

In practice

Getting governance right at board level: the Policy Governance[®]* approach to building better National Health Service boards

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Abstract

Boards are ultimately accountable for what goes on in their organisations. But they are part-time instruments of corporate governance and, given the complexity of NHS organisations, cannot possibly know all that is going on in their name. So how can an NHS board ensure both success and safety of the organisation? One way is to implement a robust system of governance such as Policy Governance. Policy Governance is an integrated set of concepts and principles that describes the job of any governing board. It outlines the manner in which boards can be successful in their servant-leadership role, as well as in their all-important relationship with management. Unlike most solutions to the challenge of board leadership, the Policy Governance approach to the design of the governance role is neither structural nor

piecemeal, but is comprehensively theory based. Policy Governance is widely used by many non-profit boards, including healthcare boards, across North America and is becoming increasingly used in the corporate sector and internationally. In the context of the Department of Health's 'integrated governance' agenda, the authors believe that Policy Governance is the ultimate practical implementation of the integrated governance concept, providing assurances in relation to organisational performance and ensuring the board discharges its accountability to the organisation's owners and other key stakeholders.

Keywords: assurance, corporate governance, governance, integrated governance, NHS boards, Policy Governance

Introduction

There is growing acknowledgement in the NHS that good corporate governance and, particularly, the role of boards makes a difference (Box 1). Too often, unfortunately, such acknowledgement stems from organisational failure, rather than success

(Box 2), and the NHS has certainly seen many instances of organisational failure attributed in whole or in part to ineffective corporate governance (Healthcare Financial Management Association, 2003).

* Policy Governance is a registered service mark of Dr John Carver. Used with permission. The ® after Policy Governance is a symbol used to protect the integrity of the principles and practices that make up the Policy Governance Model. Its use does not imply any financial obligation to the service mark owner. The authoritative website for the Policy Governance model is www.carvergovernance.com

** The UK Policy Governance Association is a non-profit organisation which aims to advance owner-accountable, ethical and effective governance using the Policy Governance model. www.ukpga.org.uk

Box 1

World class performance in the provision of public services comes from getting the right people, the right culture, the right quality of information and the right systems on which to make decisions and then binding these together within an effective management structure – Corporate Governance ... If Boards are indeed the enabling mechanisms of governance, then the ability of much of the Government to deliver on its promises for change rests on the achievement of dramatic performance improvements within Boards and the Board system.

Fitzgerald (2001)

Box 2

I've never seen a distressed organization that could not be traced back to ineffective governance.

*Larry Scanlan, President & COO,
The Hunter Group (from
www.governanceinstitute.com)*

Cadbury (1992) defines corporate governance as 'the system by which companies are directed and controlled'. But so many different types of governance are talked about in the NHS that board members can be forgiven for being confused (Box 3). And of course, if governance means systems of direction and control then we can quite properly talk about information governance, financial governance, research governance, clinical governance, and the like. Indeed, we could add communications governance, canteen governance, coffee-machine governance, holiday governance, privacy governance, ward décor governance, local implementation governance, waiting list governance ... and so on.

From a board perspective the problem is that in theory board members *could* be involved in governing anything and everything. But in practice they can only be involved in a limited number of issues. So, what things should an NHS board govern, and to what extent? How can an impossible job be made manageable? How do you 'get things right' at board level?

Unfortunately these questions are not solved by the new concept of 'integrated governance' introduced by the Department of Health (2006). The definition of integrated governance as 'Systems and processes by which trusts lead, direct

Box 3 Governance in the NHS (Source: based on Governance Matters, 2006 p. 21)

- Corporate governance
- Clinical governance
- Financial governance
- Research governance
- Commissioning governance
- Board governance
- Care governance
- Community governance
- Converged governance
- Enterprise governance
- External governance
- Health and Social Care governance
- Health governance
- Healthcare governance
- Hospital governance
- Information governance
- Integrated governance
- Internal governance
- Local governance
- Medicines governance
- Mental health governance
- Modern governance
- Mutual governance
- Network governance
- Organisational governance
- Policy Governance
- Project governance
- Public governance
- Public health governance
- Self governance
- Shared governance
- Staff governance
- Transitional governance
- Whole system governance

and control their functions in order to achieve organisational objectives, safety, and quality of services, and in which they relate to the wider community and partner organisations' certainly expresses the infinite possible breadth and depth of the board's scope, but it doesn't help us find a do-able yet valuable board job within that scope.

