

Public Sector Boards: Finding a balance in a challenging environment

By Clive Ansell with comments from Mary Jo Jacobi and Martin Pilgrim



Time and again, in Criticaleye events focused on the public sector, there are questions about the changing role of boards in the public sector, and the contrast, or not, with private sector boards.

*To shine some light on this, Criticaleye Executive Member, **Clive Ansell**, who is currently a Senior Advisor to the Board at Royal Mail, engaged two of Criticaleye's Associates, **Mary Jo Jacobi** and **Martin Pilgrim**.*

Martin is currently Chair - England Council, The Prince's Trust and Chairman of the London Sustainability Exchange. He was Chief Executive of London Councils until 2007 after spending 38 years working in local government.

Mary Jo has worked with many government departments and held senior industrial positions, in both the UK and US. Currently, she holds and has held numerous board level roles and was also a senior advisor to US Presidents Ronald Reagan and George H W Bush.

The conversation began with a discussion on the different use of language in the public and private sectors.

Martin: The private sector and the public sector have their own jargon and clichés. Going forward, this will be less of an issue. 'Business-speak' is pervading the public sector as it engages more with the private sector – in outsourcing, in the private finance initiative and its variants and by the interchange – albeit limited – of personnel.

Mary Jo: All organisations have a language of their own that their members understand but in which outsiders aren't necessarily fluent, such as the use of acronyms. I refer to this as 'speaking in code'. I find it very confusing when the public sector adopts the language of the private sector, but the words and phrases don't mean the same things, such as the use of 'corporate', which I think of as referring to a for-profit company. The expectations of the 'board' are different, too, with private sector boards being accountable for maximising value to shareholders, but with the public sector having very different accountabilities.

The government's push for more 'businesslike' publicly funded organisations has put a new emphasis

on the effectiveness of their boards of directors. What does 'businesslike' mean? What are the key similarities and differences between the sectors? What lessons can public sector boards learn from their private sector counterparts? And what are the essential differences to understand, and how should they be worked through?

Mary Jo: I think 'businesslike' means that the public sector should operate more transparently, with clearer governance procedures and improved accountability. The biggest difference, in my view, is the bottom line – or lack thereof. The public sector is ultimately accountable to the public at large and to the government of the day. These stakeholders expect and demand different performance criteria than shareholders of public companies, where profits and shareholder returns are more easily understood and measured. The fiduciary duties are different, too.

Martin: Many have a simplistic view of the differences between the public and private sectors. On the one hand, they see the private sector as innovative and driven to efficiency by the play of market forces; where successful risk-taking is compensated by reward. Business has a 'can do' attitude. Due to the lack of competition, the public

sector is bureaucratic, risk averse and staffed by time-servers looking forward to gold-plated pensions. To cap it all, the public sector is subject to meddling by amateur, elected politicians who are obsessed with 'spin', presentation or political dogma.

Of course, neither of the above stereotypes is 100 per cent accurate. The best in the public sector is as good as most of the private sector and can be bold, imaginative and extremely efficient. And perhaps a recession is not a comfortable time to dwell on the failings of enterprises in the private sector. As for the role of politicians, one person's political dogma is another person's set of values underpinning the business in all it does, including driving the corporate responsibility programme. And successful businesses know they are accountable to a wide range of stakeholders.

The differences are not as great as many would think and are diminishing. That said, the public sector can learn from the private sector in many areas – information and communications technology, procurement, strategy and the management of human resources. These skills are in short supply at all levels in the public sector, right up to board level. Conversely, many in the public sector can offer the private sector, up to

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board level, an understanding of a rapidly changing society, and experience of multiple accountabilities to a range of stakeholders.

Increasingly, boards (in the public sector) are subject to external performance management regimes. The effectiveness of school governing bodies is included within an Ofsted assessment of a school's leadership. Local authority and health bodies' board arrangements are inspected along with the overall performance of the relevant body. Even in the charity sector, there is a growing awareness of the need to assess – and improve where necessary – the NED performance of Trustees. In all of these assessment criteria there are common factors – ensuring that the boards provide the appropriate mixture of support and challenge to the executive; reminding NEDs of the need to concentrate on their strategic role; and having clarity of purpose about the role of the board and the contributions its members can make to the success of the organisation.

Another common buzzword is the 'triple bottom line' (TBL or 3BL). What is this and what challenges does it pose to public sector boards?

Mary Jo: It refers to the broad spectrum of criteria for measuring organisational

performance: economic, environmental and social. The practice originated with the private sector reporting to shareholders and stakeholders on corporate social responsibility, and it now applies to public sector full cost accounting. 3BL requires a responsibility to stakeholders, those who are influenced and/or affected by the actions of the organisation. It is a challenge for many public sector organisations to quantify their impact on society. Costs are easily measured but true benefits to society and opportunity costs are often more difficult. For example, the benefit to a recipient of a social service can be measured, but how can the trade-offs among the uses of taxpayers' funds be measured (the opportunity cost)? Public sector boards need to be more focused clearly on exactly what problem the organisation is seeking to solve, how that solution benefits the stakeholders and how that solution contributes to the greater societal good.

