, when a particular item comes up on the agenda, what sort of information should be there on the table for us as a basis on which to make our decision.'*

#### **6.4 Role and contribution**

Underlying the issue of how boards and managements relate to each other is the central question of what role boards play in organisational life. The analysis of the four cases suggests there are tensions and ambiguities around the positions which boards occupy in organisations, and also that there are gaps between the espoused and actual contributions which boards make. Below we consider the evidence from the cases about the role and contribution of boards in three main areas which relate to the models of governance introduced in Chapter 3.

The first discusses the role and contribution of the boards in relation to their *stewardship* of the organisation's resources. The second looks at the contribution which boards make to an organisation's *accountability* to its stakeholders, reflecting the political, or representational, model of governance. The third examines how boards contribute to the development of the *strategy* of an organisation, which derives from the managerial perspective on governance. In particular this explores the tensions between strategic and operational levels of contribution.

### **Stewardship**

There are three main aspects to a board's stewardship role of safeguarding the organisation's resources and mission: ensuring the organisation has adequate policies, procedures and controls; monitoring the performance of the organisation; and appointing and holding senior management to account. Many of the legal requirements on boards concern the stewardship of the organisation's financial resources. This aspect of stewardship is looked at in more detail in Section 7.

The boards of the public sector organisations differed from the two voluntary organisations in the problems they experienced in ensuring that the organisation had adequate policies, procedures and controls. The College could rely on its professional staff to ensure that policies and procedures were drawn up covering matters such as health and safety, or personnel procedures. In the School, although technically the responsibility of the Governors, the Head could draw on professional advice and guidance of the LEA. This left the board with quite a limited ratifying and checking role.

In small voluntary organisations developing adequate policies and procedures can be more problematic, as neither the staff nor the board may have the necessary expertise in the area concerned. This can cause problems for the board. At the NVO it was only when the board was in the process of taking disciplinary action against a member of staff, and the staff member brought in a union representative, that it realised its policies and procedures were not adequate.

In terms of monitoring performance, board members saw this aspect of the stewardship role largely as contributing to the efficiency rather than the effectiveness of their organisations.

*'The main purpose of the governor is to ensure that the School is run efficiently.'*

*'I see [the role of the LVO board] as....the organisation is run as efficiently as possible, that the staff are supported, that the money is well spent and the best possible staff are appointed.'*

*'I see myself very much as part of the College and what I'm interested in is that the College is run efficiently.'*

In the NVO, there was a growing concern about the impact of different decisions upon the beneficiaries and social objectives of the organisation. However, the difficulty of

evaluating the effectiveness of many of the organisation's activities made it very difficult for the board or staff to act. Even at the College board level systems for checking or contributing to *service* effectiveness were little developed at the time of the research.

In terms of improving efficiency there was also a gap between the boards' perceived role and actual contribution. In the School and LVO in particular, there was little evidence of the boards making any material difference to the way the organisations spent their money or organised their activities. At the NVO, the collective tradition ensured that board members were involved in budget-setting and planning work, but formal systems for evaluating efficiency or effectiveness were still weak. At the College, the way the board developed the FEFC requirement for an audit function (see Section 7) were by far the most advanced of the four organisations. However, efforts to monitor and improve performance were hampered by the lack of comparative data with other Colleges.

One incident at the School highlights the difficulties which boards face in actually playing a useful role as stewards for the quality of the services which the organisation delivers. Although there was recognition that the board helped in some service areas - such as allocating nursery places - when the board suggested it could help monitor the quality of teaching, the staff rejected this outright: it seemed out of the question that a bunch of lay governors could have anything useful to say about how the School taught its children. Both staff and governors seemed to recognise that they in reality made little direct impact on the School's services:

*'If you've got a good Head, a good Deputy Head, good teaching staff, that has a hundred times more impact than whatever the governing body is like.'*

*'I've read some of the introduction to governors' booklets and stuff and .....it seems to me that they're presenting something more than we actually do. I think the School is, to a large extent, the Head and the Deputy, followed closely by the staff that's there.....I don't know enough to know how much we could change the direction or the ethos of the School.'*

The obvious response to this is that if a board has to leave it to the senior management to make a difference, then its role in appointing and monitoring them can be the vehicle through which they can most effectively be stewards for the organisation. Even in the LVO and the School, where the board were less powerful they were a check on the power of management:

*'[We could] stop him becoming too powerful and the rest of it, I suppose ..... making them think twice before they actually do something. '*

*'We are a check and balance for the School and I do think the support we provide makes a difference.'* [School governors]

As Wood (1992) has suggested, the board is also an added safeguard able to take over in the event of a crisis or failure of management. More positively the board may play a role

by subjecting management's proposals to critical questioning and scrutiny. This role had most clearly been developed by the College board:

*'We're far more proactive, we're asking an awful lot of questions... the staff now expects us to ask questions and be critical and want to know why we're doing it and how we're doing it and see how it fits with the pattern. We're taking a fair amount of advice from outside and we're also feeding back from our own organisations.'*

## **Accountability**

The idea that board members are there to represent the interests of stakeholders and be accountable for the organisation to them raises the question: who are the stakeholders and how is accountability exercised?

For schools the DfEE (1996a) guidance to schools provides a useful starting point:

*'Governing bodies are accountable to those who established the School and also to parents and the wider community for the way in which it carries out its functions.'*

However the guidance is clear that accountability is not of the mandated kind:

*'although [governors] are not delegates, the governing body reflects the community it serves'*

'Reflect' was a word which also arose frequently in the LVO and College interviews. However its meaning is ambiguous. At the School and the LVO it seemed to mean that there should be some consistency between the stakeholder composition of the board and the stakeholder composition of the communities in which the organisation operates, but not that board members should necessarily reflect the *views* of the stakeholders they are from. In the LVO, this was the local community of funding, supporting and partner organisations, not the service users. There was a concern in the NVO that male and female members and members from different regions be represented as directors, although in reality this was difficult to achieve. However, at the College the idea that the board should reflect the community did not influence selection greatly:

*'Members have not been chosen to mirror the local community but on their ability to ask searching questions and face the difficult choices head on.'*

The boards of the two educational organisations felt the strongest sense of them being a bridge between the organisation and the local community:

*'I know that the School does have a lot of links with the community, anyway, in its daily function. But it's almost like ....the School accepting that its responsible to the community. That's it' got local governors there who are evaluating what they're doing and monitoring what they're doing and that they have a responsibility to the local community.'*

[School governor]

*'The Corporation is the mechanism for bringing together the multiple accountabilities of the College to the local community but it's yet to develop...it's monitoring of the overall local educational impact of what we do.'*  
[College board members]

This last point highlights the gap between perceiving that the board as the vehicle for accountability and putting this into effect. It could be argued that the fact that the four boards existed and operated was sufficient to make the organisations feel more accountable to (and part of) the various communities they served. Yet none of the boards had thought very deeply about how they could act as the body which brought stakeholder interests and expectations to the organisation, or which brought the organisation to the stakeholders. Apart from annual reports and meetings, there were few mechanisms for accounting to stakeholders. Only the NVO had a newsletter which went to members. At the School and NVO, board members would also on occasions act as representatives and take up the concerns of an individual parent or member

In theory, each of the organisations' managements could have developed non-board mechanisms for ascertaining stakeholder concerns and reporting to them. Perhaps the existence of boards meant that management did not give a high priority to issues of stakeholder consultation and involvement: if the board is there, why is there a need? There is a paradox here. Boards do provide one vehicle for accountability, but may relieve management from the responsibility of addressing this issue in other ways.