The accountability of NHS boards

Boards are ultimately accountable for everything that goes on in their organisations. Even though NHS Chief Executives sit on their boards, boards are still ultimately accountable for their Chief Executive's work. If the Chief Executive or any of his or her staff slips up, it is the board as the highest authority within the organisation which, both legally and morally, ultimately carries the can. The Chief Executive has certain direct responsibilities for reporting and proper management as the 'Accountable Officer' but he or she has no authority over the board and can only seek to overturn a board decision by stirring a higher authority to action. The role of the Chair is perhaps less clear. Chairs are sometimes treated as if they, rather than the board, are the ultimate authority (the Healthcare Commission and Monitor, the regulator of NHS Foundation Trusts, are two cases in point!). Yet that would lead to boards being merely advisory groups, which they clearly are not. So, as far as the world beyond the organisation is concerned, it would be a reckless board that did not regard itself as the final resting place for the proverbial 'buck'. These facts lead to every board's conundrum – as a group, they are ultimately accountable for everything that goes on in their organisation but they can't do it all themselves.



"OK, if anyone finds the Buck, could you please grab it and sit on it?"

Figure 1 © Royston Robertson. Used with permission.

Don't do ... delegate!

The Policy Governance approach (e.g. see Carver, 2006; Carver and Carver, 2006; Carver and Oliver, 2002) suggests that all boards need to have the humility to acknowledge that they need others to run things. Boards really cannot fulfil their accountability by acting 'as if' Chief Executives, even if regulators and the public might sometimes appear to wish it otherwise. First, boards do not have the capacity in terms of expertise – after all, most board members would not get the Chief Executive's job even if they were to apply for it. Second, boards do not have the time – after all, their time on the job (currently recommended by the NHS Appointments Commission to be 30 days a year for non-executive directors) is nothing like what is required to run day-to-day operations. Third, boards don't have the necessary focus – after all, board members must also think about attending to their own process as a group as well as maintaining relationships outside the organisation and, in many instances, maintaining their own 'day jobs' (whether inside or outside the organisation). All in all there is nothing for it – boards need to delegate to get things done.

To make matters worse, over the last few years in the NHS we have seen more and more responsibility being laid at the board's door. There is greater and greater scrutiny. There are louder and louder calls for accountability. There are ever more codes and standards and assessment and monitoring and evaluation schemes. Where is the recognition that boards can't manage what they have now, let alone take on more? Who is 'telling it like it is' – the board's job, as currently constructed, is impossible? Where is the answer to the question, 'how can a part-time group of people do all this??' And, without the answers to these questions isn't it all just rhetoric? When are we going to admit that the 'Emperor-board' has no clothes?

The Policy Governance system recognises that boards have to delegate and yet remain accountable for what they have delegated. That means that they have to know precisely what they have and have not delegated. Vague distinctions between 'governance' and 'management', or 'strategy' and 'operations', or 'macro' and 'micro' matters, or 'policies' and 'procedures' don't do the trick. One person's operational issue is another person's strategic issue. What guarantee can there be that something important won't fall between

the ‘two stools’ of board and Chief Executive if neither is clear who is doing what?

Designing the board’s job

To design the board’s job properly, we have to go back to first principles. We have to, so to speak, get ‘conceptually naked’. We have to strip away tradition, experience, everything we think we already know about boards, and ask what are they *really* there for?

First principles are the foundations for governance. With them the board’s job makes sense and the board can offer coherent, integrated leadership. Without them, not only the board, but the whole organisation, is adrift. The world is, in any case, a confusing, shifting place, and few worlds are more confusing or rapidly changing than the NHS. Without an ‘anchor’, NHS organisations are completely at the mercy of forces outside their control, tossed on a turbulent sea of expectations and crises. We believe that that anchor can be and must be principled board leadership and that an approach called Policy Governance makes such leadership entirely possible.

Policy Governance[®] – an operating system for NHS boards?

We all run our lives according to operating systems – systems based on first principles about the nature of the task in hand. Our diaries, our computers, our societies, are all examples of systems that help us to realise our intentions. Policy Governance is an operating system designed to focus boards on *their unique contribution* to their organisation’s results.

