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STUDYING THE USE OF PUBLIC SECTOR BOARDS FOR ENHANCING MINISTRY-AGENCY COORDINATION AND AGENCIES' PERFORMANCE IN SELECTED OECD COUNTRIES¹

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Acronyms

ALB: Arm's length body

CAC Act: Commonwealth Authorities and Companies Act

CEO: Chief Executive Officer

CRA: Canada Revenue Agency

DFID: Department for International Development (UK)

DG: Director General

FASAB: Government Accounting Standards Board

FMA Act: Financial Management and Accountability Act 1997

FSANZ: Food Standards Australia New Zealand

GAO: Government Accountability Office (US)

GASB: Government Accounting Standards Board (US)

NDPB(s): Non-Departmental Public Bodies (UK)

NED(s): Non-Executive Director(s)

NHMRC: National Health and Medical Research Council

NPM: New Public Management

OECD: Organization for Economic Cooperation and Development

OMB: Office of Management and Budget (US)

SOEs: State-owned enterprises

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Executive Summary

In order to increase the efficiency of the public sector, as well as to benefit responsibility and accountability, many governments around the world have favored, with different historical trajectories, the separation of policy design and implementation in different organizations. The result has been the separation of policy design in relatively small ministries, with implementation through a separate agency (Bouckaert, et al. 2010).

Freeing agency's service delivery and policy implementation from political intervention and policy development, however, gives rise to a challenge for the parent departments, ministries, or other political authorities in charge of the agency: how to make sure that agency managers set the right targets, and how to monitor their performance. The principal-agent problem "arises out of the differentiation of interests among those who work in hierarchical organizations (and in other settings) and asymmetric information on organizational activities and performance (principals are dependent on subordinates for much of what they know about services)" (Schick, OECD 2002: 13).

OECD countries have tried different ways of enhancing coordination between ministries and agencies. Bouckaert *et al.* (2010) identified a number of coordination instruments, classified into *management instruments* and *structural instruments*, which could be used to address both the coordination problem between public organizations of the same levels, i.e., between departments, between agencies, etc. (horizontal coordination), and that between organizations of different levels (departments and agencies) (vertical coordination). One of the *structural* instruments is the use of advisory and consultative/deliberative bodies (Bouckaert *et al.* 2010: 52). These advisory boards would strengthen control and accountability over public sector agencies by bridging the information gap between busy and not necessarily technical expert political authorities at the ministries and the public sector managers leading the agencies.

Scholars in some Latin American countries like Chile have explored the potential use of advisory boards to strengthen the link between line ministries and the agencies within their sectors and enhance agencies' performance (Portales and Rainieri, 2002). The need for this kind of coordination instrument was perceived, in the particular case of Chile, with the introduction and development of its performance management system. Because this system involve performance pay schemes based on agencies' results, it became crucial to ensure the quality of the definition and evaluation of performance targets. Busy ministers with a small number of staff found it difficult to have full-time policy advisors specialized in the agencies specific technical areas. Systems managed centrally from the Ministry of Finance or Planning made it even harder. In the past, political economy factors such as the political strength of a particular agency, or perceptions of political links of the head of an agency with political parties and authorities might have also played against an objective measurement of agency performance.

Advisory boards with non-executive directors (NEDs) – involved in setting agencies' performance targets to make sure those targets are appropriate, monitoring agencies' performance against these targets and providing responsible ministers with fair and objective information about the agencies' performance – were perceived as potentially powerful coordination instruments for ministries. However, the relatively limited literature on the use of

these boards in traditional OECD countries called for further research.

This paper's findings – based on the experience of six traditional OECD countries² – show that while many boards in advanced public administrations tend to advise policy makers about policy issues rather than on the agency's performance, others do. The latter kind of boards will be the focus of this report.

Within this kind of boards, three broad types of classifications can be made:

First, in terms of their *level of reporting*, boards can report to the minister, to the agency CEO (i.e. advising and reporting to the CEO but not serving as coordination instrument between ministry and agency) or to the Parliament.

Second, regarding the *breadth of their oversight*, they can cover just one agency or a portfolio of agencies (normally within the same Ministry/Department or sector).

Third, in terms of their *functions*, public sector boards can be *full-governing boards* (responsible for all aspects of governance of an agency, including hiring and dismissing the CEO); *partial-governing boards* (responsible for many aspects of governance of an agency but with no power to select or fire the CEO); or *advisory boards* (merely advisory role, no decision-making power and tend to report to the agency CEO).

The closest examples of the boards described earlier as potential institutional instruments for coordination between ministries and agencies to enhance agencies' performance are the *partial governing boards*, very common in the United Kingdom (UK) and Sweden, although the two countries come from very different institutional paths.³ These boards govern the agencies, manage their resources, and monitor the agencies' performance against targets. They also report to the responsible ministers about agencies' performance. They can manage an agency or a portfolio of agencies within a particular sector. However, they are more powerful than *advisory boards* in that they have decision-making power while the latter do not. In other countries, such as Australia and New Zealand, agencies either have *full governing boards*, basically having all the powers over the agencies, including the power to appoint and remove the CEO, or *no boards* at all.

In general, boards in the UK, Sweden, New Zealand, and Australia are utilized mainly as *governance* and *management* vehicle rather than a *coordination* mechanism. The major reason for their existence is the belief that the private sector model of governance would improve the performance the public sector organizations they govern and manage. However, just as the private sector boards of directors are accountable to the stakeholders, boards in the public sector

² The OECD countries studied for this paper were: United Kingdom, Sweden, New Zealand, Australia, Canada, and the United States

³ The UK starts from a situation where the Ministry is in direct control and goes to a situation where the Ministry has to deal with independently managed agencies, and needs to find suitable mechanisms to enhance control. Sweden starts from a situation where the Ministry never was in direct control (the agency system was set up in 1632 and ministries only came into existence towards the end of the 19th century), and now needs to strengthen the political control over certain agencies within the existing constitutional framework.

are usually accountable to those who appoint them (usually ministers). Therefore, these public sector boards would also serve as a channel through which information about agencies' performance is reported to ministers. As a result, they would also contribute to the enhanced ministerial control and oversight of agencies' performance, although with a much stronger role.

The public sector boards prevalent in Canada and the United States at the Federal Level, explored as possible case studies for this paper, are not aligned to the subject of interest of the research. Specifically, Canada's federal government is still embracing a central monitoring model (carried out by the Treasury Board of Canada Secretariat) for coordination of agencies, with the exception of Canada's Revenue Authority, which does have a board along the lines of what is the practice in other countries such as the UK or Sweden. As for the United States, most advisory boards at the Federal level are established to provide advice to the Government about certain policy issues or strategies. Management boards that are modeled on the private sector's board of directors are not common (neither for Departments nor for agencies). However, they do exist in other types of public organizations, such as universities and independent agencies, but these boards do not normally serve as a bridge of information between agencies and the responsible ministries or Secretariats. Boards and commissions are perhaps more numerous at the subnational level in Federal countries, but they are not covered on this report.

This study briefly identifies some other mechanisms through which ministers obtain information regarding agencies' performance in some of the countries where information is readily available. For example, in Sweden, ad hoc commissions may be established to evaluate the performance of an agency, although this situation is rare. In the United States, the main mechanism through which the U.S. Federal Government monitors the performance of a vast number of agencies and promotes good performance is making agencies comply with various legislation, regulations, and guidelines issued by the Congress, the Government, as well as standards set by independent organizations such as the Government Accounting Standards Board (GASB) or the Federal Accounting Standards Board (FASAB).

No comprehensive evaluations of board performance within a country or internationally were found so as to extract lessons of the use of these boards. Scholars and government officials interviewed for this paper have highlighted some possible variables which can contribute to boards' good performance, as well as others that may become barriers to board's effectiveness.

Factors contributing to better board performance include the need for a clear mandate and reporting mechanism, to enhance accountability. Having both executive and non-executive directors was also perceived to be critical, to make use of both the expertise and experience of insiders and outsiders' perspectives and skills that people within the organization would have difficulty getting access to otherwise. Regular review and assessment of board's performance is also crucial. Formal induction and training for board members, especially NEDs, have been found to be necessary.

Barriers to good performance by partial-governing or advisory boards include unclear roles and authority; underutilization of NEDs; the lack of a good board member recruitment process; limited or no formal induction and training programs for board members, and an absence of a good board performance review process.

Given the limited evidence of board effectiveness, it is recommended that countries interested in the implementation of boards as a coordination mechanism start with a pilot phase involving a few ministerial portfolios. During this initial phase, countries introducing this policy would benefit from combining boards at the agency level in some sectors and at the ministry level in others. Cost of implementing boards will vary based on the number needed and the size of the board. The estimated cost of one advisory board with seven members including three NEDs and meeting on a monthly basis is not substantial, considering that only NEDs receive remuneration, that their dedication is part-time, and that they tend to receive pay well below the private sector. A thorough evaluation is recommended to assess the suitability of this model and their effectiveness before extending it to several governmental agencies.

1. Introduction

This paper summarizes the experience with the use of public sector advisory boards in the UK, Sweden, New Zealand, Australia, the United States and Canada with the objective of providing policy-makers – in particular those aiming to use advisory boards to improve coordination mechanisms between ministries and the agencies within their sectors – with information of different models used in OECD countries.

Although ‘boards’ and ‘committees’ are commonly used in many countries for various purposes, the subject of this paper are only those whose main responsibilities, among others, are related to agency performance issues, rather than policy issues. Agency performance here refers to agency delivering desired results or achieving managerial objectives as expected, or both. In particular, it will analyze if advisory boards are involved in: (i) Setting agencies’ performance targets to make sure those targets are fair and appropriate; (ii) Monitoring agencies’ performance against these targets; and (iii) Advising the heads of ministries of objective information about agencies’ performance. In terms of the types of agencies that these boards monitor, state-owned enterprises (SOEs) are excluded from this analysis.

To achieve the research’s purposes, the paper uses data obtained from three main sources: (i) a literature review summarizing past studies and reports; (ii) interviews with scholars, researchers, international experts and government officials from relevant countries; and (iii) online sources, such as information published on agencies’ websites and collected from their annual reports.

The report is structured into seven chapters. This Introduction reviews the definition of key terms to be used in this study and summarizes literature available on the use of advisory boards in the public sector. Chapters 2-6 are devoted to examine country experiences. The study ends with chapter 7, which summarizes key findings, presents initial ideas for governments interested in using advisory boards and identifies a research agenda going forward.

1.1 *Agencification* and the Need for Strengthening Coordination between Ministries and Agencies

In order to increase the efficiency of the public sector, many governments around the world have favored the separation of policy design and implementation. Woodrow Wilson stated in 1886 that “[...] administration lies outside the proper sphere of *politics*. Administrative questions are not political questions. Although politics sets the tasks for administration, it should not be suffered to manipulate its offices [...]” (Wilson, 1887:210). Bouckaert *et al.* (2010) highlight this approach in the early twentieth century, when the scientific management theory also advocated the politics/administration split. “As part of ‘Government for the Efficient’ it was necessary for the politicians to focus on the political issues, and for the administration to focus on the administrative issues. This split for reasons of efficiency was supposed also to benefit responsibility and accountability” (Bouckaert, et al. 2010: 8).

The contemporary New Public Management (NPM) that has swept throughout the world since the 1980s again supports the split between politics and administration for the same reasons. However, different from the ‘classic model’ of the early twentieth century, which keeps policy design and implementation as two major components of the policy cycle together and thus carried out by one organization, NPM, favors the policy cycle split, which is believed to increase checks and balances: policy design is in one organization, and policy implementation is in

another. The result is the “separation of policy design in small ministries, with implementation through a separate agency” (Bouckaert, *et al.* 2010: 8).