### **Contribution to strategy**

Both the stewardship and accountability functions of governance involve the board's arms-length relationship with management: how they check management and how they hold management to account. The perspective in this section is different: it looks at how governance can add value to organisational performance. Much of the American literature and influence on the governance function has come from this perspective, arguing that non-profit boards can make a real difference to organisational performance (Carver 1990). The particular emphasis is on boards as the apex of the organisation, Thus they are the obvious location for strategy setting and review, with managers left to operational management. At least in *theory*, many of the those interviewed in all four cases supported this view of the board:

*'...not day to day decisions, but I think the long-term decisions that affect the nature and style of the College, I think this is a role for the board.'*

[College board member]

However, in practice this distinction between strategy or policy and operational matters was difficult for boards and managers to maintain, for two sets of reasons. The first related to the resources which boards are able to bring to strategic role. They were constrained by time, lack of knowledge of the organisations and sometimes, particularly in the smaller organisations, lack of expertise. In general there was a recognition that they were largely dependent of management to formulate strategic proposals and options even if they had a clear input into this process.

The second related to the difficulty of separating strategic and operational matters, which was an issue in all four cases:

*'It isn't a very neat or clear separation between policy formulation and execution because I think the fact has to be faced that on certain levels of execution, the Board members have a lot of experience which is relevant, so they will contribute their ideas and perhaps expect staff will take them up...and of course in day to day operations the staff will often formulate policy suggestions which the board will then give due weight to ...'*  
[NVO board member]

*'they are the overall governing body of the School in terms of the overall main policies and functions of the School, whereas differing from the management and the day-to-day running of the School, which is my responsibility. However, unfortunately in the realms of education, that's often blurred and the dividing line between them is difficult to define and from my experience each governing body takes on a slightly different mode and interprets that in slightly different ways. That clouds the issue...'*

[School head]

There was also a suggestion that it took board members time to gain the experience and confidence necessary to begin to tackle this strategic role:

*'As governors get further into their term of office that they then tend to back off and look for overall policy and governance of the School, and back off the day-to-day things.'*

[School head]

Without devaluing the contributions made by board members on operational matters, there seemed to be a general pattern that where the organisation failed to define or develop clear roles for their boards (be they strategic or stewardship or accountability roles) then boards drifted into detailed operational interventions, almost by default.

Perhaps not surprisingly, given its size and the background of many of its governors, it was the College board that had most developed its strategic role. It was the body which asked the strategic questions and held managers to account for strategic performance. It did this partly through the mechanism of away days, and special small strategic planning groups of senior board members and managers. But perhaps most powerfully, it contributed to the strategic direction of the College by knowing what questions to ask, when and of whom, because of their experience at strategy level in other organisations.

It may be unrealistic for the boards of local Schools or small voluntary organisations to try to mimic the strategic contributions which boards can make in larger organisations. They cannot always attract members with the appropriate expertise. In other words, whilst the capacity of a board to challenge and contribute to management may be a desirable objective for governance in general - and exciting to observe when it happens - if it comes from a board with little expertise in management or strategy and possessing limited intervention experience, then it is unlikely to do the organisation much good. For small organisations such as Schools, which are quite tightly regulated, the range of

strategic options may be so limited that strategic management is also less important. This does not mean there is no contribution which boards can make to the management of organisations.

In the LVO, we observed the mentoring contribution made by one board member to the senior manager, and the generally supportive backstop role played, which was highly valued by the management. At the NVO we observed genuine involvement in priority setting by board members, and helping staff to think through strategic issues, even if there was a strong tendency toward operational drift.

## **6.5 Conclusions**

The conclusions which follow first summarise the major findings relating to board-management relationships, and second suggest some implications for practice.

### **Findings**

- It is far easier for managers than for boards to exercise real power in non-profit and public organisations, because of their operational knowledge, professional expertise, and control of information and agendas for meetings. The two principal conditions for boards to exercise power seem to be, first, that the board contains competent and experienced members, and second, that management welcomes and/or expects boards to be powerful.
- Lack of clarity about the distinctive role of boards, coupled with operational and regulatory demands and the desire of those reporting to the board to justify their decisions, can lead boards into a process of operational drift. However, it is possible to enhance the usefulness of meetings by developing members' intervention skills, organising and prioritising agendas and providing more leadership at meetings.
- There is a permanent tension between board members having too much and too little information to be effective, both of which can hamper effective governance. Informal sources of information - access to the organisations staff and operations, conversations outside of meetings - can be a valuable means of keeping board members informed about the organisation.
- How effectively boards carry out their stewardship function varies widely, depending in part upon the balance of power between managers and board members, the expertise of the board, and the systems and procedures the organisation has developed for monitoring performance. However, even apparently weak boards can still serve as a check and balance on managerial power and as a source of legitimacy.
- The role of boards in ensuring accountability to an organisation's stakeholders is generally undeveloped, but still valued by board members and managers. However, the existence of boards may inhibit the development of other accountability mechanisms

- The ability of boards to play a more strategic role is often limited by lack of time and expertise and the difficulty of isolating strategic from operational matters. However, deliberately setting aside time at regular intervals to review strategy, away from the routine business of board meetings, and careful attention to agenda setting, can help boards keep a strategic focus
- Apparently excessive attention to operational matters does not necessarily mean that governance serves no useful purpose. There is a safeguard in having a board, separate from management, who have some knowledge of and commitment to the organisation. They may also add value in other ways, for example: supporting management, helping to legitimise difficult decisions, and acting as a link with important stakeholders.
- Most organisations are not clear about the respective roles of board members and managers in their organisations and the contribution they expect boards to make. This can lead to an under-utilisation of boards by managers, and conflict as each side perceives the other to be encroaching on their territory.

### **Implications for practice**

**(1) Board members and senior managers need to periodically assess the roles the board plays and could play in the organisation.**

Different roles will be appropriate to different boards, depending on the circumstances they face and the expertise and time they have available. Boards which do not try to relate roles to their capacities relationships and circumstances are likely to be more confused and ineffective in the roles that they take on. They may even be a burden rather than a benefit to the organisation. This can reveal itself in frustration with meetings, excessive operational drift and conflict. The opportunity of a new chair, CEO or change in the external environment may be the prompt for a board to review and change its role. It will take time to develop new or stronger roles - be they in stewardship, accountability or strategic management - and there will be tensions in the process. There will also be problems if the roles adopted do not fit the skills or ideologies of members.

**(2) Senior managers need to regularly review with boards whether they have the right information to meet their needs, and how they can best be kept informed of the work of the organisation.**

Such a review needs to consider whether the information provided relates to the adopted role and priorities of the board; whether too little is preventing board members from being properly informed; or whether too much is hampering their ability to identify what are the significant issues. The review should also consider whether other informal means of finding out about the organisation are required, such as site visits, informal meetings, or links with other members of staff. These more informal means of keeping in touch were highly valued in a number of the cases, and appeared to help board members make better informed decisions.

