

Written evidence from Professor Andrew Kakabadse (NED01)

Public Administration and Constitutional Affairs Committee The Role of Non-Executive Directors in Government inquiry

Executive summary

- NEDs on Government Department Boards are high quality, experienced and committed to making a distinct contribution to their Board and the Department
- Government Department Boards have no legal obligations and as a result act in an advisory capacity
- Government Department Boards are tasked with stewarding departmental performance and the achievement of departmental objectives
- Government Boards are poorly functioning due to their questionable chairmanship
- Attention needs to be given to the performance of the Chair as leader of the Board
- Individual NEDs are called upon to assist the Permanent Secretary and Departmental team due to their combination of particular skills and personal qualities
- Holding NEDs accountable as Board members is considered immaterial until the quality of chairmanship is improved
- Improvements to the appointment process, professional contribution and qualities of NEDs are unlikely to add value until the role and contribution of the Chair is given sufficient and high level attention.

Evidence

In response to the call for evidence by PACAC I offer my perspective on the role and contribution of NEDs, and of NEDs on Government Boards in particular.

My contribution is based on the findings of over two decades of research, culminating in the report 'Is Government fit for purpose: the Kakabadse Report' submitted to PACAC in April 2018.

The thinking behind the Kakabadse Report is shaped by my international programme of research, which has resulted in an extensive number of academic and business focussed publications (see Appendix).

I follow the format in the call for evidence by providing my views of NEDs on Government Department Boards.

Role Activities and Contribution of NEDs

The purpose of governance is to provide oversight to the organisation or entity in question.

The NED's role is to ensure that governance is effective and adds value to both the tangible and intangible assets in their care.

The purpose of the Board, as the agent of governance, is to provide value-enhancing oversight of the entity under the care of its Chair and NEDs. To achieve this Boards draw on two essential levers: compliance and stewardship.

Boards fulfilling legal obligations are required to attend to their compliance duties and research shows that UK and overseas Boards pay too much attention to compliance demands, at the expense of stewardship.

Without the pressure of legal obligations, Boards act in an advisory and supervisory capacity, regardless of whether they are categorised with such tasks. More characteristically, Boards attend to their stewardship responsibilities. The purpose of Boards is ultimately to enhance the standing and performance of the organisation under their care.

Government Boards have no legal obligations to fulfil and so NEDs act in an advisory capacity. This leads to the Board and its NEDs' focus being firmly on the determination of value provision.

In order to determine value, NEDs need to consider:

- The challenges facing the organisation / department
- The effect of legacy on the organisation / department
- The capacity of the Chair to appreciate and address the challenges facing the organisation / department and their impact
- The capacity of the Board to appreciate the challenges facing the organisation / department and their impact
- The quality of the management to address such challenges
- The quality of the management to realise the mission, vision and strategy of the entity
- The functional / technical skills of the management to operationally deliver on the mission, vision, strategy of the organisation / department
- The culture of the organisation in shaping the mind-set of staff and management (or not) to fulfil the purpose, mission, vision and strategy

To determine value and appropriately engage with the rest of the Board and organisation, NEDs need considerable discretion in their role. Such latitude can lead to disagreements and misalignments on the Board, but these differences of perspective are reconciled through the contribution and facilitation skills of the Chair.

These points clearly emerged in my studies of over 19,000 Boards and top teams across a wide range of countries, including European nations, the US, Australia, China, Russia, Oman, Saudi Arabia, UAE, and South Africa.

The report submitted to PACAC emphasised that, due to the complexity of Government, departmental Board NEDs need greater discretion to work through the issues they face than they do on other Boards.

Because of this the quality of NEDs' contributions on Government Boards is particularly shaped by the Chair's perspective on the direction to be pursued, the challenges being faced, and the value that needs to be delivered to the Department. It was clear that the activities and contributions offered by NEDs varied considerably Board by Board.

My research shows that NEDs on Government Departmental Boards are more attentive stewards and offer greater commitment than provided to Boards in the private and third sectors.

Most interviewees concurred and stated they gave greater attention to their Government Departmental Board than other Boards due to a sentiment of wanting to fulfil their duty and 'pay back the State and the citizens.' They further emphasised that being free of compliance requirements is a strong motivator for stewarding and facilitating the Department to improve.

Experience and Expertise

When compared to larger corporations and third sector entities, the scope and background of NED experience, skills and capabilities on Government Boards is impressive.

The needs of each Board are carefully identified, rather than simply developing a generic high performing NED profile. This practice is in line with private and third sector entities.

On balance, NEDs with financial skills are in greater demand on Government Departmental Boards. However, any gap of NED capacity, or contribution, is normally managed at Board level, rather than across Government.

At Board level different demands were identified. What is seen as a concern for one particular department may not be replicated on other Boards. Equally, what is considered as a gap in NED expertise and contribution over a short period on the same Board may no longer be viewed as a concern.

NEDs on Government Departmental Boards also emerged as being extremely capable of working through the dynamism of change and handling the impact of external events.