According to Hood (1991: 4-5, 1995b: 96), as quoted in Yamamoto (2003), one of the principles of NPM is “a shift from unified management systems to *disaggregation* or decentralization of units in the public sector.” This decentralization consists in the “separate provision and production interests, gain efficiency advantages of use of contract or franchise arrangements inside as well as outside the public sector.” Agencification’ follows as a result. According to Beblavý (in OECD 2002: 121), “agencification is a shorthand for the process of delegation and devolution, in which more autonomy, particularly in personnel and financial issues, is granted to public bodies, which either remain legally part of the state or acquire their own legal personality. It can also mean creating or moving functions to bodies, which are *subsidiary* or *separate* from ministries/departments.”

Freeing agency’s service delivery and policy implementation from political intervention and policy development, however, gives rise to a challenge for the parent departments, ministries, or other political authorities in charge of the agency: how to make sure that agency managers set the right targets, and how to monitor their performance. The principal-agent problem “arises out of the differentiation of interests among those who work in hierarchical organizations (and in other settings) and asymmetric information on organizational activities and performance (principals are dependent on subordinates for much of what they know about services)” (Schick, OECD 2002: 13).

Schick takes Sweden, a country where agencies have existed for over three centuries, as an example to show how difficult it may be for ministers to guide and oversees agencies. “With as many as 300 agencies which employ upwards of 98% of state employees, the 12 ministries are not up to the task. Since the mid-1980s, the Swedish Government has taken a number of initiatives to enhance its ability to guide agencies and monitor their performance, but none have been particularly successful.” (Schick, OECD 2002: 22). While according to local experts about 30 to 40 agencies would require more continuous monitoring, this still represents a challenging task for Swedish ministers. Also, the 2002 report by the British Prime Minister’s Office of Public Service Reform concludes that although agencies “have transformed the landscape of government and the responsive and effectiveness of services delivered by Government” since 1988, some agencies have “become disconnected from their departments ... The gulf between policy and delivery is considered by most to have widened.” The report also recognizes the disconnection between some departments and agencies, as “agencies have pursued their own agendas and have grown apart in outlook and areas of interest.” (22)

New Zealand Minister of State Services, Trevor Mallard, identified fragmentation in the public sector, the result of agencification, as one of the three main problems of the state sector that needs to be addressed. “Today we have 38 Public Service departments and more than 100 major Crown entities... In the major agencies – in the Public Service departments and the Crown entities – the results of that fragmentation are apparent....There’s an absence of full-loop learning – feedback on whether policies actually work – because the policy advisors work in a department other than the delivery one and the connections between operations and advice are established”. (Bouckaert, *et al.* 2010: 3).

1.2 Bridging the gap between Ministries and Agencies for Better Public Sector Performance: Definition, Role and Characteristics of Advisory Boards

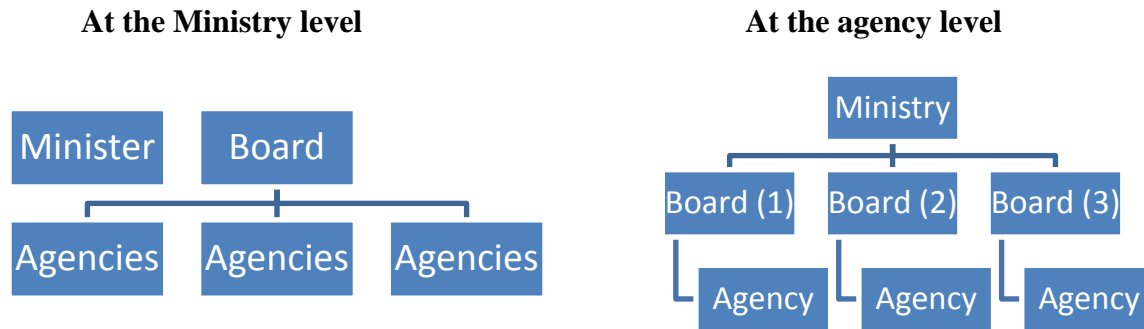
Bouckaert *et al* (2010) identified a number of coordination instruments, classified into “Management instruments” and “Structural instruments”, which could be used to address both the coordination problem between public organizations of the same levels, i.e., between departments, between agencies, etc. (horizontal coordination), and that between organizations of different levels (departments and agencies) (vertical coordination). One of the structural instruments is the use of advisory and consultative/deliberative bodies Bouckaert *et al.* 2010: 52), under which boards can be included.

Manning *et al.* (2010) interpret the practice of using advisory committees/boards in many OECD countries as a way to enhance the supervision of agencies or arm’s length bodies. Public sector boards were modeled on the private sector’s ‘board of directors’ (Wilks 2007, Farrell 2005, Parker *et al.* 2009). Ferlie *et al.* (1996) cited in Farrell (2005) identify the two defining characteristics of the private sector board: *responsibility* for the governance of the organization and *accountability* to shareholders for this, and argues that while the accountability of the majority of public sector boards is to a wider audience than private, “the primary characteristics of the public board are also responsibility and accountability.”

Gill (2002: 61) describes advisory boards as “a good means of bringing in outside advice without creating the overhead of an organization and thereby increasing the quality and legitimacy of government decision-making.” Wilks (2007: 3) describes boards as “tak[ing] ownership of the mission, approve strategy and undertake corporate governance functions through an apparatus of financial scrutiny, performance monitoring and risk assessment involving the chief executive, finance director and non-executive directors (NEDs).” Farrell (2005) points out that some of the main functions of the public sector board, i.e., (1) providing strategic leadership and policy direction for the organization, (2) ensuring accountability from the managers of the organization and (3) devising organizational strategy . In the public sector, “the establishment of boards has enabled a wide diversity of individuals to participate in public life.” (Farrell, 2005: 108). The role of boards in UK departments is to “[support] the head of the department by advising ministers and taking ownership of the department’s performance’ (Treasury, 2005: 7).

Drawn from the experiences of a number of OECD member countries, such as Australia, Finland, Ireland, Norway, New Zealand, the UK, advisory committees or boards could be used at the sector/ministry level or at the agency level (Manning *et al.* 2010). At the ministry level, boards play a number of roles, including “taking forward the department’s agreed strategic aims and objectives; advise on the allocation of financial and human resources to achieve those aims; manage departmental resources, monitoring the achievement of performance objectives, etc.”, as in the UK’s case (Treasury, 2005). In the UK, these boards are called departmental boards, which advise a minister on all the agencies under his/her coordination. At the agency level, boards act as a bridge of information and advice between the minister and the agencies under the ministry, i.e., advising the agencies in setting performance targets, monitoring their performance, and informing the minister of the agency’s performance. The two ways boards could be used are illustrated below:

Figure 1. Ministry Level and Agency level boards



Examples: UK (Parker et al. 2009 cited in Manning *et al.* 2010)

Examples: Norway, Flanders, and Ireland (Verhoest 2010 cited in Manning *et al.* 2010)

Ministries (or ‘departments’ in some English speaking jurisdictions) are “direct administration bodies hierarchically connected to and under the direct control of the government”, undertaking classic “sovereign” functions of the Government such as Foreign Affairs, Defense, Justice, Finance. They share a number of characteristics, i.e., they are part of the state or central government and have no separate legal body status, solely or predominantly funded through tax revenues, part of the public or civil service, etc. (Gill, 2002).

Agencies are single purpose bodies that are subsidiary to ministries or free-standing units independent from ministries (Schick, 2002). But departmental agencies only refer to directly-controlled bodies subsidiary to ministries (Gill, 2002). This paper uses the term “agency” and “departmental agencies interchangeably” to refer to departmental agencies.

1.3 A Functional Typology of Public Sector Boards in selected OECD countries⁴

While conducting this research, the authors came across a seemingly wide array of boards for public sector institutions, e.g., management boards, executive boards, steering boards, advisory boards, governing boards, etc. Based on the extent of their power over the agencies, board types in selected OECD countries can be simplified into three basic models: (i) Full-Governing; (ii) Partial-Governing; and (iii) Advisory.

(i) *Full-Governing boards.* The board is responsible for all aspects of governance of an agency, e.g., setting strategies, managing resources, risks, and making all decisions regarding the agency, including decisions about hiring and chief executive of the organization. It can also be called management board, executive board, steering board, or just board.

(ii) *Partial-Governing boards.* The board plays most governance and management roles stated above, but it does not have the power to appoint and remove the chief executive.

⁴ This paper does not focus on boards of State Owned Enterprises, or boards created to advise on a particular technical or policy-related topic (water management for example), but on those boards or committees which advise on management aspects of the agencies and represent a vehicle for increasing accountability of public sector agencies to their respective line ministry.

(iii) *Advisory boards*. The board plays merely an advisory role, including advice on the institution's performance or management issues (depending the purpose for which the board was established) and has no decision making power. It can report to the CEO of the agency or a minister, in which case the CEO tends to be one of the executive directors at the board.

1.4 Concerns over the use of boards in the public sector

There are many concerns over the use of boards in the public sector. This section identifies three major ones discussed in existing literature: (i) uneven performance due to unclear roles and responsibilities; (ii) accountability issues related to the relationship between boards and politicians; and (iii) a lack of normative theory that guides board creation and operation.

(i) Uneven performance due to unclear roles and responsibilities

Parker *et al.* point to the fact that governance within departments remains variable across the UK's civil service. "Many departmental boards have yet to develop a clear leadership and oversight role, which has invited interference from the centre." (Parker *et al.* 2009: 7)

"Our research shows that the best boards focus heavily on performance management and meet regularly with ministers to shape joint strategy. We recommend that all boards should place a greater emphasis on performance and financial management. Departments should also create a new strategy board: joining the management board and ministerial team, chaired by the Secretary of State, and focusing on policy and strategy development." (Parker *et al.* 2009: 9)

Departmental boards may be here to stay, but that does not mean that they are currently fulfilling their potential. The piecemeal development of boards means that no clear consensus on their value-adding role has been reached. Interviews with directors general revealed a striking lack of consensus around the role of departmental boards. (Parker *et al.* 2009: 47)

Chief among barriers to effectiveness facing departmental boards is clarity of purpose (McClory 2010). "Drawing on the Institute's report *Shaping Up: a Whitehall for the future*, Lord Bichard explained board performance was highly variable across government departments – and so too was the understood role of boards [...]. Nearly one in five directors general interviewed by the Institute said there was no role at all for their board. Out of this boardroom identity crisis, sprang problems. With no clear role for the board, NEDs were challenged to make a positive impact, strategy ran the risk of being disjointed and ineffectual, and performance management could be toothless and inconsequential." (McClory 2010)

Wilks (2007) argues that to help public sector boards "more efficient, inclusive and develop new and more effective modes of accountability", it is necessary to "require a constitutional redefinition of the role of the civil service and of boards within it", which could be the subject of future research.

(ii) Accountability issues

Newman (2004), cited in Wilks (2007), points out that while some studies have engaged creatively with the responses of public sector managers to a renegotiated relationship with politicians, the relative power of independent boards remains under theorized. Wilks raises a question of whether boards will increasingly take responsibility and displace ministers as they

become more corporate, more self-confident, more professional and more autonomous.

The board-agency relationship is also a problem. Brown (1955) points out that board members often feel their advice is not needed. Given the board members' diverse backgrounds, administrators usually think they lack specific knowledge of programs and are "really not equipped to give useful advice" (Brown, 1955: 201).

Researchers offer a hypothesis that senior ministers are content with the ambiguity of board accountability and are happy to maintain the principle of ministerial responsibility. They wish both to retain the executive dominance that Parliamentary sovereignty allows and to exploit the principal-agent relationship with their boards as a mode of 'blame avoidance', which allows ministers power without responsibility. Principal-agent theory suggests that one reason for the creation of independent agencies is the opportunity to avoid responsibility for unpopular agency actions – such as raising interest rates or blocking mergers (Pollack, 2002; Wilks, 2002).

(iii) Lack of normative theory that guides effective board formation and operation

Another concern regarding public sector boards is that it is difficult to determine their form of governance and whom they represent (Corkery and Wettenhall, 1990) cited in Mitchell (1997). "It is not easy to find empirical information about the characteristics of boards and commissions, and it is especially difficult to determine exactly who it is they now represent." (Mitchell, 1997: 160)

To make matters worse, well-developed theories are not yet in place to guide boards' operation. "Unlike private-sector boards, whose principal function is to protect the interests of shareholders (Demb and Neubauer, 1992; Firstenberg and Malkiel, 1980; Sherman, 1988), government boards have been created for various reasons and to try out different approaches toward governance. Consequently, no well-developed theory necessarily guides their operation" (Mitchell, 1997:161).