**(3) A high priority needs to be given to the organisation and servicing of board meetings, and the development of board members meeting skills.**

Common problems among the boards observed included: overlong unstructured agendas, duplication of work undertaken in sub-committees, excessive attention to detail, and lack of prioritisation. These problems could all be reduced by more proactive leadership and chairing from both the CEOs and Chairs, and more attention being paid to the way agendas are structured and meetings are serviced. The development of board members skills in intervening, reporting and questioning at meetings can also enhance the value of governance meetings. This recommendation relates to those in Section 5 on board development. Chairs and CEOs would benefit from training material on, for instance:

- identifying and balancing ‘report-only’ and ‘discussion’ items
- planning, allocating and keeping to specific time limits for different agenda items
- one pro-active development of agendas which balance operational reports with consideration of strategic performance issues

All board members could benefit from training in process skills, for instance video material showing examples of effective and ineffective interventions in board meetings.

**(4) Board members need to consider what contribution they can usefully make outside board meetings**

There are a range of contributions board members can make to organisations. It is even possible to be a valued board member and never attend meetings. Contributions evident in the cases include: staff appointments, informal advice and mentoring to senior managers, shadowing particular managers or functions, sitting on special task forces.

## **(7) Boards' contribution to financial management**

This chapter addresses three broad areas of board intervention in financial issues. The first is *financial monitoring*, which concerns whether and how boards receive and respond to information about performance against budget, and budget forecasts. The second concerns *financial procedures*: whether and how boards ensure that proper and effective procedures exist in organisations for the control and management of income and expenditure. The third we label *financial management*, which is concerned with whether and how boards contribute to resource generation and utilisation to and financial strategy formulation. The three areas are linked: procedures facilitate monitoring, which in turn relates to the achievement of strategic financial objectives.

Whilst these concerns are central to all organisations, two dimensions in public and non-profit organisations render all three of them more complex and possibly more important, with consequent implications for governance. The first concerns accountability. In for-profit organisations, most income is provided by the customer, whose interest in what the organisation does with their money after their purchase is virtually non-existent. In public and non-profit organisations however, most income is received from public or voluntary sources in the expectation that certain non-financial public and/or social goals will be attained. The board thus has a greater stewardship function, being accountable as agent (or trustee) to those who provide the organisation's income, and to the public either because of public funding or because of the tax concessions which charities receive. This accountability pervades the legal and accounting regulations governing public and non-profit organisations, and is encapsulated by the government minister, Baroness Blatch, when explaining the need for the new accounting regulations of the 1993 Charities Act:

*'Openness and accountability are the vital ingredients needed to foster and maintain public confidence in the charity sector. Everyone - the public, donors and beneficiaries - increasingly demands to know how much money is being spent. Charities are responsible for the public money which they receive and must be able to provide a clear picture of how resources are being used.'*

(NGO Finance 1995)

A second dimension concerns the difficulty of measuring the best use of resources. Whilst businesses may have ancillary objectives, their boards have a predominant and unifying concern to maximise the financial returns on the available resources. However, in public and non-profit organisations, what constitutes the optimal use of financial resources is inherently subjective. Effectiveness in utilising resources can be measured against a wide range of contested, social, and hard-to-quantify criteria. Different stakeholders represented on the board may have different perceptions of what constitutes the best use of resources.

### **7.1 Financial monitoring**

At a basic level, all four organisations presented information to their boards which enabled board members to :

- (a) compare actual income and expenditure against budget headings
- (b) consider projected sources and levels of income and expenditure

The information presented in all four organisations derived from an accounting tradition of preparing annual budgets (in response to the funding and regulatory environment) and then monitoring expenditure against them. None of the organisations *routinely* considered information about the organisations' financial assets or asset utilisation. The emphasis in financial monitoring was on compliance with regulations - 'keeping out of trouble' - and not on identifying and tracking selected key financial benchmarks of organisational performance.

Beyond this common emphasis and capacity to present budgets and forecasts, the four cases revealed four different models of boards' involvement with financial monitoring, characterised below as Involving, Explaining, Trusting and Questioning.

### **Involved financial monitoring**

At the NVO, a Finance Sub Committee (FSC) consisting of two Board members, two staff and a co-opted adviser with accounting skills met twice a year to receive and consider management accounts. In addition, the FSC Chair was sent monthly management accounts. The information was book-keeping based - full of budget codes - and consequently other board members had difficulty in grasping messages in it. However the Chair and to a lesser extent other members of the small FSC appeared to understand the information presented and its implications and would become involved in detailed and informed discussions about it. In this sense, board members were monitoring the organisation's finances and thus performing the basic financial stewardship function.

Three observations may be relevant in this case. First, the FSC Chair had been involved with the organisation for many years (a board member for four) and his familiarity with its cost structure and financial patterns meant that he was generally on top of the information presented. Secondly, uniquely across the four cases, the board (through the FSC) was actively involved in the budget-setting process (see Financial Management below). This helped the FSC to develop a sense of ownership of the management accounts presented for discussion. A downside of this was that the FSC tended to get involved in very detailed and time-consuming financial monitoring at its meetings. A third factor was the contribution of a co-opted financial adviser, whose professional expertise may have added to the credibility and confidence of the FSC.

Board involvement with an organisation's finances do not guarantee that they add value in their stewardship function. At the NVO, there was no extraction of key financial performance indicators in the information presented, and little attention was yet being paid to longer term financial planning. The FSC largely reacted to financial information and spent little time using accounts to think creatively or differently about the income or cost structure of the organisation. This reactive emphasis was common to all four cases.

## **An emphasis upon explanation**

At the School, commendably clear management accounts and budget forecasts were presented termly to the Premises and Finance Committee (PFC), and also considered by the termly full Governing Body. As with the NVO, consideration of the management accounts was largely reactive, historical and operationally biased. A key difference to the NVO was in the gap between the management's (i.e. the Head's) and the board members' capacity to understand and interpret financial information. As a parent-governor reported:

*'it's difficult for us to manage things as we don't really understand what's going on.'*

We observed that the main focus of financial monitoring was a painstaking effort to get board members to comprehend the information, constantly thinking of ways of presenting information as simply and clearly as possible in response to members' fear of figures:

*'[the information] is adequate in as much as it tells you what's going on. And the notes that [the Head] produces are very helpful. But it's not adequate for those who don't understand it. It could, I suppose, be presented in a simpler form, but then that requires somebody to spend time doing it ...you ought to be talked through it. People who aren't familiar with figures, I think it's a nightmare for them. So they won't understand it, so they might as well put it in a simplified way.'* [staff governor]

*'...I must admit, in financial terms quite a few of them have difficulty with some of the language which is used and bearing in mind that I've had to learn it myself and am not totally sure either, some of them are off-put by that! Some will not volunteer to sit on the finance committee.'* [Head teacher]

There was a concern to develop board members' understanding of financial matters, in recognition that they were in some way disempowered by their ignorance. The extent to which boards have a duty to educate all their members in financial matters needs to be balanced with the risk that all information is presented in basic, lowest common denominator format. It may be that board members need to allocate their financial monitoring responsibilities between them according to their capacity to comprehend, or to develop a comprehension of, financial information.

