

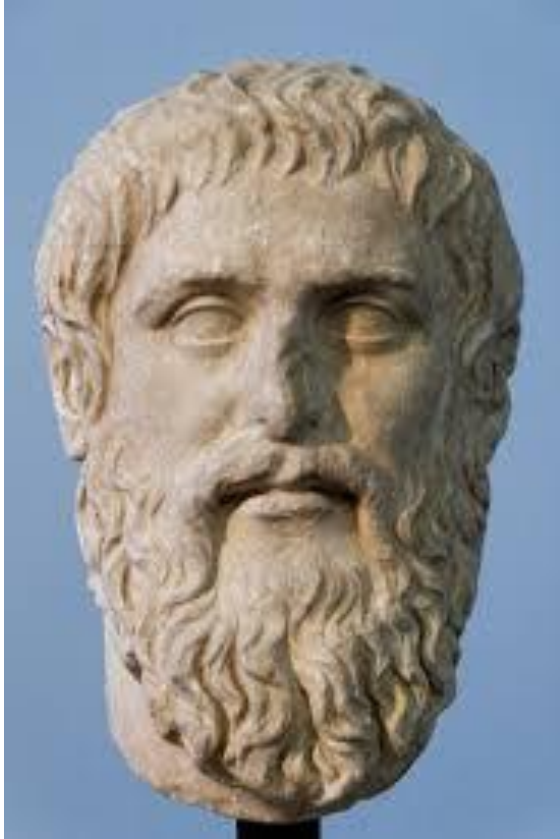


**From firefighting to future-proofing:
The cost of failure in financial management and governance**

So, how do we get governance right?

Aidan Rave, GGI

Embrace or avoid?



- Instability
- Resources
- Demographics
- Expectations
- Productivity
- Behaviours



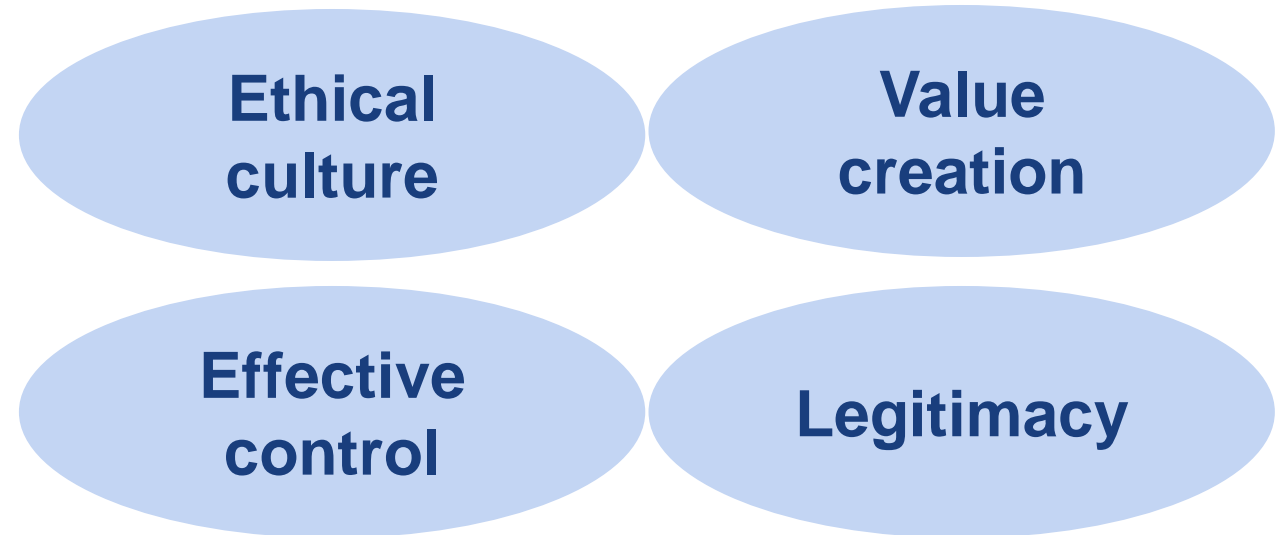
*The word governance derives from the Greek verb kubernaein [**kubernáo**] meaning 'to steer'.*