The Policy Governance system is universally applicable to boards in the sense that it is built upon what are generally regarded as fundamental truths about the nature of board governance. However, in the same way that our diaries reflect the uniqueness of each of our lives, the Policy Governance system accommodates the uniqueness of individual boards. Designing board governance around first principles does not mean forcing boards to think the same way or operate in the same manner; it means that whatever an individual board’s thoughts or decisions, they are organised for maximum effectiveness.

The fundamental universal principles which the Policy Governance system puts into practice are as follows:

- 1 board governance is a function of ‘ownership’ (i.e. the state, local community, members, etc.), not ‘management’
- 2 boards are accountable to owners for everything within the organisation
- 3 board authority is group authority
- 4 boards must empower the Chief Executive while remaining fully accountable.

Policy Governance is built upon the use of *written policy* because it is only through written policy that a board can encapsulate its vision, perspectives and values in clear statements of enduring importance – readily transmittable to all and impacting every aspect of the organization’s work in an efficient manner. Policy Governance allows a board to organise all its thoughts, activities, structures and relationships in one *comprehensive but brief* policy document or manual (in addition to its founding documents, bylaws and minutes). A specimen index of policies is presented as Box 4. Explanation of the policy categories is provided below.

The Policy Governance system’s *special policy architecture* both encompasses all possible board concerns in a manageable number of policies, and ensures that delegation is clear, empowering and accountable. The Policy Governance policy architecture can be briefly described as follows.

1. Ends are separated from means

On behalf of owners, a board is primarily concerned with ensuring that their organisation succeeds in producing the right results, for the right people at the right cost. The job of defining these ‘Ends’ cannot be delegated.

Conversely, a board’s only legitimate interest in the means used by the Chief Executive, who is employed to achieve its Ends, is to ensure that they are not illegal, unethical or imprudent. For the purposes of delegation, separating Ends from means allows the board to dictate the Ends but confine itself to constraining the means. Thus, the Chief Executive can be given the empowering message ‘everything is permissible, unless it is forbidden’ *and* the board needs to say less than it otherwise might – for it can permit far more than it needs to forbid.

The board’s policies for itself are means policies but because the board cannot delegate

Box 4 Specimen Policy Manual index (Source: Southend University Hospital NHS Foundation Trust, 2006a)

Policy category	Ref.	Policy title
ENDS	–	Ends
Board governance process	GP1	Global Governance Commitment
	GP2	Accountability to the Board of Governors
	GP3	Governing Style
	GP4	Board Job Description
	GP5	Board Agenda Planning
	GP6	Chair's Role
	GP7	Board Members' Role
	GP8	Internal Auditor's Role
	GP9	Board Members' Code of Conduct
	GP10	Board Committee Principles
	GP11	Board Committee Structure
	GP12	Governance Investment
Board – chief executive delegation	BM1	Global Board Chief Executive Connection
	BM2	Unity of Control
	BM3	Accountability of the Chief Executive
	BM4	Delegation to the Chief Executive
	BM5	Monitoring Chief Executive Performance
Management limitations	ML1	Global Executive Constraint
	ML2	Cooperation with Others in the Wider NHS System
	ML3	Risk Management
	ML4	The Patient and Carer Experience
	ML5	Treatment of Staff
	ML6	Financial Condition, Activities Planning and Budgeting
	ML7	Emergency Chief Executive Succession
	ML8	Asset Protection
	ML9	Remuneration and Benefits
	ML10	Communication and Support to the Board

responsibility for itself, they can be expressed either positively or negatively.

2. Policy categories

All board concerns can be categorised as follows.

- **Ends:** the answers to the questions: what benefit(s) is this organization to produce, for which people and at what cost?
- **Management Limitations:** the limits of law, ethics and prudence to which the CEO must adhere in achieving the Ends (always expressed in the negative, e.g. 'the CEO shall not fail to' or 'the CEO may not').
- **Governance Process:** the board's definition of, and rules for, its own job.

- **Board–Chief Executive Delegation:** the board's delegation and accountability linkage through the CEO.

