Viewpoint[1]

Governing the governance of the governors: Motivating accountability at the top of public organizations

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Abstract

Purpose – The purpose of this "viewpoint" is to consider developments in the governance practices in UK public organizations, showing how ideas from the governance of listed companies have translated into public bodies.
Design/methodology/approach – It discusses the literature of corporate governance and public service motivation and reflects it against practice evidenced in documentation for the UK Corporate Governance Code, codes for boards of different levels of public organizations, and both formal and informal evaluations of practice.
Findings – The use of independent, non-executives directors in public bodies encapsulates the tension in the private sector between the service role of directors and how they control managers. The paper gives a preliminary investigation of three public bodies, comparing how reform of their governance has affected tensions in accountability and director motivation. The changes involve greater emphasis on extrinsic goals, potentially at the cost of the intrinsic ones.
Research limitations/implications – The paper suggests avenues for future research, linking notions of the tensions between the service and control functions in corporate governance with the balance between extrinsic and intrinsic motivation.
Practical implications – Directors in both public and private bodies face a need to hold at bay forces that push in opposing directions to accommodate demands for greater accountability while sustaining the altruism social mindedness.
Originality/value – The area of public sector boards is undergoing considerable change in the UK and this paper, although preliminary, is one of the few to examine the links to motivation.

Something had to be done

In May 2009 – in the depths of what we came to call the Great Recession and after years of obstruction from government and parliament – the *Daily Telegraph* newspaper in the UK published a series of articles based on leaked documents concerning abuses of expense claims by members of parliament from all the major parties. The details were shocking, even lurid: Mortgages on houses for MPs paid from the public purse, but then let out, to the MP's personal gain; a duck house – a duck mansion, really – built in the garden of an MP's stately home; pornographic movie rentals. Something had to be done.

In central government departments – after decades of failed attempts to trim costs and in the face of deficits ballooning because of bank bailouts – the trajectory of public spending was clearly unsustainable. Procurement for defence in particular seemed out of control, welfare budgets were climbing with the economic slowdown, and – worryingly for the long term –

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baby-boomers were heading into retirement on under- or unfunded pension plans. Something had to be done.

In public sector bodies, those delivering services to the public, the crisis was no less acute. In health, for example, care for the elderly faced impossible projections of future service requirements at a time when budgets needed to decline in real, in per capita and perhaps even in nominal terms. Something had to be done.

Moreover, the climate of cuts made inevitable by the demographics was exacerbated by the sense among the public at large that some people – the demonized bankers, yes, but also those in power in parliament, at the top of government departments and at the head of public sectors bodies – were getting away with daylight robbery. A lack of accountability threatened to de-motivate those working throughout the public service system. Something had to be done.

It came in the form of importing an alien concept, a system of board-level governance developed in the private sector and in particular for corporations listed on stock exchanges: the independent, non-executive director. Whether it improves performance through lower costs or greater efficiency has proved difficult to assess, but it has had one benefit: A heightened sense of accountability and greater debate in the boardrooms of public bodies. But at what cost to motivation of the members of public boards?

Motivation and directors

> "Serving on a [corporate] board is like taking on a position in public service. It is not (and should not be) a wealth creation opportunity but a chance to play a role in the proper workings of our marketplace" – Peter Weinberg, partner at Perella Weinberg Partners, a boutique investment bank (Weinberg, 2006).

The quote from Peter Weinberg suggests that the motivation of directors, even in the corporate sector, may not be as self-serving as envisaged in theories based on rational choice. For many serving of public sectors boards, the same is true.

The quote also echoes the broader conceptualizations of public service motivation, such as the "general, altruistic motivation to serve the interests of a community of people, a state, a nation or humankind" (Rainey & Steinbauer, 1999, p. 23) or the "beliefs, values and attitudes that go beyond self-interest and organizational interest" (Vandenabeele, 2007, p. 547). Moreover, these are autonomous motivations. Yet the question remains whether they can be crowded out by the extrinsic ones (Frey & Jegen, 2001; Le Grand, 2003).

Four systems

To examine the governance of those involved in governmental activities, let's review the mechanisms used to hold public organizations to account. We start with a brief discussion of private sector arrangements in the UK Corporate Governance Code before reviewing how governance operates in three levels of the public sector: the health service, central government departments in Whitehall, and then in parliament itself.

Governing the corporation

Since 1992, Britain has operated a system of corporate governance rooted in the UK Corporate Governance Code, a voluntary set of principles for boards of listed companies. The first version, the Cadbury Code, retained the traditional UK unitary board, comprising executives and outside, non-executive directors, but it gave the latter particular powers. And it separated the role of chief executive from the chairman to prevent any one person having "unfettered powers of decision" (Section 4.9, Cadbury, 1992). But these non-executives have to work with complex motivations associated with their dual roles: "service", which involves helping the executives find solutions and identify scarce resources, and "control", monitoring the performance of executives and applying sanctions.

Governing health

Britain's National Health Service may look monolithic from the outside, but it is a complex system of public and private bodies, most called "trusts", subject to repeated reform attempts over the years. Early reforms involved bringing outsiders into the boardroom of NHS bodies, in particular the hospitals, for the purpose of providing guidance on commercial practice ("service") and to foster internal, non-clinical challenge ("control") to NHS managers. Over the years and explicitly modelled on a major reform of the UK code of corporate governance, the role and number of these non-executive directors has increased (NHS Appointments Commission, 2003). Evidence suggests the non-executives have had an impact on monitoring the executives, the "control" function, while attention to strategic issues, the "service" function, faltered (ICSA, 2011). In a sense, therefore, these reforms seem to have focused on adding extrinsic motivations of targets and budget, while potentially disrupting intrinsic ones.

