

Houston, we've had a problem here: Tackling board governance

John Deffenbaugh

ABSTRACT

This is the first of four articles that will explore a range of problem areas in foundation trusts (FTs) that have caused the trust to have been identified by the FT regulator Monitor for special attention. These problem areas focus on the board's insight to its business, the information it has for decision making, the effectiveness of the non-executive challenge function, and how executives are held to account. This first article in the series tackles the board's insight to its business; these issues are equally applicable to governing bodies of commissioners. Three key issues are explored: the effectiveness of board strategy; the board's approach to system working; and the balance of central direction and control versus local autonomous action. The article explores the benefits of developing leadership down into the organisation for the board to operate at a strategic level. The article concludes with a set of actions that the board can implement so that its awareness of its business increases.

Key Words: Board governance • System working • Foundation trusts • Leadership

'Houston, we've had a problem here'.

These words were calmly stated by Commander Jim Lovell on 14 April 1970, and brought to popular attention in his book (Lovell, 1994) and then 25 years after the event in the film *Apollo 13*. An oxygen tank had exploded on the service module, and the crew then had to struggle valiantly for four days before returning safely to Earth.

Lovell's words have become the byword for focusing on a problem and solving it. I have kept his statement in mind when analysing the letters from the NHS foundation trust (FT) regulator, Monitor, that are addressed to chairs of FTs. These are not letters that are welcomed by a board.

However, they have been sent because Monitor sees some problems with an FT and wishes them to be addressed. To paraphrase, 'Houston, you've got a problem'. In analysing these letters, four inter-linked problem areas emerge that Commander Lovell would wish to discuss with boards:

- Level of understanding among board members about their business
- Quality of information and intelligence available for decision making
- Effectiveness of non-executive director challenge
- Ability to hold executive directors to account for implementation of board decisions.

These issues are equally applicable to boards of all providers and commissioners in the NHS.

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‘The problem for a board becomes apparent when financial and/or quality issues come to the fore’

This first article in a series of four explores the problem area of the board knowing its business.

Knowing the business

There is a natural tendency for board members to have their eyes down into the business. This is understandable: the urgent overtakes the important; targets have to be met; and the organisation kept out of the political spotlight. Pacesetter inclinations of NHS leaders play to this tendency. Yet, it was Peter Drucker (1954) who asked the seminal questions that all leaders should reflect on:

- What is our business?
- Who is our customer?
- What does our customer consider valuable?

The problem for a board becomes apparent when financial and/or quality issues come to the fore. These may appear out of nowhere, but they represent a long legacy of underlying concerns that have been working away in the background. For instance, ‘never events’ are symptomatic of long-standing issues around clinical processes, teamwork and behaviour, while underlying causes of financial problems usually stem from a range of problems in key components of the business or its marketplace. In these circumstances, the board is often confronted with:

- Lack of Pareto analysis to understand what is going on
- Data rather than information presented in board papers
- Executives who are out of tune with commissioners
- Meetings that do not consider the changing context
- An absence of strategy.

The good news is that all of these issues can be addressed.

The Five Year Forward View (NHS England, 2014) for the NHS in England set out the

strategic and financial context in which providers and commissioners will operate, not only for the next five years, but well beyond. A number of issues arise when considering how the board will get to understand its own business.

Strategy

John Harvey-Jones (1988), late CEO of Imperial Chemical Industries, observed somewhat tongue in cheek that ‘Planning is an unnatural process; it is much more fun to do nothing. The nicest thing about not planning is that failure comes as a complete surprise, rather than being preceded by a period of worry and depression’.

This is too true for boards, to the extent that Monitor (2014) was prompted to produce a guide to strategy development for FTs. This guidance is equally applicable to any healthcare organisation.

The first step for a board is to develop a strategy. This should not be an MBA-type tome, but rather something that answers Richard Rumelt’s (2011) simple question, ‘What’s going on around here?’ I have lost count of the times that I have asked this as a non-exec and when facilitating board strategy workshops. Analysis, of course, underpins the answer, but more important is the board and its members carrying out ‘balcony work’ to look down on their business and the market in which it operates. For instance:

- What do our commissioners plan in their future allocation of resources across acute and community?
- What do we have to do to change the demand curve for our business and its component parts?
- What can be the role of other public sector providers in maximising the public sector pound?
- What real transformation initiatives do we need to undertake to achieve our objectives, and who do we need to get on board?

There are two aspects of this balcony work: externally and internally focused. Externally, the board needs to: meet its partners; build up relationships; focus on and agree system priorities; and, in some cases, mitigate the impact of personalities. As within an

organisation, the system players need to row in the same direction—they should all be serving the customers’ needs rather than their own. As Peter Drucker observed, understanding these needs is pivotal to organisation success, so this aspect of balcony work should also be about engaging patients, service users, carers, pressure groups, representative organisations and communities.

Moving from producer-driven to customer-responsive services is not just about redesign of service pathways, it is as much about mind-set. Conversation at the board and governing body, therefore, needs to be about what this engagement means for the organisation, and how it reacts to what this customer engagement tells it. The disconnect of the board of Mid Staffordshire with their customers offers a hard lesson to board members.