3. Broadest values first

Every healthcare organisation consists of a mass of different decisions, actions, risks, relationships and procedures of varying degrees of importance. The board's job is to create shared meaning out of this complexity starting with focusing on their highest values on behalf of owners (both legal and moral), for it is only at this level that coherence can be found. Boards need to capture and leverage the considerable wisdom around the board table in a way that engages board members as owners rather than experienced managers. In Policy

Governance, boards express their values through the four policy categories outlined above, commencing with the broadest (and therefore highest) values, before moving down in sequence through values governing narrower issues. This approach restricts the amount a board needs to say. By putting broadest values first, a typical board finds it needs no more than approximately 5000 words to say everything it feels it must on behalf of owners. Such brevity serves accountability for it makes for clarity and enables rigorous monitoring at a reasonable cost. Consider, for example, the sample Ends policy in Box 5. Southend University Hospital NHS Foundation Trust's core purpose is clear. It is not about meeting statutory duties or compliance with government targets and standards for better health. No hospital-based NHS organisation exists as a mere 'compliance machine'. It is fundamentally about ensuring that people presenting to the hospital achieve the best possible health outcomes at a sustainable cost.

Box 5 Southend University Hospital NHS Foundation Trust Ends Policy

Southend University Hospital NHS Foundation Trust exists so that people presenting to us achieve the best possible health outcomes at a sustainable cost.

- 1.0 People presenting to us have their conditions diagnosed accurately, speedily and safely.
- 2.0 People have their care managed speedily, fully and safely.
 - 2.1. People who are facing death have appropriate physical, emotional and spiritual support.
- 3.0 All the people we serve have appropriate information, tools and services for the promotion and maintenance of their health.

4. Any reasonable interpretation

At whatever level the board feels it has said enough, the Chief Executive is free to act on 'any reasonable interpretation' of the board's Ends and Management Limitations policies and the Chair is free to act on 'any reasonable interpretation' of the board's Governance Process and Board-Management Relationship policies. Again, consider the sample Ends policy in Box 5. The 'global' Ends policy statement is presented first in

bold. Underneath this statement, the board has decided to say some more about Ends in statements 1.0, 2.0 and 3.0. With regard to statement 2.0, the board has clearly decided that further enumeration is required with the addition of statement 2.1. Beyond what is stated in the Ends policy contained in Box 5, the Chief Executive is free to act on any reasonable interpretation of the policy.

5. Policy monitoring

The board can only be truly accountable if it is rigorously monitoring the implementation of its policies. This can be done by any method (internal report, direct board inspection, internal or external audit) and at any frequency (annually, quarterly or monthly) the board dictates in its policy. This monitoring also provides the basis for fair performance evaluation and, most importantly, provides assurance to the board that the management team is delivering the 'bottom line' (i.e. 'Ends') within the constraints (i.e. 'management limitations') placed upon it. Further, monitoring ensures that the board itself is in compliance with its own 'governance process' and 'board-chief executive delegation' policies. A sample monitoring schedule and examples of the kinds of data/information an NHS CEO might produce having interpreted board policy are presented in Box 6.

The power of a board lies in being clear about what it wants and what it can reasonably require and then standing firm in its demands. Even the phrase 'holding' to account speaks to this. You cannot 'hold' anything unless you yourself are steady. The moment you move towards the thing you are holding you create slack and 'hey presto', you have just given away your power.

Boards have to learn that they cannot jump in and fix things. They don't have any answers that the Chief Executive couldn't find elsewhere. They don't necessarily know any better (especially in this highly specialist age) how to address any given problem. Board members' value as underpaid management consultants is limited at best. Generally, Chief Executives can do a better job of fulfilling the board's requirements if they are free to look around for best sources of advice they can find on the matter at hand. Boards typically achieve only two things by jumping in. First they dilute their demands of the Chief Executive because they are now engaged in fulfilling them directly. Second they obscure accountability, because it is now unclear who is responsible if things don't go well.

Box 6 Sample Board CEO Policy Monitoring Schedule (Source: Southend University Hospital NHS Foundation Trust, 2006b)

Category 1: ENDS

Policy	Method(s)	Frequency	Data/information
Ends	Internal (CEO)	Monthly	<ul style="list-style-type: none"> • Strategy implementation • Performance against national and local targets • Etc.