Governing government

To improve their efficiency and accountability, the coalition government of Conservative and Liberal Democrats accepted guidance from Lord Browne, a former chief executive of the oil company BP, and issued a code of "corporate governance" for government departments (UK Government, 2011). Ministers replaced senior civil servants as chairs of these boards, which had the effect of separating the role of chair and chief executive, in parallel to the corporate sector. The reform also introduced non-executive directors to bring an outside, independent voice into discussions of process and operations.[2] Policy remains in the hands of ministers. These non-executives have their own club, a forum in which they share ideas, led a "Government Lead NED" in the person of Lord Browne.

Gains came in advice on potential improvements in purchasing (a "service" role), but anecdotal evidence suggests top civil servants resent the changes, which made them easier to replace but also had the potential to undermine their non-partisanship (signs of a "control" function), a sign that extrinsic motivating factors might be gaining more attention at the expense of intrinsic ones. In the first year, the reforms achieved little of their stated aims (Browne, 2013).

Governing parliament

The job of parliament is to scrutinize government. Its governance arrangements differ again from those of government and public organizations. The Chief Clerk of the House of Commons serves as both chief executive of the House Service and chair of its management board. But the House Service does not have the unitary board of the other systems reviewed here. Instead it reports to a Commission made up of MPs under the chairmanship of the Speaker of the House.

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[2] As of June 2013, there were 67 such non-executive directors serving 17 government departments.

The UK Parliament's management board is different. The Commission may have public legitimacy as elected officials, but they are also both customers of the House Service. And as politicians they have the potential to undermine the impartiality of the House Service. These conflicts of interest became most obvious in the expenses scandal, when the House Service was seen to have failed to challenge elected members of the Commons.

What emerged were new governance arrangements, including first one and then a second non-executive on the management board of the House of Commons and an independent auditor of member spending (UK Parliament, 2013). The non-executives give a business orientation to a management team largely insulated from the discipline of markets (a "service" function). It remains to be seen the extent to which having non-executives enhances the board's "control" side. Anecdotal evidence suggests these still new changes in the House Service have brought some greater emphasis on extrinsic motivations with uncertain implications for the intrinsic ones.

Motivation and accountability

The central problem in corporate governance lies in the tension between "service" and "control" at board level. The control side finds its base in agency theory (Fama, 1980; Fama & Jensen, 1983) and its contention that managers (the "agent") will act in a self-interested way, extracting personal value at the cost of owners (the "principal").

These assumptions run counter to those of stewardship theory (Donaldson & Davis, 1991), a theoretical stance with many echoes of public service motivation. Stewardship theory suggests that most of the time, most managers try to do a good job. The corporate governance literature suggests that attention to agency theory focuses senior management and non-executive directors alike on extrinsic and often short-term targets, while deemphasizing achievement of the intrinsic satisfaction associated with decisions made for the longer term and greater good of the company.

Roberts (2009) argues part of "intelligent accountability" requires responsiveness "socializing" accountability. Within the boardroom, among challenging but collegial peers, such socializing accountability represents a form that binds members of a board together (Roberts, 1991, 2001). Could fostering that "socializing" accountability be an antidote for some of this tensions in roles and an antidote to the effects when extrinsic goals crowd out intrinsic motivations?

Non-executives on boards of both private and public sector bodies tend to be drawn from elites, and they meet only episodically. Moreover, they typically spend only part of their effort on any one organization's board and cross-fertilize their ideas as they move from board to board. They are therefore likely to be able to resist the effects of crowding out of intrinsic motivations. Fostering the socializing type of accountability may help them to hold at bay the contradictions of agency and stewardship theory and sustain broader, social and even altruistic imperatives in the face of pressure of externally promoted performance targets. The presence of public service motivation among directors of public sector organizations would seem only to enhance that ability.

But there is a problem: Agency and stewardship views are incompatible in practice as well as theory. If stewardship theory applies to the work of managers, and the board that assumes agency theory applies, the organization runs the risk of demotivating in particular senior management and the professional staff. But when managers act like agents, a board that assumes stewardship is following a recipe for disaster. For the public sector and in areas where public service motivation is strong, importing extrinsic targets risks crowding out intrinsic motivations. Table 1 summarizes the tensions and motivations across the four organizational forms examined here.

Table 1 - Governance tensions and motivations compared

	Corporate	*NHS*	*Whitehall*	*House of Commons*
Tensions	Tension between "service" and "control" functions	Tension between "clinical" expertise, managerial power; non-executive local politics	Tension between civil service independence, political authority, business efficiency	With emphasis to date on "service" role of non-executives, tension between professional and political imperatives held at bay
Motivations	Extrinsic goals dominate governance reforms, but stewardship approaches rely on intrinsic ones	Extrinsic ones risk crowding out intrinsic ones (care; professional prerogatives)	Extrinsic budgetary targets risk crowding out intrinsic ones (civil service independence; good of the country)	Extrinsic targets increasing, but predominance of old ways of working, reinforced by intrinsic motivations, create resistance to change

Conclusions

The board level problem in the public sector is that of balancing conflicting aims. On the one hand, boards must recognize the need to meet external imperatives that can run counter to the motivations that led to the attraction and retention of key staff motivated by a desire to serve a larger social purpose than budgetary targets can inscribe. On the other, they need to foster that internal drive for altruism that resists market-based approaches. Holding both in mind is similar to, but also different from, balancing the demands for service and control.

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