Cornforth (2003) argues that the shift to board control raises serious questions about the democratic legitimacy of governing boards and their effectiveness. Skelcher (1998) also raises questions about the shift into governance and the implications of this for good government. Greer and Hoggett (1999) point out that public sector boards are almost entirely nonelected and have huge responsibility for the delivery of public services and policies. Issues about the appointment of board members, their representation and their activities are therefore important, and are subject to further research.

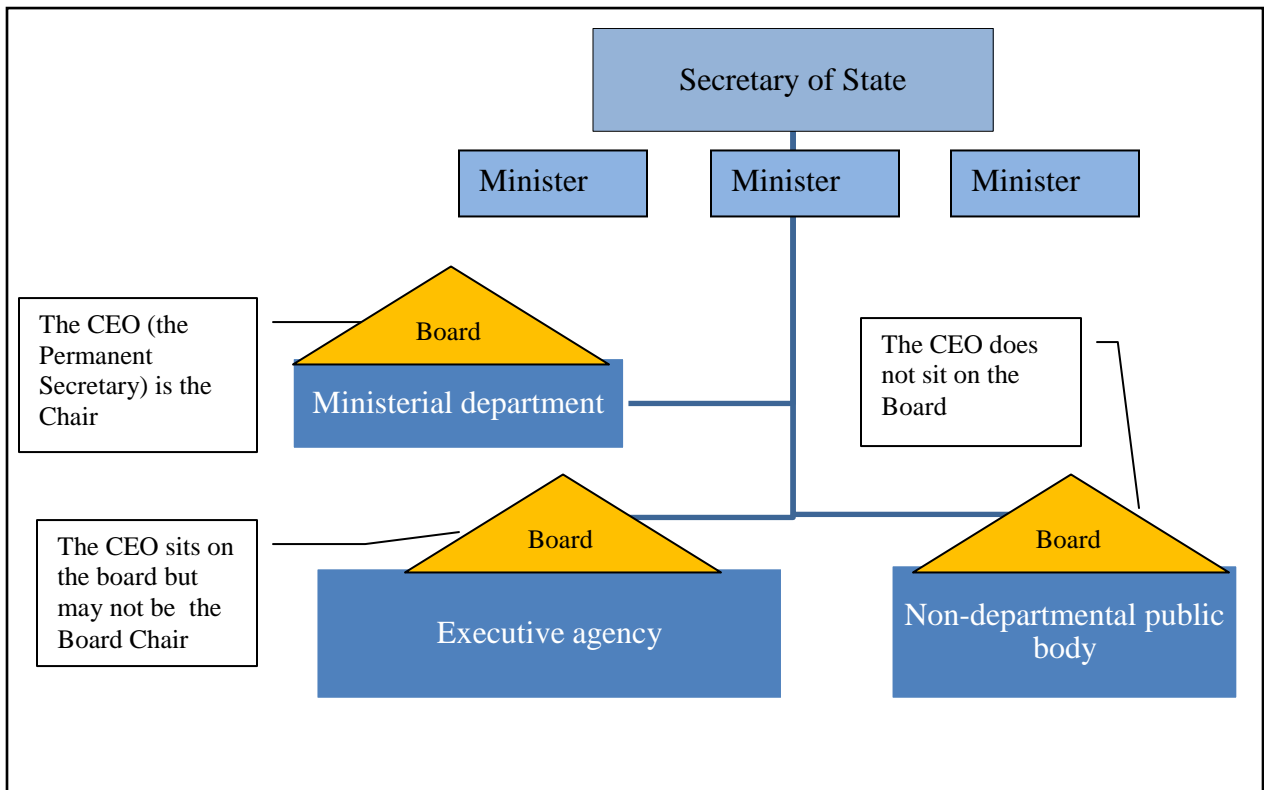
The following chapters will analyze country experiences in the United Kingdom, Sweden, New Zealand, Australia and Canada and the United States.

2. The United Kingdom

2.1. Overview

In the UK, boards are used at both department and agency levels. “Every accounting unit of [UK] central government now has a board although they vary in composition, nomenclature and influence” (Wilks, 2007). Department boards are required in all Government departments as stipulated in The Code of Good Practice published by HM Treasury in 2005 (HM Treasury, 2005). Agency boards are not mandatory but they exist as a good governance practice. See the figure below for illustration.

Figure 2. Board Models in the UK
(Board arrangement may differ from organization to organization)



The following table summarizes key findings about boards in the UK public sector, based on an examination of several departments and agencies. More in-depth research is needed if it is to cover all public agencies in the UK.

Table 1. Boards in the UK public sector – Key findings

Description	Executive Agency/ NDPB Board		
	Department (Ministerial-level) Board	Partial Governing	Advisory
<i>Board type</i>	<i>Partial Governing</i>	<i>Partial Governing</i>	<i>Advisory</i>
Main roles	<ul style="list-style-type: none"> - Taking forward the department's agreed strategic aims and objectives - Advising on the allocation of its financial and human resources to achieve those aims. - Managing departmental resources, monitoring the achievement of performance objectives - Setting the department's standards and values 	<ul style="list-style-type: none"> - Advising the minister (the Secretary of State) on the governance of the agency, in particular its corporate plan, targets and performance - Providing guidance to the Chief Executive and the agency's management team on the operation and development of the agency - Fulfilling the goals set by ministers Monitoring and improving the agency's performance 	<ul style="list-style-type: none"> - Monitoring the performance of the Agency: tracking performance against targets and progress against deliverables, highlighting any risks, issues, opportunities and achievements
Sets performance targets	Yes	Yes	Yes
Monitors performance against targets	Yes	Yes	Yes
Briefs minister about agency performance	Yes	Yes	No
Composition	5-15 members, one third are NEDs	10-15 members, one third are NEDs	N/A
Appointed by and report to	Secretary of State	Secretary of State	The agency's CEO
Terms	1 – 3 years	1 – 3 years	N/A
Compensation	Only for NEDs	Only for NEDs	N/A
Frequency of meeting	Once a month	4 – 6 times a year	N/A

Source: Authors

Although boards are used mainly as a governing device, they are also the channel through which the Secretaries of State (the counterparts of Ministers in some other jurisdictions) get information

about departments and agencies' performance because they are ultimately accountable to the Secretaries of State for the performance and results of their organizations. Section 2.2 describes the functions, composition, and other details of typical department and agency boards in the UK. Examples of one department board and two agency boards can be found in Appendix 2.

2.2. Main Characteristics of Boards in the UK's Public Sector

Analyzing public sector boards in the UK can be tricky. Even within a department or executive agency, there could be more than one board or committee that takes on different roles. Depending on the organization, the board with the performance supervision role can be called *management board*, *advisory board*, or *steering board*. However, most are called *management board*. This board is usually supported by subcommittees, including at least one audit committee.

The boards that carry out the functions prioritized for this paper – (i) setting the organization's performance targets to make sure those targets are fair and appropriate; (ii) monitoring the organization's performance against these targets; and (iii) providing the heads of the portfolio and the department with objective information about the organization's performance – tend to be *partial-governing boards*. Although they govern and manage these organizations, they do not have the power to appoint or remove the chief executives: the Permanent Secretary in the case of institutions within Departments, and the CEO for agencies and Non-Departmental Public bodies (NDPBs). The main characteristics of these boards including: (1) Role; (2) Composition and appointment mechanism for board members; (3) Accountability; (4) Remuneration; and (5) Board Performance, are analyzed below.

2.2.1 Board's role

The Code of Good Practice suggests that departmental boards should take the following responsibilities:

- Take forward the department's agreed strategic aims and objectives;
- Advise on the allocation of its financial and human resources to achieve those aims;
- Manage departmental resources, monitoring the achievement of performance objectives;
- Set the department's standards and values;
- Maintain a transparent system of prudent and effective controls (including internal controls);
- Assess and manage risk; and
- Lead and oversee the process of change, encouraging innovation, and where appropriate enterprise, to enhance the department's capacity to deliver.

Depending on the departments, boards may emphasize some of the above responsibilities or include some other duties not mentioned in the Code. For example, some boards are more involved in the policy setting process with ministers besides their main role of monitoring the department's performance, while others focus only on performance. The roles of boards of the Department for International Development (DFID), the Identity and Passport Service and Companies House – an executive agency under the Department for Business, Innovation, and Skills (BIS) – are detailed below for illustration.

Box 1. Examples of Board Roles: Department for International Development (DfID); Identity and Passport Service (executive agency within Home Office); and the Companies House (executive agency under the Department for Business, Innovation and Skills)

DfID. The Board's role is to provide strategic direction to the management of DFID's operations, staff and financial management, within the parameters of policies set by and in consultation with the Secretary of State. The main focus of the Board's work is to:

- *Communicate the vision, role, direction and priorities of DFID to staff and other stakeholders*
- *Ensure effective allocation and management of DFID's staff and financial resources*
- *Monitor and improve DFID's performance;*
- *Protect and enhance DFID's reputation as a highly effective international development organization.*

Identity and Passport Service. The IPS Board works with the Home Office, key partners and stakeholders to ensure the department meets its objectives.

The IPS board is responsible for leading the agency and ensures that they:

- *Fulfill the goals set by ministers*
- *Ensure the agency can meet future challenges*
- *Maintain high standards*

Companies House. The Companies House's board has two main roles as defined on its terms of reference:

- (i) *To advise the Secretary of State (of BIS), generally through the DG of Fair Markets, on the governance of the Agency, in particular its corporate plan, targets and performance; and*
- (ii) *To provide guidance from a commercial or business standpoint to the Chief Executive and his senior team on the operation and development of the Agency*

Source: websites of institutions - more detailed information about these boards can be found in Annex 2.

2.2.2 Board Composition and Appointment mechanism for board members

Department and agency boards are usually appointed by the Secretary of State of the portfolio to which they belong. The boards of UK departments and agencies are comprised of both executive and non-executive directors (NEDs). NEDs are expected to bring external viewpoint and challenges to managerial decision-making, as well as provide objective opinions and specialist skills that the departments/agencies otherwise will have difficulty getting access to.

The proportion between executive directors and NEDs varies across organizations, but typically NEDs do not make up to more than one third of the total number of directors although this is not always the case. The Code makes appointment of NEDs mandatory. "The board should include independent non-executive members to ensure that executive members are supported and constructively challenged in their role" (HM Treasury, 2005, p. 11). Each board should have at least two NEDs, who are appointed by the head of department and in consultation and agreement with the minister; all boards should be independently advised by an audit committee chaired by an independent NED (HM Treasury, 2005)

The number of board members varies among departments and agencies. Some have only 5 board members, e.g., the Department of International Development (DFID). Some have as many as 15 members, e.g., HM Treasury. Most boards have about 9 or 10 members. On some departmental boards the number of NEDs are equal or almost equal the number of executive directors. For example, the Export Credits Guarantee Department Board has 5 executive and 5 non-executive directors; the Department of Health has 5 and 4 executive and non-executive directors respectively on its board.

In addition, to ensure that the board of directors of every accounting unit is capable of understanding financial data, HM Treasury insisted that every board should include a professionally qualified finance director by 2006 (Wilks, 2007).

Departmental boards are usually chaired by the Permanent Secretary. Some are chaired by the Secretary of State, such as the Board of the Department for Communities and Local Government. Only a few are chaired by a NED, such as the Board of the Export Credits Guarantee Department and the Internal Revenue Agency, among others. Agency boards are more likely to be chaired by a NED than their departmental counterpart, but most of them are chaired by the agency's Chief Executive. Structural reforms aimed at ramping up board's effectiveness recommend that secretaries of state chair departmental boards in place of permanent secretaries, and that they be backed up by newly recruited Lead Non-Executive Directors. (McClory, 2010a).

