



Good governance: what makes boards effective or problematic?

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Aims

To examine:

- what is organisational governance and the role of boards
- why boards are often problematic
- how 'combining' different theories can lead to new understandings
- some of the practical implications of this new perspective



What is corporate governance?

‘the structures, systems and processes concerned with ensuring the overall direction, control and accountability of an organization’ (Cornforth, 2004).

At the organisational level main responsibility for governance rests with:

- an organisation’s governing body or board
- membership

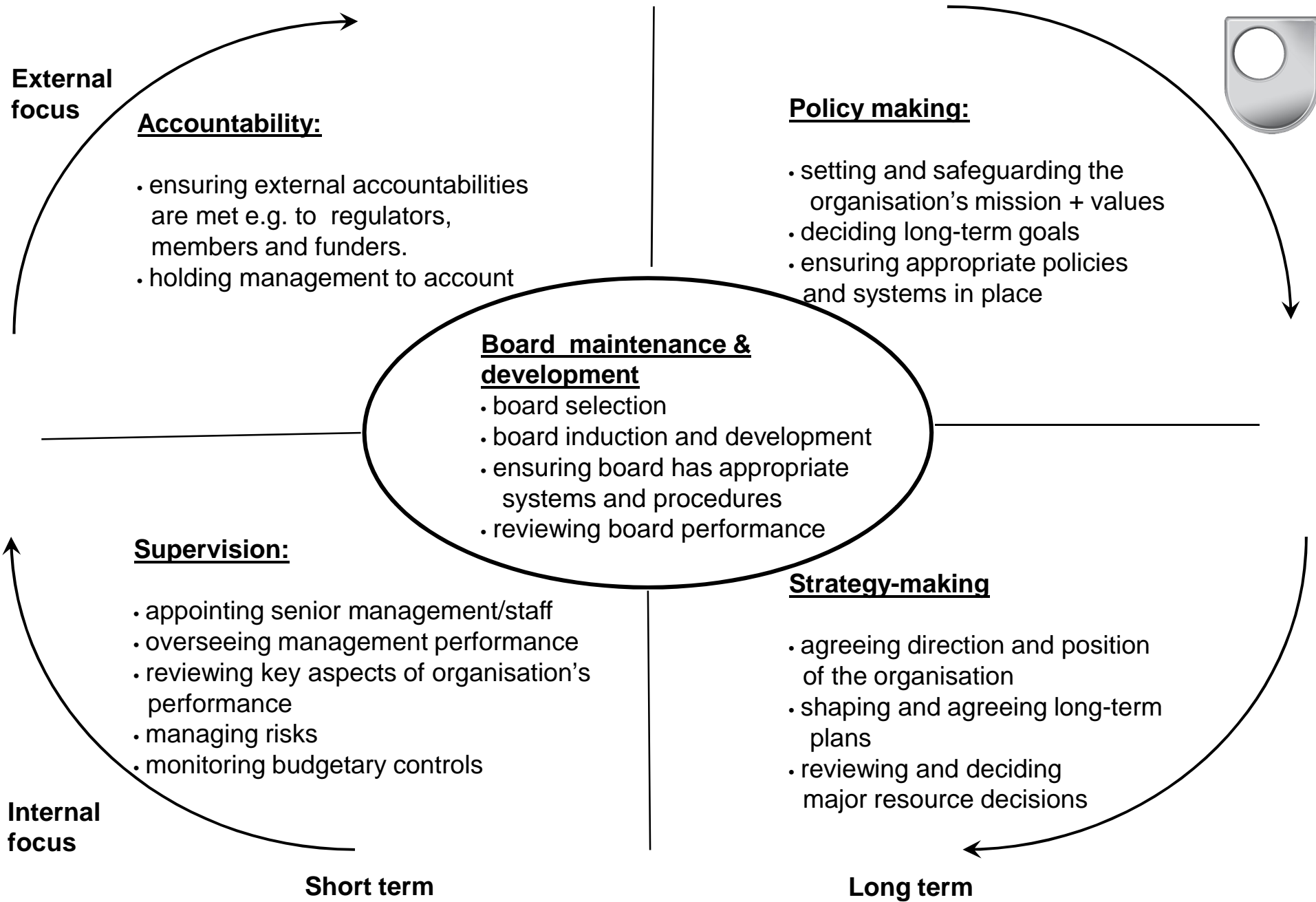


Figure 1: The Governing Body Cycle (Adapted from Garratt, 1997:17)



Common perceptions of boards

‘Only the most uncommon of nonprofit boards functions as it should...’