*'I'm no wiz for/with figures, that's true. And I've steered clear of enrolling on the Financial Sub-committee, because maths and me don't go together.'*

*'I think I'm just beginning to work out where all the money comes from .....I wouldn't feel capable of taking the minutes of Finance because I wouldn't quite know which important points to pull out.'* [lay governors]

The board's capacity to perform the financial monitoring function appeared to depend upon the expertise of members:

*'At one point a previous governing body ....actually went out and recruited the previous Chair of Finance, who was an accountant somewhere. I found it quite interesting working with him, because he wanted to know even less about what was going on the day-to-day basis of the finance. He was only interested in overall figures. That took me a while to come to terms with, because I thought here was somebody who was going to be here every day looking at the figures. He really didn't want to know. As long as things were within performance indicators of particular percentage terms, he felt that was fine..... It's that sort of experience that I have to lead others into now. And I've learnt from him in that respect.'*

The overall result of this 'expertise deficit' was to reduce the monitoring function to the explanation of the expenditure report, with a minor rubber stamping role:

*'Basically, [we] were just given a run-down of what the expenditures were and what was spent where and just sort of look at it and agree it. [The Head]explained how he'd come to those figures and where he'd juggled a few and asked if we approved.'*

This assessment needs to be tempered with an appreciation of the limited room for financial manoeuvre which funding and regulation give to small schools. This does act as a pressure to limit their financial role to a minimalist stewardship one.

Another pressure is the fear of challenging the CEO. The only school governor with the capacity to understand the information had not been involved with the school for long and was wary of appearing to challenge the Head's authority by questioning the accounts presented. The school was located in a tradition whereby the LEA was the principal body to whom the Head reported financial information. It had been from them that he expected to receive advice and guidance. The governing body had been seen as parent, community and political representatives who were not expected to do more than appreciate their formal financial responsibilities. The pattern was much more one of the Head *explaining* the management accounts to the Board. Our observation of the practice of financial monitoring in the school contrasted with the PFC chair's assertion of what he saw his role ought to be in PFC meetings:

*'...making sure that ...I understand every point that comes up and the implications of it, trying to draw out information, questions or queries from other members of the committee and, yes, taking any follow-on action that needs to be done.'*

Nonetheless, the formal requirement to produce and explain management accounts and budgets for the Board did impose a structure and discipline to financial accountability at the School. Without this, the only such structure and discipline would have existed through (a) the reporting relationship to the Local Education Authority, inherently more distanced and formal and (b) the annual audit function (again via the LEA), inherently more limited in scope and currency.

## **‘Blind trust’**

At the LVO reliance upon the financial knowledge and expertise of particular individuals also featured prominently. Internal financial systems were very undeveloped, with the organisation running on what the finance officer described as “*a rather blind trust*” in her. The Finance Officer, senior managers and one board member appeared to know what was going on in the organisation independently and almost despite the formal presentation of management accounts to the Board. Such accounts as were presented were not always sent out in advance, did not feature comparisons with previous accounting periods and were rarely discussed in detail at meetings. The Finance Officer was asked what information the Board asked of her:

*‘Basically the cash balances and where we are at with our money coming in and our spending of money. Beyond that, they don’t know very much. I have to say, if I was one of them, I’d want to know more but they aren’t very finance oriented.’*

Board members were conscious that the Charities Act imposed a duty of financial scrutiny on them and they felt that they had sufficient information to carry out that role, but most admitted that they were not skilled or really interested in it. Financial issues were seen as a formal accountability requirement of governance rather than a means of adding value to the organisation. The emphasis was on complying with what they were required to do by law, rather than seeing these external impositions as being something which could contribute to the good management of the organisation.

It is perhaps noteworthy that the organisation had a history whereby the current CEO had long ago felt that collective decision-making had damaged the organisation and that clear and structured management responsibilities should exist. This had perhaps spilled over into seeing the board not as a source of debate or control, but as a formal rubber-stamping body, occasionally useful for their contacts.

## **Questioning experts**

At the College, we observed paradoxically both the most effective financial monitoring and also the most criticism of current financial monitoring practice. The effectiveness was due largely to two factors: expertise and relationships.

The financial *expertise* of both the managers and the Board Members who attended the Finance and General Purposes Committee (FGPC) was in a different league to the other three organisations, as perhaps befits its relative size and budget. The two senior managers who attended FGPC to present and respond to questions about the detailed and clear management accounts and budget forecasts (sent out well in advance of meetings) were respectively a CIPFA accountant and an experienced senior college administrator. The Board Members on the FGPC included a Chartered Accountant in private practice, a management accountant working in industry, as well as other senior managers with experience of receiving, interpreting and acting upon complex financial information.

Little time was spent in explaining the accounts line by line, as was the case at the School.

The *relationships* between managers and board members were also such that it was expected that there would be rigorous and if appropriate critical questioning of management accounts by Board Members. Managers felt that such challenge enhanced the financial monitoring function in the organisation by adding expertise, perspective and ideas wider than those present in the management; it was not necessarily an interference in managers' work. As the CEO said:

*'The Corporation do have a responsibility for the current viability of the business....they have to receive information at the FGPC that convinces them that we are still on track with this year's budget.'*

The overall result at the college was an FGPC where key variances were picked up instantly and probed until both fully explained and action agreed. This role had very much developed since incorporation, at which point the Local Education Authority had lost its financial responsibility. This compares with the school, where the LEA retained its formal responsibility.

The criticism of existing financial monitoring practice came from both Board Members and managers, and essentially concerned the need for qualitative rather than quantitative financial information:

*'For donkeys' years, I've said don't tell us we're spending too much money. Tell us how much money we're spending, why we're spending it, where's it going and why we need to count that, where we need to count that, and give us some figures!'*

*'They've got to be given key data, which will enable them to have more perspective about the college's financial position and make decisions about the right way forward rather than looking at petty detail...maybe what they should be looking at is not the 30 [budget] lines, but what the bottom line says in terms of the overall position.'*

[Independent board

members]

There was a common concern for continuous improvement in financial monitoring : less of the swamping operational detail, and more and faster highlighting of key performance variations.

## **7.2 Financial Procedures**

Boards have formal responsibilities for the propriety of financial control procedures in the organisations researched, as part of their public accountability for the monies they receive. Relevant government guidance for schools and colleges, and to a lesser extent Charity Commission and accounting regulations for charities, specify how this responsibility is to be enacted at board level. In addition, the organisations themselves have an interest in the efficiency and effectiveness of the procedures by which income

and expenditure is managed. Together, these external and internal pressures both mean that boards have some responsibility for ensuring that procedures are in place which ensure propriety and efficiency.

In the School, there was an annual audit of procedures carried out at the instigation of the LEA, which still officially controlled the school. This statutory professional audit yielded a report in a standard structure which was supplied to governors for their formal consideration. Governors saw this more as a responsibility of the LEA, in conjunction with the Head, than as being something that they needed to be involved in. This in part reflected their limited expertise in such matters but also their trust of both the LEA and the Head

*'Well we do have the Auditor's report, from of course the County. Which we went through and asked questions about. But then [the Head] would have gone through and sorted out how he's going to remedy it. I think on the financial side he's very good. I think with what they've got to manage with, I think he does a very, very good job.'*

In the NVO, there were formal procedural arrangements such as the amounts of expenditure which staff were allowed to authorise without formal sub-committee or board approval. However the Board had not developed either an Audit Committee nor any internal audit function. It is likely any proposal to do so would have met with questions about its relative costs and benefits.