2.2.3. Accountability

Both the Board and the Chief Executive of a department or agency are held accountable to the responsible Secretary of State for the organization's performance. The accountability arrangements for UK department boards are not always made clear, resulting in unclear role and accountability issues, which creates a barrier to good performance (Parker, et al., 2009).

2.2.4 Remuneration

Executive directors do not receive extra compensation for serving on board other than their salaries. Non-executive board members, who usually work part-time, normally receive compensation for serving on the board. Depending on the actual time they contribute to the board's work, they can receive around £15,000 per year (equivalent to US\$ 24,675). Actual amounts range from £2,000 to £30,000 or more (equivalent to US\$ 3,290 to US\$ 49,350). In general, remuneration for NEDs is similar to that of an executive director working full time but taking into account the actual time they serve, i.e., if their total work hours total just one month, they receive an amount equivalent to the one-month salary of an executive director. Funding for boards come from the annual budget of the departments and agencies. The Government does not provide an additional allocation for departments to pay for the services of NED (McClory, 2011, interview). Therefore, it is up to each department or agency to come up with the resources needed to finance NEDs.

2.2.5 Performance

According to Parker et al (2009), public organizations are very diverse in terms of functions, sizes, and the legal framework within which they operate, so their boards also "vary immensely in role, function, structure, processes and, perhaps most importantly, performance." Boards' performance are "highly variable" across Whitehall and generally they "have not yet reached

their potential as mechanism of departmental oversight and strategic leadership” (Parker et al., 2009: 44)

Parker et al (2009) also identify the following barriers to boards’ effectiveness: “*variable ministerial engagement, inconsistent evaluation and development processes, an imbalance of power on the board, a lack of constructive challenge to senior management, and under-utilized NEDs*”. Besides, the long-standing challenge of “*accountability in the relationship between minister, permanent secretary and the board remains unresolved.*” “The way that the board and minister work together is crucial in the development of strategy, but this relationship remains at best uncodified and at worst cloudy in most departments.” (Parker et al., 2009: 44). From their research, they conclude that “higher performing boards tend to spend more of their time on performance management, thereby taking an active role in the delivery of policy.”

Wilks (2007) argues that *the private sector board of directors does not fit the public sector*. “The private sector board controls management through appointment of senior executives, monthly financial reports and the processes of internal and external audit”, but in reality, the chief executive of a public agency may be a senior civil servant, an outsider appointed on a short-term contract, or a minister. “For the public sector board effectively to control management it must appoint senior staff, fix remuneration and operate stringent audit and risk policies” (Wilks, 2007: 455).

McClory, who coauthored the “Shaping Up” report in 2009, points out that previous “soft-touch attempts at reform” have not been effective “in standardizing or empowering departmental boards” because they fail to resolve “the core issue afflicting departmental boards”, namely their *remit and accountability arrangement*. Prior Institute for Government research on Whitehall boards reached the central conclusion that the role of these boards is often poorly defined, leaving many boards unable to make an impact on the department (McClory, 2010b).⁵

These issues will not be a problem for an advisory board whose function is just to give advice rather than to decide on all matters affecting the agency and be held accountable for its performance.

There has been no comprehensive study about the performance of governing boards of agencies and NDPBs in the UK, therefore, it is impossible to give a firm conclusion backed by evidence about their performance. However, some scholars argue that when it comes to monitoring agencies’ performance, there is an opinion that agency boards are more powerful and important than their departmental counterparts (McClory, 2011, interview).

⁵Under existing arrangements, departmental accountability rests with the secretary of state for policy and performance; and with the permanent secretary for the stewardship of departmental resources. If the secretary of state and permanent secretary share ultimate responsibility for the management of their department, what is the board accountable for? In changing the dynamic of the board without resolving the issue of accountability, the new enhanced protocol may further confuse, rather than clarify, the role of the board. (McClory, 2010)

3. Sweden

3.1. Overview

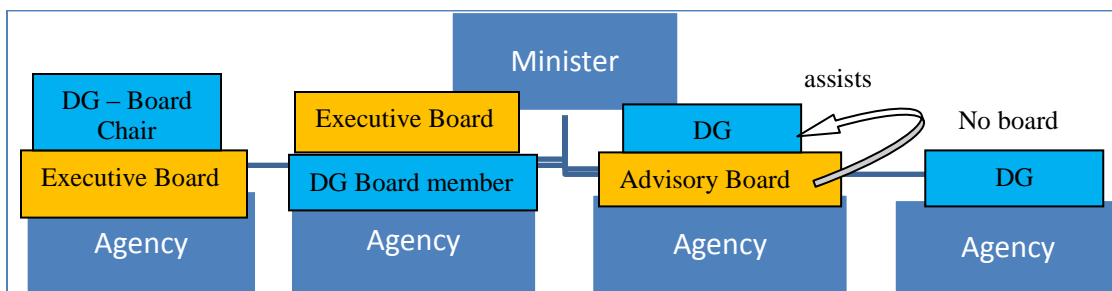
As in the UK, boards are used in Sweden’s public sector for governing and management purposes. However, unlike the UK, Sweden does not have boards to manage departments, but rather only agencies. This has to do with the fact that each country comes from a very different institutional history: the UK started from a situation where the Ministry was in direct control of the agencies’ functions and went to a situation where the Ministry has to deal with independently managed agencies, and needs to find suitable mechanisms to enhance control; conversely, Sweden started from a situation where the Ministry never was in direct control (the agency system was set up in 1632 and ministries only came into existence towards the end of the 19th century), and now needs to strengthen the political control over certain agencies within the existing constitutional framework.

Also unlike the UK, boards in Sweden are used not only for policy coordination but to facilitate inter-agency cooperation and to engage stakeholders. This is illustrated by the composition of Swedish boards, which include members from different ministries and branches of government.

There are two types of boards in Swedish public sector: *partial-governing boards* (called executive boards) and *advisory boards* (Rexed 2011). Executive boards in Swedish agencies are *partial-governing boards* as they do not have the power to hire or remove the chief executives of agencies - the Director General (DG).

Agencies that have no executive boards may have *advisory boards* to advise the Director General (DG) about performance issues, but this is not always the case. According to Niklasson (2011), “in those cases when a higher degree of transparency is required, e.g. when the agency’s assignment involves more sensitive integrity issues, the Director General is provided with an advisory council” (advisory boards). Their purpose is to supply knowledge and expertise, not to make decisions. “In 2008, 57 percent of the agencies were run either by the DG alone, or by the DG accompanied by an advisory council (Statskontoret, 2008, cited in Niklasson, 2011, p. 9). Unlike the model of interest to enhance coordination between ministries and agencies, when an advisory board is set up to assist the DG, its mission is to give advice about performance issues to the agency’s DG and not the minister in charge of the portfolio. Figure 3, below, summarizes agency governance structures and typical board arrangements in the Swedish public sector.

Figure 3. Sweden - Agency governance structures and typical board arrangements



Source: Authors

Table 2, below, summarizes key findings about boards in Swedish public sector. Section 3.2 describes the functions, composition, and other details of agency boards in Sweden.

Table 2 - Boards in Swedish public sector – Key findings

Description	Agency-level Boards	
<i>Board type</i>	<i>Advisory</i>	<i>Partial-governing</i>
Main roles	<ul style="list-style-type: none"> • Assisting the agency head (Director-General - DG) in making decisions of the agency • Advising the agency head about performance targets and good management practices 	<ul style="list-style-type: none"> • Governing the agency • Setting agency's performance targets • Managing the agency's resources • Monitoring the agency's performance and ensuring it achieve the targets
Sets performance targets	Yes	Yes
Monitors performance against targets	Yes	Yes
Briefs minister about agency performance	No	Yes
Composition	5 – 9 members (all NEDs)	5- 10 members (mostly NEDs)
Appointed by/report to	The Cabinet of Ministers/the DG	The Cabinet of Ministers
Terms	1 – 3 years	1 – 3 years
Compensation	fixed salary / compensation for each meeting session	fixed salary / compensation for each meeting session
Frequency of meeting	About four times a year	About four times a year

Source: Authors

3.2. Main Characteristics of Boards in Sweden's Public Sector

The analysis of boards in Sweden's public sector, located at the agency level only, includes board composition, appointment and remuneration of board members and performance, following the two different types described in Table 4 above: *executive* and *advisory* boards.

3.2.1 Executive boards

According to Pollitt (2004), many agencies in Sweden have executive boards (also called

management boards) that manage the agencies together with the Directors-General. “In 2008, 33 percent of Swedish agencies were organized in this way” (Statskontoret, 2008, cited in Niklasson, 2011: 9). These boards are *partial-governing boards* because they have all the governing and management power regarding the agencies except for the power to appoint or remove the agencies’ heads (the DG). According to Rexed (2011, interview), even though executive boards in Swedish agencies cannot appoint or remove the DGs, they are still held accountable to the responsible ministers (and the Government) for the agency’s performance. They have also been seen “as a way to ensure the compliance of agencies” (Rexed, 2011, interview & Pierre 2004 cited in Pollitt, 2004, p. 90). In this sense, executive boards in Swedish agencies do monitor agencies’ performance and bridge the gap between agencies and ministries when it comes to information about agencies’ performance.

There are two types of executive boards in Sweden: *limited responsibility* boards, and *extended responsibility* boards. A limited responsibility board is chaired by the DG of the agency and includes several board members who are appointed for a period of three years. An extended responsibility board is not chaired by the DG although he or she can be a board member, and other members serve for only one year. Both the board and DGs of agencies are appointed by the Government.

In terms of composition, executive boards are usually composed of people from outside of the Government (non-executive directors) mostly from the private sector. They are expected to bring in professional and technical expertise and experience. Board members are compensated for serving on board. Remuneration is different from case to case, but agencies usually have to pay more for board members who come from the private sector than those who are from the civil service (who are also remunerated). Board members usually work part-time and the frequency of their meetings vary from case to case, but generally they meet several times a year.

The different governance structures related to boards in the public sector agencies in Sweden and the partial-governing nature of the board can bring particular problems. For example, conflicts may occur between the DG and the executive board (*partial-governing* board) of an agency, especially when the DG is just a member of the board instead of being the board chair. If there is a disagreement between the board and the DG and the DG cannot get over the conflict, he or she may choose to resign. If the DG refuses to resign, the board can raise the issue to the minister, and even though they cannot remove the DG, they can influence the minister’s decision. If the minister agrees with the board, the DG may be transferred to another post; if the minister stands on the side of the DG, the board may be replaced.

This kind of conflict may hamper the board’s performance but this situation is not very common. According to interviewees, *partial-governing* boards and the chief executive of Swedish agencies are perceived to generally know how to work well with each other.

Even though no performance evaluation of executive and advisory boards across Swedish agencies could be found, interviews reflected that Swedish agency boards are perceived to have good performance.

3.2.2. Advisory boards⁶

Advisory boards are also called advisory committees, which “assist the Director-General (DG) in making decisions of the agency and offering insight into the agency’s performance” (Pollitt, 2004: 90). Not all agencies’ advisory boards merely play an advisory role and all the executive decision rests with the DG (Rexed 2011).

Even though advisory boards in Swedish agencies do not provide the responsible ministers with information about the agencies’ performance, they do provide the heads of the agencies with some kind of neutral and technical advice on the management of the agencies and the achievement of its goals as an institution.

In terms of composition, the advisory board of an agency is composed of about 5 – 9 members, all of them NEDs, although many of them are public servants by other agencies and may not necessarily technical experts on the topic. They may come from the academia, private sector, or another government agency. The number of members is determined on a case-by-case basis, depending on what interests/perspectives that the Government feels should be represented. Table 3 provides some examples of board composition in Swedish advisory boards.