Martin: I'm not so sure I see it quite like that. The triple bottom line may present less of a problem for public sector boards than for private sector bodies. TBL seeks to encapsulate measuring the success of an organisation by criteria beyond profit of people and planet. 'People' refers to the organisation's stakeholders

– shareholders and customers, yes, but also staff and the communities in which the company operates. 'Planet' embodies the organisation's responsibilities towards sustainability and environmental good practice. The best public sector boards are well used to accountability on a range of dimensions. The worst private sector companies have yet to recognise any responsibilities beyond the profit/shareholder nexus, despite the theory of the recent Companies Act, and the responsibility of private sector boards for meeting the needs of a much wider set of stakeholders.

When it comes to stakeholder engagement, one frequently raised issue is the way in which political pressures in the public sector create varied notions of local democracy. Here, quick, but not necessarily considered, stakeholder representation is implemented, such as, for tenants in housing associations, or boards of governors in the NHS. How can this confusion over 'participation' and 'consultation' be overcome, and these approaches be made more effective?

Martin: There are very real difficulties when interest groups, such as tenants (on the boards of public housing

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providers), patients (on health bodies) and parents (on school governing bodies) have membership at decision-making board level. One set of issues relates to competence and skills. Some gaps can be filled by personal development and training, but many studies show that school governing bodies, for example, can lack the proper ability to hold head teachers to account and to take strategic decisions. When this is compounded by confusion about the function of boards and lack of understanding of their role, governing bodies can easily slip into micro-management. In the same vein, interest group directors can often find it hard to reconcile a representative role, or at least their perception of that role, with the overriding duty of governors, directors or trustees to take decisions in the best interests of the whole organisation.

Mary Jo: I think a distinction needs to be made between those who participate through advisory activities and those who have actual decision-making responsibility. Consultation helps inform better decision-making, and ultimately, decision-makers must take into account a variety of often-conflicting views in determining the appropriate course of action. Ultimately, it is the policy makers who have the responsibility of deciding and executing following an inclusive consultation process.

At the broader, political level, there is so much change going on, with potentially multiple shifts of direction. What will be the 'constant' in a time of political change? What ultimately, will an election mean for public sector boards? What should public sector leaders be doing to prepare for an election, and how should they operate at a time of such significant political uncertainty?

Mary Jo: Most public sector board members are appointed for a fixed-term, which transcends the political process. Although uncertainty is unsettling, the best thing for the board members to do is deliver the work that's expected of them and remain outside the political process. Ultimately, they should return value for the taxpayers and benefits for society, and let the politics take care of itself.

Martin: Managing risk is a key function of management. In many ways, political risk is just another dimension of that. Many commentators point to the end of ideology in politics. The see-saw politics of, say, steel nationalisation in the 1950s and 1960s are now history. Globalisation, the EU and world events such as the credit crunch mean that domestic politics are less of a variable than a generation ago. Political risk has been replaced by a more uncertain global environment.

I was about to say 'this is not to say that in practical terms leaders should not be aware of policy developments in the major parties', but then remembered the following: in the June 2009 UK European elections, 19.1 per cent of the electorate voted for the traditional 'major' parties (Labour, Liberal Democrat and Conservative), 15.4 per cent of the electorate voted for minor parties and 65.5 per cent of the electorate did not vote at all! How do you manage political risk in those circumstances?

So, ultimately it's about the common themes of professionalism, and strategic focus combined with holding the executive to account, with the stronger public sector emphasis on awareness of and delivery to the full range of stakeholders, and being attuned to, but not obsessed with, constantly changing political agenda and language.

One thing is for sure, the demands on boards have never been greater - in both the private and the public sectors.

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Clive is currently advising the board at Royal Mail on the major changes facing the business. Formerly, he held several senior executive and strategic roles at BT, spent three years as an executive board director of Japan Telecom and led major M&A projects in the US. Clive is an Oxford graduate, a patron of Crimestoppers and sits on the boards of a number of companies, charities and representative groups.



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Mary Jo is a Civil Service Commissioner, Chair of the Forensic Science Service's Independent Advisory Group, a member of the FCO's Wilton Park Academic Council, a US-UK Fulbright Commissioner, a Non-Executive Director of Zamyn and an International Marketing Partners Associate. She is involved with several international not-for-profit organisations and a lecturer at the Moscow School of Political Studies.



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In 2007 Martin retired from the Association of London Government after nearly 10 years as Chief Executive. Martin has a wide-ranging portfolio of activity. He is currently the Chairman of the London Sustainability Exchange and Chair - England Council, Trustee of The Prince's Trust and a director of Film London.

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