The formal requirement of the FEFC for colleges to have an Audit Committee with specified responsibilities was developed further by the College. This resulted in a process which demanded and acted upon detailed reports on a huge range of cash handling and financial management procedures. These reports were prepared by internal auditors from an independent firm of Chartered Accountants and were presented and re-presented to Audit Committee until management could prove they had been acted upon in full:

*'If there are deficiencies, then we [the Audit Committee] come up with an agreed programme of how we're going to address them.'* [Audit Committee member]

Our observation of the Audit Committee suggested that it was effective in ensuring proper, efficient and effective financial procedures for several reasons:

- the expertise of the two board members on the Audit Committee, one an accountant and both with a tenacious appetite for detail and for seeing things through;
- the availability and experience of the internal auditors in preparing the reports, especially as they could draw upon best practice in other colleges and organisations;
- the willingness of the Committee to commission, or adapt the remit of, reports to meet specific concerns in the organisations (e.g. one report was commissioned on the cost-effectiveness of the College's marketing section).

At the LVO, the finance officer was critical of the lack of internal financial safeguards in the organisation, and of the ‘ad hoc’ basis on which decisions were put to the Board or not. There appeared to be no criteria for what was and was not board level financial decision-making, nor for what spending authority different levels of management had. There appeared to be no role played by the Board regarding financial procedures beyond the formal responsibility for the annual audit.

It is difficult to envisage the three smaller organisations adopting the sort of audit function practised at the College, due to their size and the lack of a statutory requirement. However it was noteworthy that none of the other three boards had considered any scaled down form of internal audit, or Audit Committee, as a resource through which boards could foster best practice, hold management to account, and channel members’ expertise. The cost/benefit equation probably explains this; even where audit worked, at the college, senior managers complained that the input it required from them, on top of all the other requirements of the regulatory regime, was excessive.

There is also a danger of pigeon-holing board members with, for example, accountancy expertise into a checking role: other contributions they could make to the organisation can be lost; and they can end up being the only board members understanding what goes on.

### **7.3 Financial Management**

If both financial monitoring and procedures stem from the stewardship model of governance, then financial management stems from the managerial model whereby boards are viewed as a performance-enhancing layer in the organisation. Obviously, effective financial management requires both effective financial information and procedures, and the boundaries between the three categories are inevitably somewhat arbitrary. Nonetheless it is possible for an organisation to neatly and honestly record, check and report all its financial dealings and simultaneously fail to put its resources to best use in achieving the outcomes which the organisation exists to further.

This ‘best use’, or resource optimisation, aspect of governance is important if boards are viewed as the trustees of an organisation’s mission, in which case it is the board’s function to ensure that resources are effectively converted into outcomes. Put simply, do boards help organisations to generate any more resources, and to use them more efficiently and effectively in achieving organisational objectives, than they would do if the boards did not exist?

#### **Limited horizons**

The cases suggest that this question makes an assumption about board role which is not universally shared. Different organisational and regulatory traditions result in very different perceptions of the role of governance. A minimalist role, as far as financial *management* is concerned, was evident at the School, as seen in the following quotes by school governors:

*'[The Head] knows what is required - what the school requires - and it's just a matter of jiggling the figures really, making sure we've got the money there to do it. We've got to say, 'Well, last year we spent a lot of money on library books, this year we really must have the paint work done.'*

*'Well, if you look at the budgets... there is not much to play with, really. I suppose staffing levels we could be influential in, but I really don't think we can or could, really, when it gets down to it. And that's the biggest bill. Supply [teaching]: I suppose in the past we've discussed and made decisions more on the supply budget, but ultimately you've got not much control over that. What's left after we've allowed [for staff costs] is about £5,000 a week. Fiddle around with all the repairs and the rest of it, the rest has to happen. Welfare, the teachers, there's a welfare system, we did something on welfare hours, but it's very small when you look at it overall. I don't see it changing.'*

These quotations reflect a general lack of involvement, by boards in all four organisations, in strategic financial management. The reasons varied. In the school, there was not much room in a tight budget, allocated through a precise government formula, for the board to be strategic with. This was compounded by the lack of expertise and confidence discussed earlier, and the fear of trespassing upon the Head's professional terrain. In the LVO, it was not within the institutional culture for board members to understand or 'interfere' with such matters.

In the NVO, the work involved in budget preparation and monitoring tended to squeeze out other aspects of financial management. There were few major questions asked about the relative cost-effectiveness of different aspects of the organisation, perhaps because some of the options might have involved staff cuts, which was a very sensitive area in the organisation. The NVO was also cushioned by reserves from the past.

At the College, the horizons of both board members and senior managers were expanding to incorporate matters of financial strategy. However, the traditions of Local Education Authority accounting, combined with the demands of the FEFC regulatory regime, were possible obstacles to its development.

Within this overall picture, there were significant variations between the cases. Two levels of potential and actual board-level financial management contribution could be identified: budget construction and input/outcome conversion.

### **Budget construction**

On the income side, budgets in public and non-profit organisations in theory involve researching sources of income and setting targets for what to try and obtain from where. On the expenditure side, in theory it involves research into the results produced by different activities, sections and functions and a consequent allocation of resources for the coming year (or beyond). In practice what income is received and how it is spent tends to be more prescribed in the public sector.

The budget construction process can be seen as a strategic function, in which boards, free from the detail of operational management, can identify overall organisational priorities. This could involve boards in setting their managements the questions and research agenda in advance, and then making informed, perhaps difficult, choices between different priorities.

In practice, the budget construction processes were more mundane. At the LVO, the Finance Officer presented the coming year's budget, based on known adjustments to the current year's, to the Finance Sub-committee. The process was treated at the full board thus:

*We are happy to approve [the budget] if the sub-committee went through it in depth - I'm sure you did.'* [Chair - at meeting]

Although such non-duplication of the sub-committee's work may be commendable, it was interesting that there was no presentation to the full Committee of the significance of the coming year's budget - differences, key headings, assumptions, implications, etc. - at a time when in fact the organisation was in a severe cash flow crisis with major changes to existing funding procedures in prospect. Such discussion as there was about the budget concerned reactions to minor increases in stationery allowances and other minor budget headings.

The School faced difficult choices in a period of cutbacks in government finance, and there was evidence of some strategic objective in the budgeting process, but in reality the process was performed by the Head and driven by the legal framework and the previous year:

*'I think what we try to do is to try and build in a contingency for the future, really. Try to safeguard against future cuts. That's been the priority. To try and make sure that we are managing it so that we're not going into the red. We're not supposed to go into the red, anyway, are we? To keep a balanced budget, so we're not having a nervous Head at the end of the year, realising that with cuts, the overspend becomes even more significant'.*  
[Finance sub-committee chair]

*'...But as a whole, certainly in financial terms, they are more than happy, or appear to be, to leave [the Head] to run within the affairs and delegation and so on. And the time when they get more involved is ....the beginning of the year in terms of the options that might be involved in expenditure, rather than the day-to-day management of it.....Our major issues is an ongoing one from year to year at the moment, making that financial plan balance and the decisions that have to go into that and the options involved. And some of those have been quite difficult for [board members] , because they recognise that it actually affects their children and they can't stand back from that. We managed to do that almost painlessly last year, but that's having made lots of savings in the previous financial year to create a surplus to carry forward. And they're not fully aware of the impact of some of those cuts. They are aware of the point when it comes to seeing what options are left for them in that respect.'* [Head]

At the College, the budget construction process was ongoing through the year, with board members demanding, and getting, long-term financial scenarios based on different funding conditions and performance variables. By asking awkward strategic questions, the board could be said to be enhancing the budget setting process. It was not clear, however, if any of the board members sufficiently understood the intricacies of FEFC funding formula to grasp the meanings of the different scenarios.