Table 3. Examples of Composition of Advisory Boards - Selected Swedish agencies

Name of Agency	Advisory Board Composition	
	Number of Members	Backgrounds of Members
The Data Inspectorate	5	2 members of the Parliament
		1 local government politician
		1 university professor
		1 deputy DG of another agency
The National Board of Health and Welfare	7	1 member of the Parliament
		1 local government politician
		3 national trade union representatives
		2 representatives for private care providers
The Swedish Customs	8	1 member of the Parliament
		4 representatives from other government agencies
		1 representative from the Ministry of Finance
		2 representatives for private exporters/importers

Source: Authors

As in the case of executive boards, the Cabinet of Ministers appoints the members of the advisory boards. Advisory board members work part-time only, and do not have to take time off from their normal employment for serving on board. Each board sets its own meeting schedule, but sometimes the head of the agency decides this matter. The frequency of meetings varies from board to board, while quarterly meetings would be considered normal, more meetings may be

⁶ Most information in this section was provided by Mr. Knut Rexed, former Director-General of *Statskontoret*, the Swedish Agency for Public Management, and former State Secretary in the Swedish Ministry of Finance.

called when required. Board members are compensated by an honorarium and, in addition, paid a compensation for each session that they participate in.

Conflict between the DG of an agency and the advisory board is rare because the ultimate decision-making power lies with the DG. If the DG does not agree with board, he or she could go ahead with what he or she intends to do. If boards do not agree, board members may resign or be replaced.

3.3. Coordination Mechanisms Other than Boards

Flexibility is the distinguished feature of the Swedish Government. There is no one solution to any problem, but there are always options. The same is true when it comes to managing agencies performance.

Although the Swedish Government can take control agencies through the appointment of the DGs and management boards and hold them accountable for agencies' performance as described in the previous sections, there are other ways through which coordination is carried out. For example, passing new laws to exercise influence over the agency, or linking budgetary controls to agency objectives that started in the early 1990s (Pollitt, 2004, Niklasson, 2011), are all ways to enhance ministerial control of agencies' performance.

The short-term goals of the agencies are specified in the letters of allocation that are issued by the Government every year. These letters specify what goals the agencies should obtain during the coming year, how the achievement of these goals shall be reported (form and frequency of reports, performance indicators, etc.), and the allotted budget for accomplishing these tasks. Normally, the letter of allocation is drafted in close collaboration with the agency in question. (Niklasson, 2011: 9).

The current performance management system is based on the recommendations of a report presented by a Commission in 2007, which was later implemented by the government, leading to substantial simplifications of the systematic goals hierarchy.⁷

Finally, and besides this new framework, the Government may establish an ad hoc commission to evaluate the performance of an agency, as in the case of the agency named *Verket för förvaltningsutveckling*⁸, or hire outside consultants to do the job.

⁷ For more detailed information see: "Att styra staten– regeringens styrning av sin förvaltning" or "Controlling the State: Government Control of its Management". The full report and a summary in English is available at: <http://www.sweden.gov.se/content/1/c6/09/15/18/9b69d35c.pdf>

⁸ *Verket för förvaltningsutveckling* was recently created by the previous government with the responsibility of promoting e-government, however, the new government is skeptical about its creation, so in 2006, it ordered a one-man commission to evaluate the agency, not only its performance but also its aim – the justification behind its creation. The commission was created temporarily, and a date by which it had to report the results back to the government was identified. After the mission was accomplished, the commission ceased to exist.

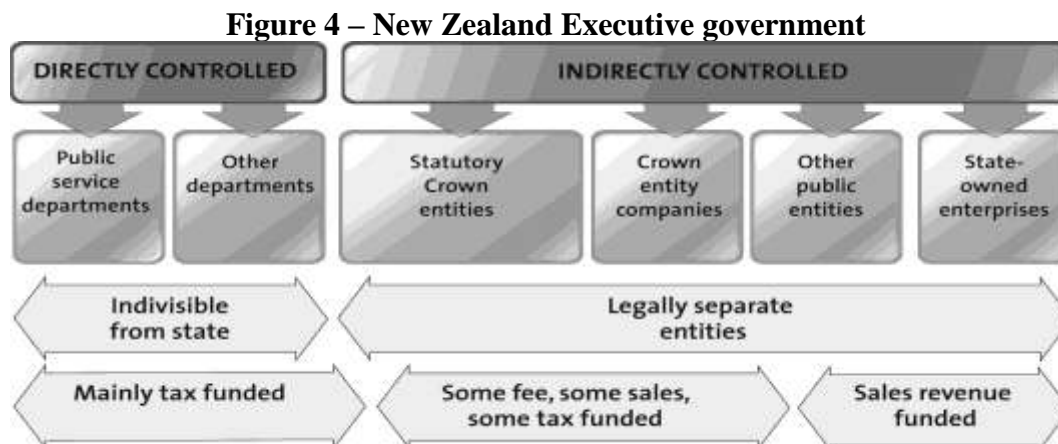
4. New Zealand

4.1. Overview

Unlike the UK and Sweden, New Zealand only has *full-governing boards* for its Statutory Crown entities and State-owned enterprises (SOEs). SOEs are commercial entities that are incorporated under the Companies Act 2002 as private companies and subject to the State Owned Enterprises Act 1985. Statutory Crown entities are bodies established under the Crown Entities Act 2004 in which the Government has a the sole controlling interest - - but which are legally separate from the Crown.⁹

A decision to assign a government activity or function to a Crown entity indicates that the function should be carried out at "arm's length" from the government". As reflected in the definition of the state services in [section 2](#) of the [State Sector Act 1988](#), Crown entities (except tertiary education institutions and their Crown entity subsidiaries) are, however, instruments of the Crown. Ministers, Crown entity boards, and monitoring departments participate in the governance of Crown entities in different ways (Cabinet Manual, 2008¹⁰)

The first phase of reforms involved shifting commercial or market trading activities into State Owned Enterprises. Thereafter the number of Crown entities surged under the public sector reforms of the late 1980s t, transferring "most of its functions into Crown entities and using market-based forms of governing whenever possible" (Bouckaert *et al.* 2010, p. 113). During the 1990s, the number of Crown entities increased to around 180 (excluding schools and subsidiary companies. Figure 4 illustrates how Statutory Crown and State Owned Enterprises entities fit into New Zealand's state sector.



Source: Gill, D. *The Iron Cage Recreated The performance management of state organizations in New Zealand.* Institute of Policy Studies. (2011)

⁹ Information obtained from the website of The Treasury (New Zealand) <http://www.treasury.govt.nz/statesector/crownentities>. For details on the Crown Entities Act see Derek Gill [IPS WP 09/12 - Reform of the Arms Length Government Through the Crown Entities Act \(2004\) – the Drunk and the Lamp Post?](#) Some examples of New Zealand's Statutory Crown Entities are: Commerce Commission, Securities Commission, Standards Council, Crown research institutes, New Zealand Symphony Orchestra, etc.

¹⁰ Retrieved from <http://www.cabinetmanual.cabinetoffice.govt.nz/3.28>

The boards of New Zealand’s Statutory Crown entities and State Owned Enterprises are *full-governing boards*, which have the power to appoint and remove the chief executives of the entities (there are no very few *partial-governing boards* in New Zealand¹¹). One of their main functions is ensuring the entities achieve results within budget. They also set performance targets and monitor agency performance against these targets. Besides, they are expected to engage constructively and professionally with the responsible Minister and their staff in performance related matters regarding the agencies. Table 4 represents key findings about New Zealand’s Statutory Crown Entities’ Boards.

Table 4 - Boards in New Zealand public sector – Key findings

Description	Statutory Crown Entities’ boards
Board type	<i>Full-governing</i> (having the power to appoint and remove the CEOs of the agencies)
Main roles	<ul style="list-style-type: none"> • Appoint Monitoring and Support the Chief Executive • Governing the entity • Set strategic direction • Making decisions (whether themselves or through delegates) about the operation of the entity • Ensuring that the entity's functions are performed efficiently and effectively • Ensure risks are identified and managed effectively mitigated • Monitoring and reporting their Crown entity’s performance to the responsible Minister
Sets performance targets	Yes
Monitors performance against targets	Yes
Briefs minister about agency performance	Yes
Composition	7-10 members (all NEDs)
Appointed by/report to	The responsible Minister
Terms	1 – 3 years
Compensation	NZ \$10,000 - \$15,000 (equivalent to US\$ 11,320 to US\$ 16,980)
Frequency of meeting	Up to 12 times a year (normally 4 – 6 times a year)
Required process	Induction and training for board members

Source: Authors

¹¹ There is limited sue of Advisory Boards. For example the Secretary of the Treasury has a long standing Advisory Board that reviews the operation of the Debt Management Office and the Secretary has recently established an advisory board for the Treasury as a whole. That said, advisory boards are relatively rare in NZ Ministries.

The following section describes these boards in detail. Most of the information, otherwise noted, is obtained from the Crown Entities Act 2004 and relevant Treasury guidance material on information relating to the monitoring of Crown entities by departments.

4.2. Main Characteristics of Boards in New Zealand's Public Sector

4.2.1 Board's Role

Crown entities' boards are charged with the following roles:

- Appoint Monitoring and Support the Chief Executive
- Be the governing body of the entity
- Set strategic direction
- Exercise the powers and perform the functions of the entity
- Make decisions (whether themselves or through delegates) about the operation of the entity
- Ensure that the entity's functions are performed efficiently and effectively
- Ensure risks are identified and managed effectively mitigated
- Monitor and report their Crown entity's performance

4.2.2 Board Composition and Appointment mechanism for board members

According to Gill (interview), governing boards of New Zealand Crown entities do not have executive directors. This is very different from the board models in the UK, which are composed of both executive and non-executive directors. Not only are agency managers and staff not allowed sitting on the board, unlike Sweden which relies on public servants and elected officials as board members, staff of monitoring departments are also forbidden and those from non-related departments are discouraged. However, occasionally, a chief executive who is about to retire can be allowed sit on board of a non-related organization as a transition into private life.

The reason behind this rule, as explained by Gill, is that New Zealanders see the board as a corporate governance device, not a coordination device – even though as mentioned above one primary roles of the board is to monitor and report the agency's performance. Forbidding or discouraging civil servants to sit on the board of a Crown entity is a way to prevent conflict of interest. In this sense, the governing structure of New Zealand Crown entities is very similar to that of a private corporation in that there is a clear line between governance and management (in a private sector company, managers do not usually sit on the board of directors).

As a result, almost all Crown entities' board members come from outside of the government, mostly from the private sector. The backgrounds of board members vary, depending on the skill set needed for the organization, but it is rather common to see many of those with finance, law and other technical backgrounds sitting on boards of Crown entities.

All board members of Crown entities are appointed, reappointed, and removed by the Crown entities' responsible ministers. The appointment, reappointment, and removal of board members are processes through which ministers make sure an effective board is in place to govern the Crown Entities, but which are mainly political (see point 4.2.5 on Performance).

4.2.3 Accountability

The board members of Crown entities are accountable to the Minister for complying with:

- The board's collective duties;
- Their individual duties as members (these duties are also owed to the Crown entity); and
- Any directions applicable to the Crown entity.

4.2.4. Remuneration

Board remuneration varies across Crown Entities, but generally speaking, people serving on boards of crown entities receive less remuneration than those serving on SOEs boards (SOEs usually pay the market rate for board members). To illustrate this situation, a Director of an SOE could expect to be paid approximately the equivalent of US\$ 27,000 to US\$ 35,000 to prepare and attend around 12 meetings a year. By contrast, a Crown entity board member would be paid around US\$ 11,320 to US\$ 16,980 per annum. Generally, payment depends on the size and complexity of the organization, and whether the person is a member or the chair, among other factors (Gill, 2011).

4.2.5 Performance

According to Gill (interview), New Zealand has experienced an entire range of good boards, mediocre boards, and bad boards. Board performance varies, and it is the function of the board dynamics and the agency's functions. Board dynamics matter because boards are groups of people, so if they can work well as a team, they can produce good results as a collective body. In terms of agency's functions, in general, those with functions that are at arm's length from the minister and the minister doesn't get very actively involved work better with the board than those with functions that are highly politically salient.

Gill also points out that one major weakness of New Zealand's public sector boards lies in the fact that board members are politically appointed, especially in the absence of a sound and careful review process of those nominated to serve on the board.