Dimensions of governance

- Mission and vision
- Strategy
- Leadership
- Assurance
- Probity and transparency
- Stewardship



Kings IV Meaningful outcomes



High performing boards & teams

- What distinguishes exemplary boards is that they are robust, effective **social systems**. This doesn't happen by chance – it is deliberately built
- They adopt the **virtuous cycle** of respect, trust, and candour, and show professional curiosity
- They value a culture of **open dissent**
- Fluid portfolio of roles, with directors avoiding falling into stereotypes
- Taking individual **accountability** and viewing the role of the director as requiring the highest levels of professionalism and ethics
- Ongoing **performance** evaluation of both the board and individual directors

The concept of the 'high-performing board'



This concept is now emerging in the governance literature. Much of the initial thinking came out of Harvard Business School and McKinsey, but adoption of the concept is now well-planted



In essence, it describes board that achieve impact and add value which their organisation would miss if there were no board



A high performing-board is not necessarily associated with a high-performing organisation. High-performing boards are often in place for organisations on a recovery path

High-performing boards: features and mindset

 Explicitly built and developed, investing in their own ongoing development and improvement

 Understand their role and expected impact (meaningful outcomes)

 Have a distinct and consistent relationship established with their executive

 Focus their time on particular activities and not on others

 Are interested in, and value, particular kinds of information and discussion

 Exhibit particular consistent behaviours between board members

Best practices of highly effective boards

1. **Set forward-focused, value creating board agendas** that focus on strategy, and oversight of risks.
2. **Set risk appetite and delegate** to management, committees and partnership boards within defined risk tolerances.
3. **Ensure clarity of roles** – ensure the right decisions are made at the right level and avoid duplication. Ensure clarity of reporting and information lines.
4. **Take decisions based on evidence** – triangulate data, include in all stakeholder perspectives, be pragmatic about data availability, ensure data requests are necessary and sufficient.
5. **Provide assurance throughout the process** – not including non-executives at an early stage results in reactive and less influential challenge, rather than helping to improve plans
6. **Facilitate high-quality debate** that builds trust and ensures different points of view are actively sought. Avoiding groupthink is essential to making good board decisions. High performing boards **give themselves room to exert professional curiosity**
7. **Provide performance feedback** to directors with their contributions assessed annually, accompanied by follow up actions and coaching if necessary.
8. **Discuss conflicts of interest** candidly and include them in board development
9. **Have thought through their ethical stance and understand their moral bottom line.** The board is the controlling conscience of the organisation as well as the controlling mind

Design principles for a good governance structure



- **Strategically aligned:** Focussed on the purpose of the organisation
- **Managed:** Opportunity cost understood, actors held accountable, quality assured, professionally serviced
- **Tested and reviewed:** Tools such as RACI helpful
- **Adaptable:** Satisfies compliances, but adaptable to development,
- **Inclusive:** All stakeholders own and understand the governance structure
- **Clear and simple** to understand where decisions take place and what distinctive contribution each group/actor makes
- **Lean:** no more than four tiers
- **Distinctive groups:** so no duplication of the same discussions
- **Distinguishes:**
 - **Decision forming** – setting out the context and strategic thinking that will drive decisions
 - **Decision-making** – understanding and making judgements around decisions, and making recommendations
 - **Decision-taking** – taking the decision itself as the accountable and responsible forum, save those decisions formally delegated elsewhere (particularly to the executive functions)

Less mature

- Us/we – the health board/council/whatever
- Representatives
- Sovereign organisations
- Reassurance
- Checking
- Progress chasing
- Activity
- Run rate
- Performance
- Budgets and spend
- Holding the executives to account
- Discussion about detailed issues
- Looking backwards

Developing maturity

- Us/we – the system
- Assurance
- Triangulation
- Impact checking
- Productivity
- Effectiveness and efficiency
- Value creation
- Holding ourselves to account
- Discussion on big issues
- Looking forwards as well as backwards

‘Tells’ of less mature

- Long, detailed agendas and papers – nothing could possibly be missed
- Multiple forums
- Confusion of governance and involvement
- Non-executives or partner directors ‘owning’ areas
- Risk ‘owned’ by one committee rather than all committees
- **Focus on the reds**