NEDs on Government Department Boards also emerged as being able to maintain objectivity and clarity of thinking regarding issues that need solving. However, the challenges faced were not about clarity of perspective but more often concerning a lack of emotional strength to raise uncomfortable issues.

In my international studies, over 70% of private and third sector Board members would not raise sensitive concerns, despite being fully conscious of the impact of not doing so.

After investigating numerous scandals and corporate collapses, I have concluded that both NEDs, the Chair and top management were intimately aware of the challenges they faced, and were even able to predict the demise of the organisation some 65 months in advance. However, despite possessing such valuable insight little or no action was taken to avert otherwise preventable crises.

Similar findings emerged for Government Department NEDs, who were identified as being distinctly rational and objective, but also somewhat inhibited when it came to raising or confronting sensitive issues.

The difference between Government and private or third sector Boards and NEDs was the overarching influence of the Chair, occupied by the Secretary of State. The questionable quality of leadership of the Chair of the Government Department Board induced underperformance at Board level. NEDs recognise this but rarely, if ever, raise the issue, even in private.

It is important to note that the Chair's poor-quality leadership of the Board is the key theme underlying my evidence.

Appointments

The manner of appointment to Government department Boards replicates the distinctly varied approaches adopted by private and third sector Boards of comparable size and complexity.

Substantial attention is given to NED candidates who come under scrutiny throughout their participation and involvement in one or more networks. 'Is the individual viewed by the community as a credible director?' Receiving such an informal stamp of approval is critical to pursuing Board appointment. Referral and personal knowledge of the candidate is also seen as being critical to confirming an appointment.

Then focus is on whether the candidate would fit and how they would contribute to a particular Board. The Minister, Permanent Secretary and other Board members would be involved to varying degrees in this discussion. A similar approach is pursued when making private and third sector Boards appointments.

As much attention is given to the candidate's particular skills as well as to their personal qualities. The reason for this in-depth individual scrutiny is the commonly held experience that ill-judged appointments can cause deep disruption to the functioning and contribution of the Board.

Armed with such insight the formal application process proceeds.

It is common for the Chair and CEO to identify the candidate(s) they desire, and then inform the Board and management. Board member professional searches are often driven by the Chair or CEO.

Conflicts of interest are addressed on a case-by-case and Board-by-Board basis. As far as Government Departmental Boards are concerned, no evidence emerged that particular conflicts of interest were generic to the NED community.

No evidence emerged that a further emphasis on enhancing or streamlining the appointment process is required.

Accountability

As Government Departmental Boards offer a mix of advisory and supervisory powers, they do not need NEDs to fulfil compliance demands. This raises the question ‘how can NEDs be held accountable?’ Third part oversight could focus on the quality of departmental performance supervision and the realisation of objectives. However, the Chair shapes NED oversight and so the first step is to make the Chair ultimately accountable.

So much depends on the quality of leadership provided by the Chair, who holds the responsibility of guiding Board members on how to address challenging issues.

In my investigation, the Minister, as Chair of the Departmental Board, fell short of acceptable performance.

Secretaries of State, junior ministers and senior civil servants outlined:

- The Chair’s absence from Board meetings due to the pressure of other commitments
- The Chair treating the Board as a political meeting, and not as a governance advisory body
- The Chair hijacking the agenda of the meeting to pursue their own concerns, which were unrelated to the governance oversight of the department
- The Chair using the Board as a blunt instrument to hammer the department to their perspective and ways of doing things.

Such a spread of practice is rare in the private and third sectors where it would be viewed as unacceptable.

Numerous ministers in interview commented that being Chair of the Departmental Board was not high on their priority list.

As a result, it is difficult to offer meaningful comment and recommendation concerning NED performance when the leadership of the Board is admittedly so variable. In other occupations, NEDs and Chairs of advisory or supervisory Boards would jointly be held accountable for their performance.

Under these circumstances individual NEDs with particular skills and experience or empathy to the challenges facing the department were repeatedly invited by the Permanent Secretary to provide specific advice.

NEDs at the individual level were / are highly valued, but less so as a Board.

My report recommends that ministers should be substituted with professional chairs.

To offer the Minister development in chairing governance Boards was considered inappropriate and would add little to the quality of advice offered by the Board to the department or Minister.

I concluded that the Minister would greatly benefit by being the recipient of sound governance advice from Government Departmental Boards, which are aligned and better engaged under the leadership of a professional chair.

In conclusion, a greater level of attention is needed to address the question of Board leadership. Until this happens, further recommendations concerning NED performance, transparency, decision making and the nature of success, are moot.

From both my Government study and international research, the emerging finding remains that **'A bad Chair is a bad Board.'**

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Appendix

IS GOVERNMENT FIT FOR PURPOSE? The Kakabadse Report

<https://www.civilservant.org.uk> › library › 2018-

The International Programme of research has resulted in:

- Eight books
- 16 book chapters
- One monograph
- 40 public and academic articles
- 16 research reports
- Full references to these texts can be provided on request