4.3. Coordination Mechanisms Other than Boards ¹²

As happens in most Parliamentary systems with boards, ministers get information about Crown entities' performance through the board itself but also through monitoring departments. The extent to which Ministers rely on the services provided by departments to support their interactions with Crown entities varies significantly. The Cabinet Manual specifically states:

Each Crown entity has a monitoring department, which monitors the Crown entity, provides the Minister with information about the Crown entity's performance, and ensures that the Crown entity's approach is consistent with government goals.

A monitoring department is responsible to a portfolio Minister for monitoring Crown

¹² Information in this section is from the *Guidance to departments in relation to Crown Entities* published by the Treasury and State Services Commission of New Zealand in 2006 if not otherwise noted. (in text citation: 'Treasury, 2006')

entities within that portfolio on the Minister's behalf. Memoranda of understanding can help clarify the respective roles of Ministers, Crown entities, and monitoring departments.¹³

As also happens in other countries, monitoring approaches differ from department to department, reflecting the differences between types of entities and their enabling legislation and the preferences of the Ministers. There is specific guidance which attempt to standardize the type of services to be provided to ministers regarding coordination of crown entities within their sector (see Box 2 below). In practice however there is a wide range. In the extreme some departments act as a 'post box' and board appointment process are run out of the Minister office. In other cases there is a deep and engaged relation between the entity and the monitoring department.

Box 2. New Zealand: Support Services from Departments to Ministers for Coordination of Crown Entities within their sector

- Prepare initial briefing on each entity that, among other things, gives the Minister a 'heads up' about how to work with the type of entity, and provisions in the entity's empowering legislation or other legislation that materially modify core governance provisions in the Crown Entities Act 2004.
- Briefings to support Ministers' engagement with entities on strategic matters.
- Ongoing briefings on each entity that identify emerging governance or performance issues that require the Minister's attention.
- Management of all processes relating to board membership, including appointments, re-appointments, setting members' fees, helping the board induct and train new members, and ensuring compliance with Cabinet expectations and processes in respect of these matters.
- Transmittal of information to each entity about relevant decisions, and/or changes in policy by the Government, relevant, government processes, especially the Budget, and the, Government's expectations of the entity.
- Critical review of the entity's draft Statement of Intent (SOI).
- Negotiation of an annual output agreement and any protocols (e.g. relationship protocols) as required by the Minister.
- Monitoring of each entity.
- Advice on the compliance of Crown entities with their legislation.
- Where appropriate, leadership and/or coordination of departments and entities working within a sector, or working in pursuit of interdependent results.

Source: Guidance to Departments in Relation to Crown Entities, Treasury and the States Services Commission, Government of New Zealand http://www.ssc.govt.nz/sites/all/files/guidance_depts_in_relation_crownentities.pdf

¹³ Retrieved from <http://www.cabinetmanual.cabinetoffice.govt.nz/3.28>

Within departments, different units tend to monitor specific aspects of Crown entities' performance in the sector. For example, the Policy, Regulatory and Ethnic Affairs branch of the Department of Internal Affairs, besides providing policy advice to the Department's Ministers, is also responsible monitoring of and advice on appointments for a number of Crown entities and other public bodies, such as New Zealand Fire Service Commission, Office of Film and Literature Classification and Charities Commission.

5. Australia

5.1. Overview

Australia's public sector has *full governing* boards for statutory authorities operating under the Commonwealth Authorities and Companies Act 1997 (the CAC Act), and informal *advisory boards* for those agencies operating under the Financial Management and Accountability Act 1997 (FMA Act), designed for those agencies with a single Chief Executive at their apex .

A statutory authority is a body established through legislation for a public purpose. Statutory authorities are created to carry out particular activities deemed desirable to operate outside a traditional departmental structure, subject to varying degrees of ministerial control specified in legislation (Uhrig, 2003: 16). These authorities are legally and financially separate from the Australian Government (the Commonwealth), and are predominately non-commercial, with over 80% of them dependent on Government funding (Levi, 2011). Other statutory authorities do undertake commercial operations, generating outcomes that the Commonwealth is not solely responsible for, or whose equity the Commonwealth does not fully own.¹⁴ Unlike in the UK, departments and agencies that are legally and financially part of the Commonwealth, tend to have no boards (Uhrig, 2003; Finance, 2005).

The CAC Act statutory authorities have *full-governing* boards, which set strategic directions for the authorities, make all decisions regarding the authorities (including selection and dismissal), manage the authorities' performance, and provide information about the authorities' performance and results to responsible ministers when requested. In fact, CAC Act bodies have a governance structure similar to that of companies in the private sector of Common Law countries (such as Australia, Canada, New Zealand, the UK and the US).

The FMA Act, which applies to budget funded authorities managed by a Chief Executive, can have boards, but these are mostly informal – although a small number have been established by legislation. Boards under the FMA Act are not reviewed in further detail in this report.

The governance arrangements established by the CAC and FMA Acts were reviewed by the *Uhrig report* (2003), which examined corporate governance of statutory authorities and provided recommendations for improvements.¹⁵ The report found that the governance arrangements of statutory authorities were unclear and inadequate. In terms of public sector boards, the report recommended that “*boards should be used only when they can be given full power to act. It is not feasible to have a board in authorities where Ministers play a key role in the determination of policy. In this case, governance can best be provided by executive management*” (Parliament of Australia, 2005: 1).

¹⁴ Examples of CAC Act bodies which have governing boards include: the Australian Sports Commission, the National Film and Sound Archive, the National Gallery, the National Museum, and the Australian Institute of Health and Welfare, among others.

¹⁵The report *Review of the Corporate Governance of Statutory Authorities and Office Holders*, also known as the “Uhrig report”, was a request by Prime Minister the Hon. John Howard commissioned to a team led by John Uhrig to review the corporate governance of statutory authorities. The terms of reference required an examination of the relationships between statutory authorities and the responsible minister. The purpose of the review was to assist in improving the performance of these bodies, without compromising their statutory duties.

This particular recommendation was implemented during the creation of the Department of Human Services in 2005, which oversees six agencies. The boards of these agencies were abolished, as they were perceived to “interfere with the new department’s coordinating role and its charter to deliver services effectively and efficiently. [...]The intent is to establish an Advisory Board of Human Services which will advise the Secretary of the DHS, who will in turn advise the Minister. The purpose of the board is to coordinate the six agencies’ operations.” (Parliament of Australia, 2005: 1).

More in general, however, the Australian government has stopped pursuing the Uhrig’s approach due to its several limitations (Halligan, 2011, interview). More specifically:

Some criticize it for not having or disclosing an adequate underlying conceptual framework for corporate governance. Some chide it for being selective in its consultations and focus. Despite its rhetorical references to constitutional, parliamentary, and public responsibility and accountability, some note the relatively light treatment of these dimensions in its recommendations about governance arrangements and accountability frameworks, compared to the heavy emphasis upon executive government control of public sector entities and their accountability to the executive government... Some rebuke it for extrapolating too simple a two-limbed template for statutory authorities from too limited a sample of investigated bodies – a deficiency that, if present, is compounded by the government’s extension of the Uhrig Report to all portfolio bodies.

(Halligan, 2005: 10)

The Australian public sector is now in transition, and options for a new governance and accountability framework are being debated. The Australian government is currently considering merging the FMA Act and CAC Act, and if it is to be materialized, it signals the end of the Uhrig approach (Halligan, 2011). Table 5 presents key findings about governing boards in Australian statutory authorities that operate under the CAC Act as of September 2011.

Section 5.2 describes these boards in greater detail. Most information is obtained from the Uhrig report and Finance (2005), unless otherwise noted.

5.2. Main Characteristics of Boards in Australia’s Public Sector

5.2.1 Board’s role

As *full-governing boards*, CAC Act statutory authority boards are in charge of appointing, supervising the CEO, and terminating the CEO’s contract (consultation with the Minister prior to the appointment and termination of CEO is recommended). Also, boards are responsible for the performance of the authority’s functions, ensuring that management develops relevant indicators to accurately measure the performance of the authority.

In addition, boards are in charge for approving the statutory authority’s strategy and the annual corporate plan. Both pieces are developed by management and, once approved by the board, are submitted for ministerial endorsement, and overseeing its implementation and ensuring risks are adequately managed.

Finally, the boards are also responsible for informing the Minister in a timely manner of significant issues impacting on the authority, including risks and associated mitigation strategies.

Table 5 – Boards in Australian public sector – Key findings

Description	Boards of CAC Act Bodies
Board type	<i>Full-governing</i>
Main roles	<ul style="list-style-type: none"> Monitoring the performance of the authority, ensuring that management develops relevant indicators to accurately measure the performance of the authority Approving strategy, annual corporate plan developed by the management team for ministerial endorsement, and overseeing its implementation and ensuring risks are adequately managed
Sets performance targets	Yes
Monitors performance against targets	Yes
Briefs minister about agency performance	Yes
Composition	7- 10 members (mostly NEDs, except for the Chief Executive)
Appointed by/report to	The Minister or Governor General/ the Minister
Terms	1 – 3 years
Compensation	About \$10,000 (AUD) (equivalent to US\$ 11,050)
Frequency of meeting	Up to 12 times a year (normally 5-7 times a year)

5.2.2 Board Composition and Appointment mechanism for board members

There is a great variation among statutory authorities when it comes to board's composition, but typically, a board consists of about 10 members, most of whom are non-executive directors coming from various backgrounds. The board is usually chaired by a NED, while the executive director of the authority is only one of the members.

For example, the board of the Commonwealth Scientific and Industrial Research Organization, an Australian statutory authority, comprises a non-executive Chairman, up to eight other non-executive Members and a full-time Chief Executive. The board of the Food Standards Australia New Zealand (FSANZ), an independent statutory authority part of the

Australian Government's Health and Ageing portfolio, has twelve members, all of whom are NEDs, except for the Chief Executive Officer. They have been drawn from specialist areas - public health, food science, human nutrition, consumer affairs, food allergy, medical science, microbiology, food safety, biotechnology, veterinary science, primary food production, the food industry, food processing or retailing, small business, international trade, food regulation, consumer rights and consumer affairs policy, the National Health and Medical Research Council (NHMRC) and government. All members are part-time, except the FSANZ Chief Executive Officer¹⁶.

Board members (except for the CEO) are appointed by either the Minister or the General-Governor, on the recommendation and advice of the board chair and the parent department. Following the *full-governing* board model, the CEO is appointed by the board.

5.2.3 Accountability

The board is ultimately accountable to the responsible Minister and the Australian Government for the agency's performance. The CAC Act requires all CAC bodies to prepare an annual report and for the board to submit the annual report to the Minister who is in turn obliged to table it in the Parliament. The annual report consists of a report of operations and financial statements prepared in accordance with Orders issued by the Finance Minister, and a report on the financial statements by the Auditor-General. The CAC Act obliges the board to keep the Minister informed of the operations of the CAC body (including significant events) and to provide the Minister, and the Finance Minister, with any reports, documents or information they may require.

5.2.4 Remuneration

CAC Act bodies' board members are compensated for serving on the board. Their remuneration is subject to the Remuneration Tribunal Act 1973, but the specifics are determined on a case-by-case basis by the responsible Minister. Typically, it is about the equivalent of US\$ 11,050 per year.

5.2.5 Board performance

There is no research on the performance of boards across all Australian statutory authorities. Therefore, it would be arbitrary to make a firm conclusion about their performance. However, as in other jurisdictions having been examined, scholars perceive board performance varies widely across organizations (Halligan, 2011, interview).

Potential barriers to board's effectiveness include unclear roles of board members, conflicts of interest when a board member (director) is a stakeholder representative, in which case, the director may "sometimes feel torn between a duty to represent their outside stakeholder group and their duties to make decisions in the interests of the organization as a whole" (ANAO, 2003: 4). This is perceived to be an issue despite the law clearly mandates that board members are obliged to act in the best interests of the CAC body. Stakeholder representatives are

¹⁶ <http://www.foodstandards.gov.au/scienceandeducation/aboutfsanz/theboard/>

sometimes selected to act as board members to bring a particular perspective and expertise to the board's deliberations. In addition, the skills and experience of board members and the board chair, board dynamics, and working mechanism are also critical elements in determining well performing boards.

