Governance of the governing

Accountability and motivation at the top of public organizations

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Abstract: Developments in the governance practices in UK public organizations show how ideas from the governance of listed companies have translated into public sectors bodies, government departments and the governance of parliament itself. 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 the executives who manage the business. This paper gives a preliminary examination of three public bodies, comparing how reform of their governance mechanisms has affected tensions in accountability and director motivation. What is evident is that the changes involve greater emphasis on extrinsic goals, potentially at the cost of the intrinsic ones that characterize public service motivation. These tensions seem inevitable, and the challenge for board is to maintain a balance.

Keywords: Corporate governance, public sector, government, accountability, 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 – 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. As we will see, the idea did not translate directly – translation is an imprecise mode of expression and to be meaningful it needs to be as sensitive to the receiving culture at least as much as it is faithful to the original. 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. Even if reasonably well remunerated, outside directors of private sector organizations could earn more in cash terms by offering their advice as consultants. For many serving of public sectors boards, the same is true. Moreover, in becoming directors – the human face of the legal person – they incur greater reputational risk and a higher threat of personal litigation.

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 intrinsic motivations. Yet the question remains whether, whether can be crowded out by the extrinsic ones of meeting targets, including those for profit, imposed by outside authorities (Frey & Jegen, 2001; Le Grand, 2003).

While this paper focuses on the UK, its implications are wider. What we will see is in some ways an extension of the concepts of new public management (NPM) that developed in Britain in the 1980s (Ferlie, Ashburner, Fitzgerald, & Pettigrew, 1996). Much as the corporate governance reforms in Britain (Cadbury, 1992; Higgs, 2003; Walker, 2009) found resonance in jurisdictions around the world (Aguilera & Cuervo-Cazurra, 2009), NPM has influenced thinking elsewhere, though not always with strong acceptance (Christiansen, 1998; Kickert, 1997).

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). Over the years, and in
particular in response to the US corporate governance crisis of the early 2000s and the
financial crisis of 2007–09, successive versions have given greater weight to the
independence of these directors (Nordberg & McNulty, 2013), now recommending that at
least half the board is independent of management, that they control the main board
committees, and that the chairman is independent at the time of appointment. Such
mechanisms are thought to prevent “groupthink” (Janis, 1972; Sundaramurthy & Lewis,
2003) and help non-executives engage in supportive yet challenging ways with the
executives (Roberts, McNulty, & Stiles, 2005). In so doing, they create the cognitive conflict
thought to improve board and firm performance (Forbes & Milliken, 1999).

Cadbury drew on ideas from the 1991 reforms in the UK National Health Service. But
this extension and further articulation in the corporate sector – later endorsed by the
Organisation for Economic Co-operation and Development, the World Bank and others –
institutionalized their logic and gave them legitimacy worldwide. This external validation
made them politically more appealing at home as a model for public sector reform. 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. After the Thatcher government came to power in 1979 and through successive Conservative, Labour and coalition governments, attempts to increase the efficiency of service delivery have involved using market mechanisms and governance models from the private sector (Ferlie, Ashburner, & Fitzgerald, 1995; Moyes, Wood, & Clemence, 2011; Veronesi & Keasey, 2010).

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). These principles were still current a decade later. They also split the roles of chairman and chief executive, and opened board meetings to the public, except when directors discussed patient-confidential issues. 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

While such board arrangements spread tentatively to other front-line public sector bodies, government itself remained aloof. With the inconclusive election of May 2010 and the fiscal crisis that emerged from the financial services crisis in 2007–09, the coalition government of Conservative and Liberal Democrats felt the need to shake up the management boards of central departments. To improve their efficiency and accountability, it 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.¹ 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. The second annual report of the Government Lead NED spoke of improvements but awarded the system only five marks out of 10 (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

¹ As of June 2013, there were 67 such non-executive directors serving 17 government departments.
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. This configuration has parallels in the two-tier boards of continental European companies, where the chief executive chairs a management board, made up entirely of executives, which reports to an entirely non-executive supervisory board, which is legally responsible for the company’s affairs. Such arrangements tend to emphasize “control” over “service” (Bezemer, Peij, Maassen, & van Halder, 2012).

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.

Systems in comparison

These four systems differ in their particulars, but they all involve certain core principles – the need for independent judgement and the need for strong knowledge of the organization
and, to a greater or lesser extent, the context in which the organization operates. The governance arrangements in all four systems are summarized in Table 1.

<table>
<thead>
<tr>
<th></th>
<th>Corporate Governance Code</th>
<th>NHS</th>
<th>Whitehall</th>
<th>House of Commons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board structure</strong></td>
<td>Unitary</td>
<td>Unitary</td>
<td>Unitary</td>
<td>Two-tier (management board, reporting to supervisory Commission)</td>
</tr>
<tr>
<td><strong>Chair, Chief executive</strong></td>
<td>Separate roles, chair independent at time of appointment</td>
<td>Separate roles, independent at time of appointment</td>
<td>Secretary of State replaced the chief civil servant as chair</td>
<td>Chief exec chairs management board; reports to Commission, headed by Speaker</td>
</tr>
<tr>
<td><strong>Non-executive directors</strong></td>
<td>At least half independent non-executives; independents control of key committees</td>
<td>Equal numbers of executives and non-executives</td>
<td>One, then several non-executives on departmental management boards; no policy role</td>
<td>One, then two non-executives on management board; Commission exclusively MPs</td>
</tr>
<tr>
<td><strong>Scope</strong></td>
<td>Ultimate decision-making body</td>
<td>Ultimate decision-making body</td>
<td>Decision-making on process, operations; policy reserved to ministers</td>
<td>Decision-making over operations by management board; Commission responsible for organization policy</td>
</tr>
<tr>
<td><strong>Accountability</strong></td>
<td>Upwards, to shareholders, whose primacy, however, is disputed</td>
<td>Downwards to patients vs. upwards to government; non-executives accountable additionally to local communities</td>
<td>Upwards, from ministers to government</td>
<td>Management upwards to Commission, then downwards to voters</td>
</tr>
</tbody>
</table>