Only at the NVO were board members actively involved in budget construction as a mainstream annual agenda item, with a dedicated FSC meeting and board discussion allocated for the purpose. The process was essentially target-setting, rather than the weighing up of strategic options informed by the appropriate information. There was, however, real evidence of both comprehension of the budget detail and board ownership of the resulting budget. Board members did also try to prioritise - indicating which proposals would have to come back for further approval depending on the financial position. Strategic questions, including possible staff cut-backs, were beginning to be raised. It was not clear whether the value this process added was more to the legitimacy of the process than to the quality of the budget.

### **Input/outcome conversion**

The difficulty with this level of financial management is the issue of contested organisational objectives. The one organisation which was beginning to operate on the level of matching resources to outputs and outcomes, the College, was perhaps the most divided in terms of a shared board understanding of organisational purpose. This was likely to generate future conflicts between those seeing the College primarily as a business and those viewing it as a service to local communities. A presently workable compromise existed, encapsulated by this quote:

*'[the College] is there to produce money that we can then re-invest to provide a greater degree of education in the community'*

Notwithstanding these differences, there was a consensus that the discipline of management accounting, as opposed to financial accounting, could be put to use in improving the performance of different parts of the College:

*'I would like to see the high level numbers, which we've never been presented with because the information hasn't been available up to now. ...I'm not interested in the nitty gritty detail, but what I would like to know is.....what it is costing to run the faculty, what number of students are there for the amount of money that we are spending.....the results of those faculties in terms of educational achievements and what their view is what resources they are going to need for the next few years....It's the very high level indicators as far as I'm concerned.'*

This quotation, mirrored in other interviews with both board members and managers, illustrates a thirst for a real understanding of the cost structure of the organisation, in order to contribute more to linking inputs with outputs and outcomes. It was often

accompanied by a desire to compare such information with other colleges, and act accordingly.

At the LVO, the figures which were presented would not have allowed the committee to examine whether the organisation was being cost-effective in the provision of its main services and there was no means of looking at comparative costings with other similar UK organisations. When the LVO Finance Officer's reported the cashflow crisis which in her view merited serious board-level attention, all she felt she received from the Board was expressed in the comment: *'Well, keep us informed.'*

At the School, the presence in the recent past of an accountant on the board had opened up the door slightly to the use of financial information as a tool in board level performance management. However, the confused thinking about what to do next, and how to reconcile this with the available board level financial expertise, is evident from this quotation:

*'With finance - I'm talking about what we experienced before the last person left, that did finance - he was an accountant. So he had a business attitude, whereas a lot of us have a housekeeping attitude that if the money's not there you can't buy it that week. You have to wait. Whereas he saw an overall picture of a business and would understand, maybe, that it was expensive at the moment, but somehow you created the accounting and it would be all right long term. But, personally, I don't understand. When it's explained to me, I understand it, but I couldn't give views and put in ideas, I don't think, because I think on a housekeeping basis. So I think an accountant or someone with business understanding can help, because he did. He would say that it was in the deficit, say the half year, was within a certain acceptable amount and that we could do something by the end of the year. And he would see how it could be done. But I don't work like that. If it's not there, you don't spend it.'*  
[parent governor]

In reality, the board left all important financial matters to the Head:

*'I think they're very much guided by the Head Teacher, who is obviously there on the day-to-day basis and he's going to guide the governing body in the right direction, I think.'*  
[staff governor]

At the NVO, there was the emergence of a difference between those who saw the organisation as mainly a development and education organisation, and those who saw it as an aid organisation. Robust management accounting data about the costs and benefits ensuing from the different aspects of the organisation's work could, paradoxically, both resolve and exacerbate these differences. Information which could contribute to an objective assessment of the costs and benefits of different strategic options would be difficult to generate, although the board was beginning to think about ways of evaluating the effectiveness of different aspects of its work. As with the College, awareness of the potential of strategic financial management was ahead of the practice, but that awareness differentiated these two cases from the School and the LVO.

## 7.4 Conclusions

Below is a summary of the main findings on how boards contributed to financial matters, followed by some of the implications of these findings for practice.

### Findings

- In all four cases the boards undertook two basic functions of financial monitoring openly and, essentially, adequately: routine consideration of actual income and expenditure against budget; routine considerations of projections of future income and expenditure.
- Boards thereby act as a structure and a discipline for the financial accountability of public and non-profit organisations. This accountability is rooted in a public reporting tradition rather than a management accounting one.
- Boards' roles in financial monitoring are constrained by this tradition. If the objective of compliance with regulations is too dominant, it can squeeze out monitoring of financial information as a means of identifying trends and patterns upon which to act.
- The existence of an audit function, perhaps but not only through the establishment of an Audit Committee serviced by independent internal auditors, can provide an effective way for boards to contribute to (i) the holding of management to account, (ii) continuous improvement in the efficiency and propriety of systems and procedures, and (iii) organisations' exposure to practice elsewhere. Larger organisations appear more able to oversee financial procedures than smaller ones, who lack resources, expertise and an awareness of what is possible.
- One of the key factors in the effectiveness of boards' contribution to financial issues is the financial expertise of both board members and the managers who report to them. Board members with accountancy expertise, and/or senior financial management experience, can make a real difference to organisations' capacity to define a financial role for the board, generate appropriate financial information, and then to understand and use it. Conversely, where board members lack this expertise, managers may be required to devote a substantial amount of time simply to explaining financial information. Or little management or governance time may be derated, because of the trust in the propriety and competence of those managing the finances.
- A second key factor is the relationship between senior managers (especially financial managers) and board members. The most useful contributions occurred where managers welcomed challenging questions from board members and saw them as a resource, not where board members were seen primarily as people to *explain* financial information to.
- A third factor is the extent of board members' involvement in the organisation. Board members who understand the essential cost structure of their organisations -whether

through their reading of figures or their access to the organisation's operations - make more useful contributions.

- Boards can, but generally do not, make a significant contribution to strategic financial management. Involvement in the budget-setting process can feature in this contribution : this can enhance the process in the organisation in terms of stakeholder legitimacy and of clarifying priorities and options.
- There is little evidence that boards contribute to how effectively of their organisations convert resource inputs into performance outcomes. A financial accounting tradition holds sway over a management accounting tradition, resulting in under-use of methods which could help boards to assess and develop the financial performance of the organisation.
- There was no evidence of management accountancy expertise being used to:
  - select and consider ratios which relate the consumption of resources to the quantity of outputs or to the quality of outcomes
  - identify what value was added at different stages of the organisations' service processes, by quantifying the cost and benefit of the different activities undertaken
  - identify and compare key resource: performance ratios with comparable organisations; the concept of bench marking was never mentioned.
- Whilst this lack of attention to using accounting-based approaches to performance evaluation was a 'whole organisation' issue, it is also a comment on governance in particular. If boards do not demand (or cannot interpret) information about the relative costs and performance outcomes of major expenditure options (ex ante accountability), they will be limited in their capacity to demand and to question reports from management on the consequences of decisions made (ex poste accountability).