(Taylor et al, 1996)

As with other sectors non-profit organisations and co-operatives have not been immune from governance failures and scandals.



Why is governance often problematic?

- boards may be formally in control, but managers control most levers of power
- difficult to separate governance from management
- difficult to judge right level of board involvement e.g. interfering vs. rubber stamp
- information overload, 'blind spots' and difficulties of 'sense-making'
- dangers of 'group think'
- increasing demands but usually part-time role



Additional problems for many third sector boards

- no one dominant stakeholder – multiple accountabilities
- mix of social and financial goals, which are often difficult to measure
- board members often elected and may not have necessary expertise
- voluntary/part-time board members – how much can be expected of them?



Making sense of corporate governance and the role of boards

Main theories (often developed wrt private sector):

- Agency theory
 - Stewardship theory
 - Stakeholder theory
 - Resource dependency theory
- (all have their advocates, detractors and variants)



THEORY	Assumptions	Board member role	Main board function	Key issues
Principal-Agent theory	Principals (owners) and managers have different interests	<i>Supervisor</i>	<i>Conformance:</i> <ul style="list-style-type: none"> - safeguarding resources - legal compliance - supervising management 	<ul style="list-style-type: none"> - Who are principals? - May stifle innovation and risk taking, and reduce staff motivation
Stewardship theory	Principals and managers have common interests	<i>Partner</i>	<i>Performance:</i> <ul style="list-style-type: none"> - add value to strategy and 'top' decisions - support management 	Management proposals and systems may not be given adequate scrutiny.
Stakeholder theory	Stakeholders have legitimate but different interests	<i>Representative</i>	<i>Political:</i> <ul style="list-style-type: none"> - balance different interests - make policy - control executive 	<ul style="list-style-type: none"> - Conflict over interests and objectives - Expertise
Resource dependency theory	Organisational survival depends on maintaining external support	<i>Boundary spanner</i>	<i>Gain external resources:</i> <ul style="list-style-type: none"> - help secure external resources & support - help manage key external relations 	<ul style="list-style-type: none"> - Neglect of supervisory role - Expertise.



Critique of theories and possible way forward

Critique:

- Each theory only illuminates one aspect of board's role
- Need for integration

One way forward - a 'paradox' perspective:

- Need multiple perspectives to understand organisational realities (Morgan, 1986)
- Many management problems require managing tensions and dilemmas rather than choosing between them
- Contrasting theories can highlight potential paradoxes and tensions



Key governance paradoxes:

- Who governs – ‘experts’ vs. ‘representatives’
- Board functions – ‘conformance’ vs. ‘performance’
- Relationship with management – supervision vs. support
- Multiple or ambiguous accountabilities



Who governs?

Common tensions:

- experts vs. representatives
- diversity vs. homogeneity

Consider:

- set out 'requirements' for board members e.g. expertise, skills and experience
- use to 'improve' methods of selection/election
- use of co-options and advisers to fill gaps
- team building
- are other bodies needed e.g. advisory groups?



Board functions

Common tensions:

- performance vs. conformance (Garratt, 1996)

Consider

- clarifying key responsibilities, but recognise will always be grey areas
- separating roles over time – the board cycle, use of lead members and sub-committees
- special meetings to look at strategic issues
- careful attention to agendas



Board - management relations

Common tensions:

- support vs. supervise management
- unclear boundaries between roles
- danger of executive domination

Consider:

Acknowledge interdependent and complex nature of relationship – no one right way, hence:

- regularly review how governance and board is working, including roles and relationships
- chair and executives need to encourage a culture of openness, constructive critical debate and hopefully trust
- try to avoid 'cliques'
- 'allow' board members to meet informally, and occasionally without staff
- be open about difficulties



Managing accountabilities

Common tensions:

- between different accountabilities e.g. upwards to regulators vs. to users vs. to the community

Consider:

- clarifying who the main stakeholders are
- what are the organisation's responsibilities to them
- look at the impact of key decisions on stakeholders
- how to communicate with them
- how to account to them



Conclusions

It is possible to have effective boards, by paying attention to:

- ‘recruitment’, being clear about responsibilities, roles and relationships, board development
- managing the inevitable paradoxes/tensions
- taking account of particular circumstances – no one right way.
- regularly reviewing how governance is working
- recognising that ‘supporting and serving’ the board is a key executive role.



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