**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. In agency theory motivation is extrinsic, in
stewardship theory intrinsic; agency theory validates control mechanisms, stewardship relies on trust; agency theory assumes individualistic approach; stewardship a collectivist orientation (Davis, Schoorman, & Donaldson, 1997). 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 de-emphasizing achievement of the intrinsic satisfaction associated with decisions made for the longer term and greater good of the company.

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 organizational 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 2 summarizes the tensions and motivations across the four organizational forms examined here.

Table 2 - Governance tensions and motivations compared

<table>
<thead>
<tr>
<th>Tensions</th>
<th>Corporate</th>
<th>NHS</th>
<th>Whitehall</th>
<th>House of Commons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tensions</strong></td>
<td>Tension between “service” and “control” functions</td>
<td>Tension between “clinical” expertise, managerial power; non-executive local politics</td>
<td>Tension between civil service independence, political authority, business efficiency</td>
<td>With emphasis to date on “service” role of non-executives, tension between professional and political imperatives held at bay</td>
</tr>
<tr>
<td><strong>Motivations</strong></td>
<td>Extrinsic goals dominate governance reforms, but stewardship approaches rely on intrinsic ones</td>
<td>Extrinsic ones risk crowding out intrinsic ones (care; professional prerogatives)</td>
<td>Extrinsic budgetary targets risk crowding out intrinsic ones (civil service independence; good of the country)</td>
<td>Extrinsic targets increasing, but predominance of old ways of working, reinforced by intrinsic motivations, create resistance to change</td>
</tr>
</tbody>
</table>
In the National Health Service under the Labour governments of 1997-2010 both risks were palpable. In return for a large expansion of budgets, government demanded accountability and set detailed performance targets, measured managers against them, who then measured clinical staff against them as well. Although the reforms moved in part away from market-based reforms on the Conservative government towards more central control, budgetary control and targeting left in place much of the emphasis on external motivation (Le Grand, 2002). The resulting culture of measurement and control in the NHS led the philosopher Baroness O’Neill, in the very public setting of her Reith Lectures for the BBC, to challenge whether the transparency created by targets, measurements and reporting served the goal of accountability. “Real” accountability, she said, comes between individuals, in the context of repeated personal interaction (O’Neill, 2002a, 2002b). The ability to account for one’s actions is best tested in face-to-face encounters, not spreadsheets.

O’Neill’s comments found unexpected resonance at the start of the financial crisis in 2007, when Britain suffered its first run on a bank in 300 years, the failure of Northern Rock. In an analysis of the botched rescue attempt by the government, its Financial Services Authority and the Bank of England, Roberts (2009) argues that too much transparency was a bad thing. He says “intelligent accountability” requires responsiveness both a) upwards and externally, and b) laterally and internally. The former he terms “individualizing” accountability, because individuals take responsibility, often publicly; the latter is “socializing” accountability, that is, within the boardroom, among challenging but collegial peers, a form that binds members of a board together (Roberts, 1991, 2001).

Could fostering that “socializing” accountability be an antidote from 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, for several reasons, 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.

Conclusions

This paper gives preliminary insights into governance arrangements at private and public bodies and how they seem to affect the balance of extrinsic and intrinsic motivations among board members, an area that seems ripe for further research. But changes at board level matter only insofar as they translate into the practices and motivations within the organization. Three further issues thus arise, warranting investigation. First, to what extent do these changes in governance mechanisms affect the motivation of senior executives and top management teams? They take direction from the boards and draw upon the advice (“service”) and respond to the monitoring (“control”) by non-executives. Second, how, if at all, do such changes affect the character of public service motivation among middle managers and frontline staff? Third, how do non-executive directors, most brought in from private sector occupations, respond to close engagement with the public sector and underlying principles of public service motivation?

In the three public sector settings this paper has examined, mechanisms adopted from the private sector have in effect been translated from one setting to another (Czarniawska & Joerges, 1996). The translation has not been exact, in part because the contexts demand
otherwise, and in part because old institutional arrangements and the incumbent culture of these organizations resist change.

In the National Health Service, policy shifts and ministerial action have dictated almost constant organizational change, yet the evidence suggests that clinicians still have considerable sway. Even in the boardroom, the lay, non-executive directors defer to their expertise. That expert power (French & Raven, 1959) can prevent diffusion of new practices and thwart new structures and mechanisms. In Whitehall, the civil service has lost some of its influence in recent boardroom changes, but the evidence suggests that outsiders on the board remain outside, and that the continuity provided by civil servants, when coupled with shifts in ministerial appointments, provides stability and even rigidity in the face of calls for radical change. In the House Service – the part of the public sector puzzle most detached from the public – the need for change is accepted. Yet there, both staff and senior managers are isolated from the pressure of markets. Their external accountability is to the elected members of parliament they are meant to service and control.

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.

References