### **Implications for Practice**

- (1) Public and non-profit boards should make greater efforts to recruit and utilise the expertise of accountants and others with senior financial management experience**

Our study suggested that expertise is a critical factor in how boards contribute to financial issues. This expertise may be acquired in various ways: through the selection of board members, the use of co-options and the appointment of advisers. Such experts can also have a role helping to develop the financial expertise of other board members. There is a danger though that excessive reliance upon experts can disenfranchise other board members, and such experts need to be sensitive to the social objectives and stakeholder

concerns represented by other board members. Nonetheless it is difficult to envisage a board effectively setting strategic financial objectives, overseeing financial procedures and operations and reviewing performance without some degree of expertise available.

**(2) Boards should consider the establishment of an audit function in the organisation**

Whether through an Audit Committee, a contract with an internal auditor who reports to the board on matters which concern the board, or the shadowing of financial staff by a sympathetic board member with appropriate expertise, the audit function is a potentially significant one for boards to play. The scale of the audit function should obviously relate to the size and resources of the organisation.

**(3) Management accounting approaches can be applied to enhance the boards' contribution to organisational performance - and hence its achievement of social objectives**

The ability to analyse the relationship between resource inputs and performance outcomes is central to a board's capacity to assess the effectiveness of the organisation. If finance is approached only from the compliance tradition of financial accounting, then the benefits which management accounting methods can bring will not be gained. Methods which could help boards to assess and develop their financial performance include benchmarking, ratio analysis and value-added accounting.

## **(8) Conclusions**

For a long time issues of governance have been neglected. In the voluntary sector and perhaps beyond there has been some confusion and even ignorance among many board members about their responsibilities. In the public sector rapid change has led to new and varied patterns of governance emerging. At the same time there has been a growing concern about the effectiveness of boards to carry out their role. Against this background it is not surprising that much of the emerging body of work and literature on governance has been prescriptive in nature, trying to set out the responsibilities of board members and how they should behave. Much valuable work has been done clarifying the role of governing bodies and raising awareness among board members of their responsibilities. Yet there is a big gap between these prescriptions and the reality of governance revealed by empirical studies. There is a danger that if these prescriptions do not adequately take account of the constraints and difficult dilemmas that board members face they will be ignored.

In these conclusions we draw out the contribution that the different boards we observed made, and how these were constrained by a variety of factors. Finally we make some recommendations for trying to improve practice which try to take into account some of the difficult dilemmas and constraints boards face.

### **8.1 Do boards make a difference?**

The contribution or added value that each of the four boards made to their organisation varied considerably. In two organisations, the LVO and the School, this contribution was fairly modest, whereas a more substantial contribution was made by the boards of the NVO and the College. The nature of the contribution of each board and some of the main influences on this are examined below.

#### **The LVO**

At the LVO the board performed three main functions:

- It acted as a *link* to important stakeholders in the LVO's environment. As such it was used by the CEO as a *source of information and advice* about issues affecting the organisation.
- It was also used occasionally by the CEO as a *backstop* to take decisions that might be difficult or controversial. For example a problem over the pay of a particular person if she were to move from being paid as self-employed to taking up a staff post.
- Finally, it performed a limited *stewardship* role, overseeing the work and finances of the organisation. However, there was recognition that it often acted largely as 'rubber-stamp' in this capacity.

A number of factors help account for this 'slight' governance by the board. Originally when the organisation was formed it was run as a loose collective of outside supporters

and staff. When the CEO was appointed she gradually brought more structure to the organisation and established a management committee. However *board development* has not been seen as a priority by the CEO, possibly because she fears a *loss of control* and the board taking over. As a result board members remain rather isolated from one another with little opportunity to *review* or reflect on their role. This is reinforced by a number of factors. The *consensual culture* of the board, and the feeling that they need to *support* the CEO who is over worked, means that the board find it difficult to raise their doubts and concerns about the role of the board. The fact that most board members are *selected* for their contacts and sympathy with the aims of the organisation, rather than their experience of boards or skills relevant to governance, means that board members often lack confidence and any clear understanding of how they might perform their role differently. The lack of development of appropriate *administrative systems* as the organisation has grown also means that the information presented to the board is often of poor quality, which makes their role more difficult to perform and them dependent on the CEO and one dominant board member to interpret what it means.

### **The School**

- At the School both governors and senior staff saw the main role of the board as one of *stewardship* - keeping an eye on how the School was run, and a check on the power of the Head.
- The board also had a more limited role in *scrutinising and approving policy*. Most work on developing policy was done by the Head often with input from the LEA. Occasionally through sub-committees the governors had a more active input into policy formulation. However, in general the policy and strategic agenda was set by Government policy and the LEA, with the governing body reacting to external inputs.
- The board played a *representative* role - bringing an element of local accountability and involvement. The Head saw this as the main contribution of the governors. Although he also felt they made a contribution to decisions, he was hard put to identify many decisions where he felt that there had been real added value.

Various factors help to explain the way the governing body has interpreted and enacted its role in terms of stewardship, with limited involvement in policy or strategic matters. The freedom of action that Schools have for strategic choice is much more limited than that for voluntary organisations. They are subject to a good deal of control and *regulation* both by central government and the local authority. The agendas for governors meetings were largely composed of items suggested by the local authority and report backs from sub-committees. Because the governing body had spent little time *reviewing* what it wanted its role and contribution to be it was largely reacting to external events or inputs from the Head. This lack of clarity about its role also meant that there was little attempt to *prioritise agenda items* for meetings or ensure *information* was presented in the most meaningful way. As a result board meetings mainly consisted of limited scrutiny of a long list of items. The *background and experience* of most governors made it difficult to challenge this role. Most governors had not served on other boards and had limited

management *experience*, and the training they received tended to focus mostly on their statutory duties. As a result they had few alternative models of governance to draw upon.

### **The NVO**

- At the NVO the main role the board played was one of *stewardship*. Through the various sub-committees the board was able to monitor not just the financial performance of the organisation but various aspects of its work.
- It was also involved in various aspects of *policy-making* with staff, and helping to *plan and set priorities* over the coming year. Again much of this work was done through sub-committees, with the whole board involved in helping to set and agreeing the annual budget.
- The board was also involved in discussions of *strategy*, although this was usually responding to initiatives by staff. However, probably the main weakness of the board was that it got to drawn into operational issues, and consequently not enough time was spent on longer term strategic issues.
- Some board members also saw themselves as having a *representative* role. However, this was complex and ambiguous, because they also acknowledged that there were many other stakeholders such as donors, staff and partners who they were in some sense accountable to.

In the NVO there was the least separation between board members and staff of all four organisations. This was probably because the organisation had evolved from a system of *collective working*. Through sub-committees, board members were involved in planning various aspects of the organisations work. However, in the absence of a clear *management structure* board members tended to become engaged in short term operational issues as well as longer term planning and policy. The arrival of a new co-ordinator had challenged this state of affairs and led to a process of the board and staff *reviewing* their respective roles. However, although there was some agreement that in general the board focus on policy and the staff on operational decisions, there were difficulties making this work. There was a tendency for the board and sub-committee meetings to *drift* towards operational issues and spend insufficient time on broader issues of policy or strategy. The main reason for this appeared to be poor *management of the governance function* - agendas for meetings were long and unstructured and did not identify which items were of priority for the board, too much time was spent on members reporting back from sub-committees, and information for the board failed to adequately distinguish the board level implications.