‘Tells’ of developing maturity

- Clear distinction between management and the board
- Strong, formal system management group
- Outward-looking and informed non-executives and partner directors
- Good balance between formal board meetings, briefings, seminars and board development
- Executives and partners value board meetings
- **Focus on the greens**

A board in a challenging environment

Desirable practice

- Candid, open and sharing
- Awareness of conflicts of interest
- Being hyper-considerate of each other's time
- Keeping the whole board up to date
- Checking details and avoiding inconsistencies
- Being visible to staff
- Taking time out for thinking
- Making the solution a marathon and not a sprint

Unhelpful practice

- Making the crisis all about organisations or individuals instead of about system and sustainability
- Catastrophising and damaging relationships
- The board, or a sub-set of it, trying to manage the situation
- Searching for more and more detailed data
- Prioritising only short-term targets
- Forgetting a focus on the medium term
- Focusing on managing the task and upwards, at the cost of managing the the organisation as a whole

“Honest disagreement is often a good sign of progress”.

Mahatma Gandhi

The ability to disagree – in a positive and constructive manner – is an intrinsic element of good governance and consequently high performing organisations. However, the art of productive challenge is not a given and requires the alignment of several key aspects of the organisation. Poorly judged or incongruous challenge can be most destructive and have the opposite effect on organisational well-being and performance. Here we will discuss some principles of challenge and how they can be used by boards and in other organisational settings to improve both governance and performance.

A lack of effective challenge can have catastrophic results.