Category 4: Management limitations

Policy	Method(s)	Frequency	Data/information
ML2 Cooperation with Others in the Wider NHS System	Internal (CEO)	Annual	<ul style="list-style-type: none"> • Annual accountability review • Information provided to Monitor
ML3 Risk Management	Internal (CEO)	Bi-annual plus ad hoc	<ul style="list-style-type: none"> • High Level Risk Register
ML4 The Patient and Carer Experience	Internal (CEO)	Quarterly plus ad hoc	<ul style="list-style-type: none"> • Complaints • Comments • Patient survey information • Health and Safety reports • Discharge comments • Selected audit/inspection reports (e.g. HSE) • Incident reports • Whistle blowing information • Patient appointment information • Outcomes from 'Patient Choice'
ML5 Treatment of Staff	Internal (CEO)	Quarterly	<ul style="list-style-type: none"> • Grievances • Health and Safety/Incidents • Staff Survey information • Whistle blowing information • Absence data • Turnover data • OH reports (Counselling Services)
ML6 Financial Condition, Activities Planning and Budgeting	Internal (CEO)	Monthly	<ul style="list-style-type: none"> • Agreed plan and budgets • Monthly financial report
ML7 Emergency Chief Executive Succession	Internal (CEO)	Annual	<ul style="list-style-type: none"> • CEO statement on performance of Executive Directors resulting from 'IPR' process
ML8 Asset Protection	Internal (CEO)	Annually	<ul style="list-style-type: none"> • Contingency plans/emergency plans/business continuity • PPM • Security/Fire • Backlog Maintenance • Serious Untoward Incidents (SUIs)
ML9 Remuneration and Benefits	Internal (CEO)	Monthly Annually	<ul style="list-style-type: none"> • Monthly monitoring reports • Annual Monitor report
ML10 Communication and Support to the Board	Internal (CEO)	Monthly	<ul style="list-style-type: none"> • CEO report • CEO/Chair report

Experience of Policy Governance

The vast majority of Chief Executives want to do a good job but also recognise and respect the board as the legitimate ultimate carrier of the can. The vast majority of boards want to do a good job too but are sometimes bewildered about how to do it. Our fundamental problem is that for so long governance has been considered a mere extension of management rather than a distinct discipline based on distinct principles and requiring a distinct methodology. Policy Governance is one such methodology. A methodology which is unique as far as the authors know in its conceptual integrity, scope and universality. Indeed, Sir Adrian Cadbury, considered to be the father of modern day corporate governance, has assessed Policy Governance and his findings are represented in Box 7.

Box 7

“We have waited long for a book which analyses the role of boards from first principles. The Policy Governance model fills that bill and thereby makes a fundamental contribution. For the first time, we are offered a fully integrated and coherent system of governance, a significant advance in management thinking, as near a universal theory of governance as we at present have.”

*Sir Adrian Cadbury
(From Carver and Oliver, 2002)*

Policy Governance is widely used in North America in non-profit organisations, including many health care organisations, and is increasingly in use around the rest of the world. In the UK, for example, the governance model used by British-based international energy giant BP is based on Policy Governance (BP, 2005). Experience indicates that boards that use Policy Governance feel far more confident that they are controlling everything that they need to than boards that rely on ‘approving’ strategic plans and budgets and occasional interrogation sessions. Experience also suggests that many Chief Executives who work for Policy Governance boards soon find themselves saying that they will never work for a non-Policy Governance board again. Some say it feels so good to know what the goalposts are and what the rules of the game are

and then be allowed to get on with it subject only to satisfactory performance.

At Southend University Hospital NHS Trust, the board sees the potential of a Policy Governance approach and is committed to making it work. They have seen a number of benefits already in bringing clarity to some of their thinking as a board. It is, however, too early to determine exactly the range of benefits, as well as the challenges, presented by implementing the Policy Governance model in an NHS context.

Conclusion

NHS boards are being given mixed messages about who does what, but if they conceptualise their job clearly they need not be victims of the confusion. Policy Governance provides not only a powerful way to conceptualise the board’s job but also a practical way of putting it into effect. It is also worth pointing out that Policy Governance in itself is not a panacea for all governing ills. Bevington *et al* (2005), for example, usefully make the point that improving board performance is not just about systems of governance, but also about ensuring the right balance between trust and challenge among board members.

Nevertheless, the authors believe that visionary and accountable leadership is within the grasp of NHS boards but it requires the courage to step out of the everyday frame of NHS life and explore new possibilities. We hope you will explore Policy Governance as a practical way of approaching those possibilities. The NHS needs and deserves great governance. It would be a great shame not to use the greatest tools available.

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