### **The College**

The board of the College was seen as playing a very positive role by both senior staff and governors, in particular:

- It was active in carrying out its *stewardship* role. It carefully scrutinised and questioned management proposals, and had an audit committee that oversaw detailed investigations of the College's financial systems and procedures.
- The board was also beginning to play a more important role in examining how the *performance* of the College could be improved and acting with senior management as a driver for *strategic change*. However, there was a recognition that this aspect of its role needed to develop further, and that in part it was hampered by the lack of comparative information about the performance of the College with other similar organisations.
- the board also acted as a *link* to some important customers and stakeholders. However, the board was less clear about its how to operationalise its accountability to the broader community.

Key factors in the success of the College board seems to have been the *selection* of board members for their expertise and experience to contribute to the governance of the organisation, and a Chair and CEO who had a clear view of how they wanted the board to function. However, there was a danger that bringing in mainly people with business experience could lead to a split between those with a *business view* of the College and those with an *educational perspective*, and a lack of accountability to the broader local community. The board was also still hampered in developing a more strategic role by the *information* it was presented with and the lack of comparable information with other similar organisations.

## Summary

Our research suggests that boards do make a number of important contributions to the organisations they serve. However, the nature of these contributions varies and is influenced by a variety of factors, for example: the way the organisation is regulated; the history and culture of the organisation; the way board members are chosen; board members' skills and experience; the relationship with senior managers and the way the governance function is managed. Below we make some recommendations for trying to overcome some of the difficulties many boards face and enhancing their contribution.

## 8.2 Main recommendations

### For boards and senior management

- (1) **Boards need to periodically review how they can try to achieve an appropriate mix of skills and experience among members.**

Boards are often expected to serve both a political function representing the interests of the public and other stakeholders, and a managerial function as a top level of management. In order to serve these functions effectively it is important boards contain the right mix of skills and experience. The inclusion of members with financial, and particularly management accounting, expertise is encouraged, but only within the broad

portfolio of skills and expertise which boards should seek. An appropriate mix of skills and expertise can enable boards to match the governance roles they aspire to with the capacity to perform them. At present, boards aspired roles in financial management are often hampered by the lack of accountancy resource available to them.

Each of the main methods of choosing board members have their strengths and weaknesses. Boards need to consider whether or not they are getting the right mix of members and, if not, how their methods of choosing members can be improved. Some organisations are making increasing use of advertising and formal selection procedures to improve the pool of candidates board members can be drawn from. Co-options and advisers can also be used to get a better balanced board. As organisations grow and change, then the types of skills and experience required on the board is likely to change, so it is important that these matters are reviewed periodically.

**(4) Boards and senior management need to periodically review their respective roles and the contribution they make to governance in the light of the constraints they face.**

One of the key dilemmas that many board members face is that by law they have extensive responsibilities, yet they are carrying out their job in a voluntary capacity, which means that often they can only devote limited time to it. As a result it is important for boards and senior managers to explicitly examine what functions they think that governance involves in their organisation and how each of the parties will contribute to carrying them out. A useful question for all boards to ask periodically is ‘how do we add value to the organisation?’ The roles they choose to prioritise may involve stewardship, external relations, accountability, policy-making and strategic management. The choice should take account of the values and history of the organisation, the expertise of members, the resource constraints they face, and the changing demands of the external and regulatory environment. Often the most problematic areas concerns strategy and policy-making. Because they have greater operational knowledge and time it may be more realistic for senior management to play the lead role in policy formulation, rather than pretend that this function can be performed by the board. Regular review can help boards and staff to clarify their respective responsibilities, and enable boards to identify the areas where they can add real value to the organisation.

**(3) The Chair and CEO need to ensure that board development is continuously undertaken.**

Because board members are volunteers with limited time, and senior managers are busy people there is a tendency for board meetings to focus exclusively on the business in hand. As a result issues such as member training and induction, team-building or board development are often over-looked, to the detriment of board performance and board - management relations. In theory it is the responsibility of the Chair to ensure the maintenance and development of the board. In practice the CEO is often better placed to ensure this happens. Consequently board effectiveness is likely to be enhanced if Chairs and CEOs consider their respective responsibilities for board development and make sure

this remains on the board's agenda. Development should aim to equip Chairs and CEOs with skills in agenda design and management and all board members with process skills so as to make more effective interventions in the organisation (both within and outside of meetings).

**(4) Board members need to clarify with senior management what degree of involvement within the organisation is appropriate.**

A common dilemma for board members is that if they become too involved, they may interfere in operational aspect of the running of the organisation; on the other had if they are too detached, or only reliant on the CEO for information, they may not know whether or not the organisation is being well run, and be unable to carry out their stewardship role effectively. We have observed a variety of ways in which organisations have sought to involve board members in appropriate ways, for example by establishing board sub-committees involving board members and staff, by linking board members with particular staff, by giving board members a watching brief over a particular area of the organisation's work or by arranging for board members to talk with staff and service users.

**(5) Many Chairs and CEOs need to give a higher priority to the management of the governance function.**

A striking feature of two of the cases was the way that board meetings had a tendency to *drift* towards operational issues, squeezing out broader more strategic concerns. The research literature suggests this is a common concern. Three factors were important in this process. In both organisations agendas for board meeting consisted of a long list of unstructured items. There was no attempt to prioritise in order to distinguish items that were of importance from lesser items, or those that were for report from those requiring decisions. As a result the boards were unclear where it would be most profitable to concentrate their efforts. Secondly, boards received detailed information and reports from sub-committee or from managers without much effort to draw out what were the main implications for the board. Thirdly, some board members or staff tended to go into great detail when giving report backs to the board, perhaps because they felt the need to justify the decisions made. Many of these problems could have been avoided if the Chair and CEO had spent more time before the meeting thinking through what were the important items for the board to discuss, and providing a more structured agenda and more direction to the meeting.(see Recommendation 3)

**(6) Boards should consider establishing a means of regularly reviewing financial procedures and systems.**

Three of the cases demonstrated the difficulties board members face in using their limited resources to review financial systems and procedures and learn from experiences in other organisations. The Audit Committee at the College not only performed these functions; it also became a resource to examine the effectiveness of different operations at the College. Whether through an Audit Committee, a contract with an internal auditor who

reports to the board on matters which concern the board, or the shadowing of financial staff by a sympathetic board member with appropriate expertise, the audit function is a potentially significant one for boards to play. It enables them to be stewards of procedures, hold management to account and to ensure efficiency and propriety in relation to other similar organisations. The scale of the audit function and whether it would be overseen by a formal Audit Committee should obviously relate to the size and resources of the organisation.

**(7) Organisations should consider making more use of management accounting approaches in their governance.**

The ability to analyse the relationship between resource inputs and performance outcomes is central to a board's capacity to assess the effectiveness of the organisation. If finance is approached only from the compliance tradition of financial accounting, then the benefits which management accounting methods can bring will not be gained. Board members and senior managers should use accountancy expertise not only for financial accounting purposes, but for developing means of assessing the performance of the organisation against its objectives, especially the effectiveness of the organisation's conversion of resource inputs into performance outcomes. Management accounting skills could be beneficially applied in three obvious areas where governing bodies can contribute to organisational performance: the use of ratios which connect resource input to quantitative outputs and qualitative outcomes; the identification and interpretation of performance benchmarks with similar organisations; the breaking down of service processes such as costs and benefits can be evaluated at different stages.

**For the accountancy profession**

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