6. The United States and Canada

6.1 The United States

There are literally thousands of boards in the United States, however, most advisory boards and committees are established to provide advice to the Government about certain policy issues or strategies, as Brown (1955) wrote: “public sector boards [...] are concerned with broad, general areas of policy or with matters of overall national interests” (Brown, 1955, p. 196).

Unlike the UK, management boards that are modeled on the private sector’s board of directors are not common in both governmental departments and their subsidiary agencies in the U.S. However, they do exist in other types of public organizations, such as universities and independent agencies, but these boards do not normally serve as a bridge of information between governmental departments or the heads of departments and subsidiary agencies. In the United States, the main mechanism through which the Government monitors the performance of a vast number of agencies and promotes good performance is making agencies comply with various legislation, regulations, and guidelines issued by the Congress or the Government, as well as standards set by independent organizations (e.g., Government Accounting Standards Board - GASB, Federal Accounting Standards Board- FASAB).

For example, the Government Performance and Results Act of 1993 (GPRA) is a bipartisan effort to improve government performance, as well as to improve the public perception of government performance. It requires federal agencies working with the Office of Management and Budget (OMB) and Congress “to create strategic plans with long-term goals, develop annual indicators to determine whether goals were being reached, and provide annual performance reports on the results achieved”¹⁷. GPRA has primarily focused on agency-wide evaluations, although actual programs are included.

Federal, state and local government agencies also have to follow various accounting and financial reporting standards set by FASAB (for federal agencies) and GASB (for state and local government agencies). Accounting and financial reporting standards are considered to essential for public accountability and for an efficient and effective functioning of a democratic system of government. As written in FASAB Facts, they:

[...] play a major role in fulfilling the government's duty to be publicly accountable and can be used to (1) assess the government's accountability and its efficiency and effectiveness, and (2) contribute to the understanding of the economic, political, and social consequences of the allocation and various uses of Federal resources. (FASAB Facts, 2010)¹⁸

The organizations taking on the task of evaluating agencies’ performance and making sure their performance information is fair and appropriate include central governmental agencies such as the OMB, the Government Accountability Office, internal audit offices of the

¹⁷ OMB Watch, retrieved from <http://www.ombwatch.org/node/1898>

¹⁸ Retrieved from http://www.fasab.gov/pdffiles/fasab_facts_2010.pdf

agencies, and independent auditors.

The majority of U.S. researchers and former government officials interviewed do not favor using of boards in public agencies for the purpose of monitoring agencies' performance, saying they may add nothing but another layer of bureaucracy.

6.2 Canada

The role of monitoring performance of public sector agencies in Canada is played centrally by the Treasury Board Secretariat, which is considered a central management board (Karl, 2011). An administrative arm of the Treasury Board – a committee of ministers – the Treasury Board *Secretariat* “makes recommendations and provides advice to the Treasury Board on policies, directives, regulations, and program expenditure proposals with respect to the management of the government's resources”, involves in approving department and agencies' corporate plans and evaluates their performance (Treasury Board, Salgo 2011, interview).

With a few exceptions, there are generally no management boards in both ministerial departments and agencies (known as arm's length bodies). For example, the Canada Revenue Agency (CRA), an arm's length agency, has a board of directors. Because it has its own management board, CRA is not subject to the Treasury Board Secretariat's management policies and oversight (Salgo, 2011, interview).

Most other agencies, however, are directly accountable to the Treasury Board through the chief executive, and do not typically have a board of directors. The Treasury Board acts like a management board for all agencies and oversees their compliance of its management policies and financial management frameworks. All crown corporations (also known as SOEs) have boards of directors, whose members are appointed by the federal government on the nomination of relevant provinces and territories.

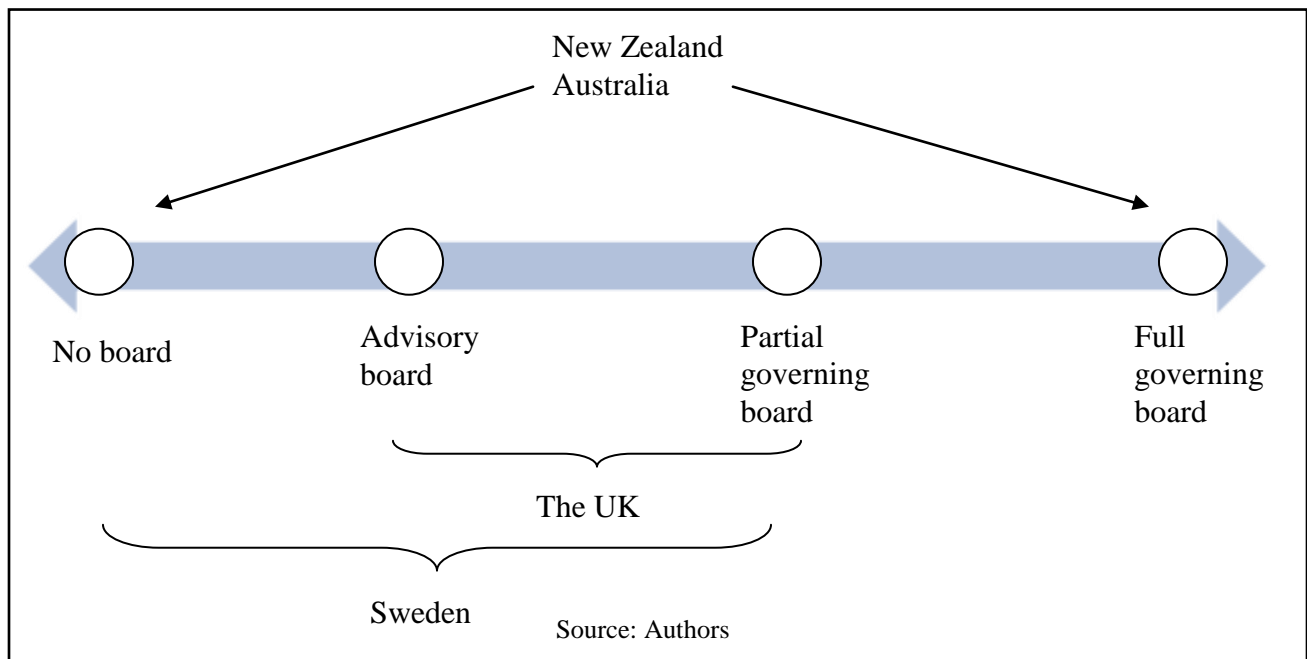
In conclusion, experiences on public sector boards in the United States and Canada are not particularly relevant for countries interested in implementing public sector boards to enhance coordination between ministries and agencies within their sectors. Performance management continues to be managed mostly centrally and with support of strong auditing bodies.

7. Conclusions

7.1. Summary of Findings

The UK, Sweden, New Zealand and Australia do have public sector boards that have the functions of: (i) Setting agencies' performance targets to make sure those targets are fair and appropriate; (ii) Monitoring agencies' performance against these targets; and (iii) Advising the heads of ministries of objective information about agencies' performance. However, these boards tend to be *partial-governing* or *full-governing* boards and are oriented towards governance and management of the agencies, rather than an institutional vehicle with the sole purpose of advising the Minister and enhancing ministry-agency coordination. The following figure provides a visual summary of the main types of boards that are common in each of the countries examined.

Figure 5. Types of boards across countries



While the performance monitoring functions are indeed carried out by public sector boards in the the UK, Sweden, New Zealand and Australia, these boards differ in terms of other roles and responsibilities they tend to include and the administrative level at which they are located. These boards tend to be either: (i) *full-governing* or *partial-governing* boards, i.e. carrying performance management functions but much stronger, actually governing the agency and in the case of the full-governing board with the authority to remove the CEO, and can be located at the ministry or agency level; or (ii) *advisory* boards located at the agency level, which tend to be much weaker as they usually report to the agency's CEO rather than to the minister (therefore complying with the first two requirements of setting performance targets and monitoring their compliance but without briefing the CEO's political boss). Table 6, below, summarizes key findings about boards across the four countries studied where public sector boards relevant to the subject of this study exist.

Table 6. Summary table – Boards across countries

	UK	Sweden	New Zealand	Australia
Types of board	Partial-governing, Advisory	Partial-governing, Advisory	Full-governing	Full-governing
Level	Department, Agency	Agency	Agency (Crown Entities)	Agency (CAC Act bodies)
Composition	More executive directors than NEDs	Mostly NEDs, but they are public servants	All NEDs outside of public sector	Mostly NEDs outside of public sector
Remuneration (annual basis)	Yes (for NEDs) (from £2,000 to £30,000; some NEDs even do not ask for compensation)	Yes (fixed salary and/or compensation for each meeting session). Figures not available	Yes (\$10,000 - \$15,000) (NZD)	Yes (about \$10,000) (AUD)
USD equivalence	\$3,290 - \$49,350 (1 GBP = 1.645 USD)	---	US\$ 8,849 – US\$ 13,250 (1 USD= 1.13 NZD)	US\$11,050 (1 AUD = 1.105 USD)
Frequency of meetings	Varies: once a month, 4 – 6 times a year	About four times a year	Up to 12 times a year (normally 4 – 6 times a year)	Up to 12 times a year (normally 5-7 times a year)
Monitoring performance	Yes	Yes	Yes	Yes
Advise ministers about agency performance	Yes (agency’s governing board only)	Yes (governing boards only)	Yes	Yes
Barriers to board effectiveness	<ul style="list-style-type: none"> - Unclear accountability - Weak induction and training - Underutilized NEDs 	- Conflict with the DG (not common but can happen)	- Political appointment of board members, esp. in the absence of sound evaluation	(Before Uhrig) <ul style="list-style-type: none"> - Not having full power to act; - Unclear role

No study shows evidence that is strongly for or against using *full-governing*, *partial-governing* or *advisory* boards to improve governmental agencies' performance, and help provide the minister with objective information about agencies' performance. No studies show concluding evidence either about the convenience of locating the board at the ministry level or agency level.

In addition, in terms of board performance, except for studies conducted by the Institute for Government (UK) on departmental boards, there is virtually no other study on agency boards in the UK as well as boards in other countries. The general impression and observation based on the interviews of scholars and experts are that, in general, boards seem to work well in the countries analyzed (fulfilling the missions that they are created with). However, this is a general perception which summarizes a much more complex reality with boards that work better than others.

7.2 Recommendations

The paper has analyzed, with incomplete information, the main functions of full-governing, partial-governing and advisory boards in the public sector of selected OECD countries. This fact calls for a cautious approach when drawing conclusions and prevents us from making any kind of generalizations. It also suggests a more in-depth research agenda.

Despite the limited scope of this study, which summarized a few aspects of the use of boards in the public sector in selected OECD countries, the following recommendations which derive from the cases analyzed could be of interest of other countries exploring the possibility of creating public sector boards for enhancing ministry-agency coordination and agencies' performance.

7.2.1 Establishment of the boards

Countries which may want to implement public sector boards for the objectives stated in this paper may anticipate some potential barriers to the establishment of advisory boards. First, they may face potential resistance and opposition from those benefiting from the status quo of subjective performance targets and artificial compliance with performance goals. Second, if boards include executive directors, government officials who would be assigned to sit on the board may also resist because they would have to take on more tasks with no additional remuneration. Third, citizens may be opposed to the perceived "additional bureaucracy" and expenditures associated with having these boards, and could consider them an additional administrative layer with unclear responsibilities. Fourth, the legal framework may not allow the creation of full-governing boards for many agencies - it may not even allow for the creation of partial-governing or advisory boards. On public administrations with strong legal tradition, the lack of a legal instrument defining the role of the boards will very likely undermine their acceptance by agency managers and staff.