Two disasters happened within three months of each other in 1986

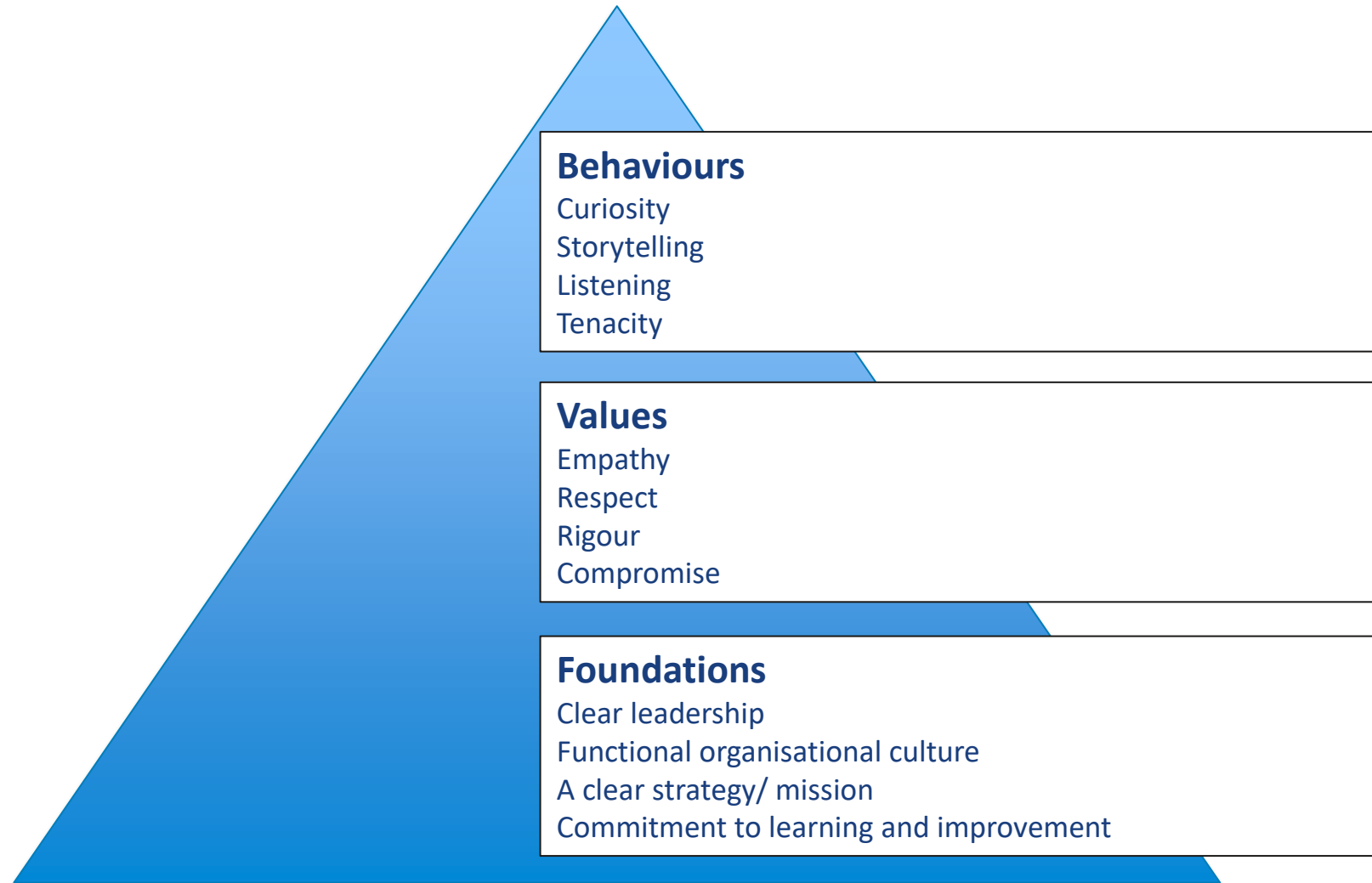


A number of failings contributed to the disastrous explosion at Chernobyl in April 1986, including the design of the reactor and the actions of the operators and management on duty that day. Both contributing factors were exacerbated by the strictly hierarchical political system within the Soviet Union at the time, which eschewed challenge and championed compliance and obedience to the party line. Despite the fact that there was a clear understanding of inherent risks with the design of the reactor and with the operation of the safety test on the day of the disaster, a failure to convey effective challenge led inexorably to catastrophic system failure and the consequences that followed.



Despite the undoubted contribution of the strict political system in Soviet Union, it wasn't just the communist system that was prone to failures of effective challenge. By 1986, NASA was desperate to prove the value of the shuttle programme to an increasingly hostile congress and disinterested public. Despite several scientists having reservations about the material quality of the 'o rings' on the booster rockets (which had failed on previous missions) and of the dangers of record low temperatures on the launch date in January 1986, the launch went ahead. Once again, a failure to challenge was at the heart of an avoidable disaster and the Challenger disaster is now held up as a case study into the dangers of groupthink and failure to challenge.

The principles of productive challenge



Reassurance and assurance



Reassurance



Assurance

<p>“Is it okay because management says it is?”</p>	<p>← “Is it okay because management have responded to questions from the board and this has given me confidence?”</p>	<p>→ “It is okay because I am confident on the reliability of the process to develop the information?”</p>
<p>Strong management personalities may dominate.</p>	<p>← Clear and logical explanations from board members. Information rather than data. Use of quantitative as well as qualitative information.</p>	<p>→ Independence of information source.</p>
<p>Track record of success.</p>	<p>← What has happened, why it happened, and the response.</p>	<p>→ Evidence of historic progress, outcomes and impact.</p>
<p>Professional background or expertise.</p>	<p>← The information was tested through constructive challenge. Management explanations are consistent.</p>	<p>→ Triangulation with other information – this builds into a consistent picture.</p>
<p>No contradictory evidence.</p>	<p>← Presentations and discussion not just from executive directors. An opportunity to question staff below executive director level.</p>	<p>→ The information was developed by and has been scrutinised in valid forums and by people skilled and experienced in doing this.</p>
<p>Reassurance about systems and their reliability and not performance.</p>	<p>← The process for delivering the information was scrutinised.</p>	<p>→ Plausibility through comparison with benchmarks or heuristic understanding.</p>

Sonnerfeld's virtuous circle – trust & candour



Decision examples, e.g.

- CIP failing to deliver
- Service changes



RACI

Responsible

Does the work. Responsible to recommend an answer to the decision

Accountable

The work 'owner'. Authorised to approve an answer to the decision

Consulted

Those whose opinions are sought and with whom there is two-way communication. 'Kept in the loop'

Informed

Those who are informed and with whom there is one-way communication 'Kept in the picture'

Three take aways

1. Good governance doesn't just happen. Your organisational culture is a key determinant.
2. What gets measured get managed. Senior focus on governance is critical.
3. Induct, train and support the ongoing development of decision-makers (especially important in a local government setting).



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