It will be crucial, therefore, to build strong demand for public sector boards in the interest groups, citizens and firms receiving services from the agencies, as well from their representatives at Congress. In countries where the legal framework does not allow for the existence of boards, informal structures with minister's advisors acting as a *de-facto board* – with the minister following their advice, for example, by enforcing the selection of performance targets suggested by the board – may still represent a valid approach during an initial phase.

7.2.2 Enhancing board effectiveness

Once established, the following ideas deriving from the experience of the countries analyzed for this paper could be perceived useful to enhance board effectiveness:

Level and Accountability: Considering the main functions of the boards are expected to be aligned to the objectives of enhancing ministry-agency coordination and agencies' performance, these should be located at the Ministry or Department level. The partial-governing or advisory boards should report regularly to the minister on issues related to performance targets and the performance of agencies. Although they should not held accountable for the performance of the agencies – which should be still the responsibility of the head of the agency – boards should be accountable to the responsible minister for ensuring appropriate performance targets are established and for monitoring agencies' performance. Also, boards should be responsible for raising issues related to agency performance on a regular basis. Options regarding the use of one board per agency or the same board for more than one agency should obviously follow the specific administrative and political circumstances of the countries interested in implementing boards for the public sector.

Board's Role: As experiences of the UK, New Zealand, and Australia have indicated, unclear roles and authority of board members and of the board as a collective body is one barrier to the board's effectiveness. Therefore, the roles and authority of the boards must be made clear in the legal framework and to all board members and the management teams of the agencies. Whether the board is partial-governing or advisory, it is important, especially for NEDs, to have easy access to the Minister(s), otherwise, their voices will likely to be downplayed.

Composition and Appointment Mechanism of Board Members: Boards need a good combination of background experience, skills, qualifications and personal qualities to provide the foundation for a high-performing board. The recruitment and appointment process is a critical first step to ensuring effective members are appointed to boards. It is recommended that partial-governing and advisory boards have both executive and non-executive directors to make use of both the insiders' knowledge of the agencies' operations and culture and outsiders' expertise and perspectives. When there is a board vacancy, a competency assessment should be required, which first identifies where the organization is going, what challenges they face, then looks at the skills of all existing board members and identifies those they lack that should be possessed by potential candidates so that the skills of all board members after the vacancy is filled are well balanced.

In the case of boards with executive and NEDs, conflicts may also occur between these two groups when it comes to what performance targets to set, as executive directors may face pressure from the people working in the agencies who benefit from having easy-to-achieve performance targets. Therefore, it is recommended that ministers appoint board members and that the boards, even advisory ones, report to directly to the Minister.

In terms of the number of members, boards in the countries studied usually consist of about 5 to 15 members with varying proportion of NEDs to executive directors. For countries starting their experience with boards, it is recommended that these are kept small, with a total of 5 or 7

members and with no more than 3 NEDs.

Boards should be required to develop a well-structured induction process for NEDs because it would help NEDs to get familiar with the business of the agencies as well as better understand their roles and what are expected of them. Without this knowledge, it will be difficult for NEDs to perform well, as is the case of the UK.

Remuneration: In the UK, executive board members are not paid extra remuneration for serving on board. NEDs, who work part-time, are generally paid an equivalent of an executive director's full-time salary, but adjusting for the actual amount of time that they work (usually half or one quarter of the full-time salary). It is also worth noting that remuneration for NEDs should ideally not be too far from what their counterparts in the private sector usually receive for sitting on a private sector company board. Otherwise, it will be difficult to recruit good candidates.

Frequency of meetings: There is no standard practice regarding the frequency of meetings but it should neither be too many nor too few to ensure the board has adequate and timely information about agency's performance. Advisory boards that assist the CEOs of agencies in the UK and Sweden typically meet around 3 to 4 times a year, but governing boards usually meet once a month.

7.3 Further Research Agenda

Just as organizations differ immensely in terms of functions, sizes, operations and the legal framework within which they operate, public sector boards in the countries studied are also vastly different from each other. Given the fact that there are hundreds of agencies in each country, and hundreds of boards with different sizes, responsibilities, authority, accountability instruments, working mechanisms, and performance, it was beyond the scope of this paper to examine them thoroughly. Therefore, a more extensive and across-the-board research on boards in each country, combining both qualitative and quantitative methods, would provide a better account on board effectiveness.

Furthermore, since this report covers mostly Commonwealth countries, it is recommended that future studies extend this research to other countries – such as France, Belgium, Spain, Norway, Finland and the Netherlands, where boards are also used in various ways in the public sector – for a more comprehensive coverage of OECD's practice.

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Annex I. List of Interviewees

Australia

John Halligan (March 2011)
Professor of Public Administration
University of Canberra

Paul Levi (March and September 2011)
Department of Finance and Deregulation
Government of Australia

Marc Mowbray-d'Arbela (March 2011)
Assistant Secretary
Legislative Review Branch
Department of Finance and Deregulation
Government of Australia

Canada

Karl Salgo (March 2011)
Director of Strategic Policy
The Privy Council Office
Government of Canada

New Zealand

Derek Gill (March and September 2011)
Senior Scholar
Institute of Policy Studies
Victoria University of Wellington School of Government

Sweden

Jon Pierre (March 2011)
Professor
Department of Political Science
University of Gothenburg

Knut Rexed (March and August 2011)
Former Director-General of Statskontoret (the Swedish Agency for Public Management)
and Former State Secretary in the Swedish Ministry of Finance

U.K.

Jonathan McClory (February 2011)
Senior Researcher
Institute for Government

U.S.

Kenneth Apfel (February 2011)
Professor and Director,
Management, Finance and Leadership Program
School of Public Policy
University of Maryland, College Park

Donald Kettl (February 2011)
Dean
School of Public Policy
University of Maryland, College Park

Jerry Mitchell (February 2011)
Professor
School of Public Affairs
Baruch College/CUNY

World Bank

Nick Manning (March 2011)
Senior Advisor
Public Sector and Governance Group

Annex 2: Governing boards in the UK public sector – some examples

The governing board of the Department for International Development (DFID)

Department	Name of the board: Management board		
	Responsibilities and meeting frequency	Composition and Remuneration	Subcommittees
Department for International Development (DFID)	<p>- provide strategic direction to the management of DFID's operations, staff and financial management, within the parameters of policies set by and in consultation with the Secretary of State.</p> <p>- main focus of the Board's work:</p> <ul style="list-style-type: none"> • communicating the vision, role, direction and priorities of DFID to staff and other stakeholders • ensuring effective allocation and management of DFID's staff and financial resources • monitoring and improving DFID's performance • protecting and enhancing DFID's reputation as a highly effective international development organisation. <p>The Board meets once a month with an agenda typically containing around 2-4 items.</p> <p>The Board takes decisions collectively, taking full account of the views of all members, including non-Executive Directors.</p>	<p>The Management Board is chaired by the Permanent Secretary and its members include DFID's four Directors General (DG) and two non-Executive Directors. The Board is supported by the Management Board Secretariat, which is headed by the Private Secretary to the Permanent Secretary.</p> <p>Members in the reporting year (2009-10):</p> <ul style="list-style-type: none"> • Permanent Secretary (Chair); Salary (2009-10) (£'000): 200-205. Benefits in kind (to nearest £100): 8,000 • DG, Country Programs. Salary (2009-10) (£'000): 135-140. Performance related pay (£'000): 10-15 • DG, General (until May 2010). Salary (2009-10) (£'000): 130-135. Performance related pay (£'000): 10-15 • DG (until March 2010). Salary (2009-10) (£'000): 185-190* (*on secondment to DFID salary is paid directly from the World Bank. This amount reflects the reimbursement of these costs) • DG, Finance and Corporate performance. Salary (2009-10) (£'000): 80-85 (120-125 full year equivalent) • NED. Fees and taxable expenses (2009-10): £12,250 • NED. Fees and taxable expenses (2009-10): £3,250. 	<p>The Management Board is supported by five Sub-Committees: the Development Committee (chaired by the DG for Policy and Research), the Audit Committee (chaired by a Non-Executive Director), the Investment Committee (chaired by the DG for Corporate Performance), the Security Committee (chaired by the DG for Country Programmes), and the Senior Leadership Committee (chaired by the Permanent Secretary).</p> <p>Each Committee sets annual objectives and provides a progress report to the Management Board at the end of the financial year.</p>
Source: DFID website, resource account 2009-10, and the Management Board's TOR			

The governing board of Companies House – an executive agency under the Department of Business, Innovation and Skills (BIS)

Agency	Parent Department	Name of the board: Management board		
		Responsibilities and Frequency of Board Meetings	Composition and Subcommittees	Remuneration
<p>Companies House</p> <p>Main functions of Companies House are to:</p> <ul style="list-style-type: none"> incorporate and dissolve limited companies; examine and store company information delivered under the Companies Act and related legislation; and make this information available to the public. 	<p>Department for Business, Innovation and Skills (BIS)</p>	<p>The equivalence of a management board in another agency (as it is usually called) in Companies House is the Steering Board.</p> <p>The role of the Steering Board is to advise the Secretary of State (of BIS), generally through the DG of Fair Markets, on the governance of the Agency, in particular its corporate plan, targets and performance. It also provides guidance from a commercial or business standpoint to the Chief Executive and his senior team on the operation and development of the Agency.</p> <p>Four Steering Board meetings take place each year. In addition, an annual strategic planning “awayday” is also held during the summer months. Steering Board Members will also be expected to participate in occasional senior interview boards and seminars at the senior level.</p>	<p>Chair: Non-Executive Board Member</p> <p>Members:</p> <ul style="list-style-type: none"> - Four additional Non-Executive Board Members - DG of Fair Markets (Representative from BIS) - Director of Company Law and Governance (Representative from BIS) - Chief Executive and Accounting Officer for Companies House - Director of Corporate Strategy, Companies House - Director of Business Solutions Delivery, Companies House - Director of Customer Services and Delivery, Companies House - Director of Finance, Companies House - Director of Legal Services, Companies House - Director of People, Property and Procurement, Companies House <p>Companies House Steering Board established the Audit Committee as a subcommittee to assist and advise the Accounting Officer on audit, corporate governance, risk management and internal control issues across the business.</p>	<p>Remuneration for the chairperson is £9,200 per annum. Remuneration for a non-executive board member is £5,520 per annum, for a commitment of approximately 9 days a year, which will be paid in two installments, at the end of June and December.</p> <p>Executive Board members’ remuneration for serving on board is included in their salaries. The highest salary belongs to the Chief Executive and Accounting Officer (£115,000-£120,000 in 2009-10). Other executive directors’ salaries ranged from £60,000 to £95,000 (2009-10)</p>

The governing board of Identity & Passport Service – an executive agency under the Home Office

Agency	Parent Department	Management board		
		Responsibilities and Frequency of Board Meetings	Composition and Subcommittees Remuneration	
<p>Identity & Passport Service</p> <p>The Identity and Passport Service is responsible for issuing UK passports and for administering the civil registration process in England and Wales. It is an executive agency of the Home Office.</p>	<p>Home Office</p>	<p>The IPS Board works with the Home Office, key partners and stakeholders to ensure the department meets its objectives.</p> <p>The IPS board is responsible for leading the agency and ensures that they:</p> <ul style="list-style-type: none"> • fulfill the goals set by ministers • ensure the agency can meet future challenges • maintain high standards 	<ul style="list-style-type: none"> - Chief Executive and Registrar General for England and Wales - Executive Director - Human Resources - Executive Director - Finance - Executive Director - Corporate Strategy - Executive Director - Organisation Transformation - Executive Director - Operations - Director - Commercial - Director - Corporate Services - Three Non-executive Directors <p>The non-executive directors provide an external viewpoint to decision-making. They bring an independent opinion on issues of strategy, planning, performance, and standards.</p> <p>Although they advise and question, they don't make executive decisions and they remain independent; free from any other relationships within government that might interfere with their role.</p>	<p>The salaries paid to three NEDs ranged from £15,000 to £30,000 (2009-10)</p> <p>Chief Executive salaries (2009-10): £205,000 - £210,000</p> <p>Salaries for executive directors (2009-10) ranged from £90,000 to £190,000</p>