Of equal importance is the internal balcony work. This does not mean to stay on the balcony, but to use this view to operate effectively on the dance floor. The key issue here is execution of strategy. Too many trust and commissioner strategies sit on the shelf and are not effectively executed. The failure is not so much one of alignment from the board to the shop floor, but rather one of co-ordination across the organisation.

As Sull and Spinosa (2015) have observed, effective strategy execution is the ‘ability to seize opportunities aligned with strategy while co-ordinating with other parts of the organisation on an on-going basis’. Execution is therefore both vertical and horizontal—and a means to enabling this is the physical link of the board to staff (e.g. ‘board to ward’). There is nothing new in this approach—Peters and Waterman (1982) wrote about it in their seminal book *In Search for Excellence*, in which they called this process ‘Management by wandering around (MBWA)’. The problem is that board members do this too seldom.

The board and its members—non-executive and executive—should therefore not remain ensconced in their ‘ivory tower’, but balance this view from the balcony with engagement with staff. Through this process they will be able to tell the story of the organisation’s strategy

and performance, find out what it feels like to deliver services, and invite contribution to improved performance. Often the answers to an organisation’s problems are held by staff on the shop floor—they are too seldom asked for the solutions, but rather told what do so. Perversely, a board’s operational focus is therefore too frequently counter-productive.

Boards have been criticised for not spending enough time on strategic issues. The guidance a decade ago from Dr Foster Intelligence (2006) was that ‘A good rule of thumb is that boards should aim to spend 60% of their time discussing strategic matters’. But what is strategic and what is operational? There is a very big grey area in between. Robert Francis highlighted this issue in his report on Mid Staffordshire FT:

‘A theme of the evidence about the board has been reliance on the distinction between strategic and operational issues and a disclaimer of responsibility for the latter. The distinction does not justify directors not interesting themselves in operational matters when it is known that governance systems are either not in place or are untested’ (Francis, 2013).

The pendulum swings back and forth on this focus between strategy and operations at the board level. There are four factors of success in getting the right balance:

- Ensuring an effective strategy is in place and that it drives board decision-making
- Empowering executives to lead the operational aspects of the business and to be accountable for these
- Engaging staff in their implementation of the organisation’s strategy and inviting their contribution
- Recognising which operational issues will become strategic and will demand more time from the board.

As the US President Calvin Coolidge sagely observed, ‘When you see ten troubles rolling down the road, if you don’t do anything, nine of them will roll into a ditch before they get to you’. This may explain why he left office in 1928 before the Wall Street Crash a year later.

System

The second dimension about knowing the business is for the board to understand the organisation's place and role in the system in which it operates. The NHS was designed as, and remains, an illness service. As the population ages, the country cannot afford the cost of this illness service.

Acute providers are at the front of the tsunami that has washed over their emergency departments (EDs). A combination of elderly population with co-morbidities, a lack of community infrastructure, and services that are not joined up means that ED targets are now breached on a regular basis. This is at the front door of hospitals—at the back door, patients ready for discharge are not able to leave because of lack of suitable places to go. Hospitals are in danger of becoming nursing homes.

The answer lies in taking a system approach. This is not about the NHS operating in its comfort zone of the 'local health economy', because the problem is not just about health—it's about housing, community services and support, daytime activities, primary care services and local diagnostics. The system here reaches well beyond the NHS to embrace local government, the police, community groups, citizens and their families.

This approach requires a different type of leadership in this wide-ranging system, which is presented by Cass Business School as:

'Leadership across organisational and geopolitical boundaries, beyond individual professional disciplines, within a range of organisational and stakeholder cultures, often without direct managerial control' (Welbourn et al, 2013).

Such leadership calls on different behaviours—more relational and less confrontational—and poses the question for the organisation, 'Where does your allegiance lie?'

At issue here is the tension between the system and the organisation. The FT model was put in place when the tide was high. It has now gone out and will remain so—finances are

constrained, and the focus will be on maximising the public sector pound. Therefore, challenges for hospitals to meet ED and discharge targets are not down solely to trusts—they should be owned by the system overall. However, they appear not to be. This is due to a range of factors, including demarcated funding streams, rigid contract frameworks, organisation targets, and relationships among system leaders.

The economist John Kay (1993) considered this issue when he made the distinction between classical and relational contracting:

- Classical contracts—explicit documents that are in the form of long-term, legal agreements which contain detailed provisions as to how dealings between the parties will evolve as events unfold
- Relational contracts—implicit documents that are expressions of strategies for playing a repeated game, with provisions that are only partly specified and are enforced, not by a legal process, but rather by the need of parties to have to go on doing business with each other.

The key here is the quality of relationships among top leaders of organisations in a system. Hence, the Manchester health and social care initiative (Greater Manchester Strategic Health and Social Care Partnership Board, 2015) is not directly replicable because of the underlying nature of relationships that brought it about. This is not to say that other areas could not go down the same path, but that much more attention will need to be paid to building effective relationships among individual leaders. This has implications for the tone a board sets in considering the system in which it operates and how it relates to other organisations and their leaders.

Devolution

This issue is about the approach the board takes to shaping its business. Where does power lie? Is it centrally held, or locally devolved? There are implications here for performance and risk, for leadership capability and capacity, and for the rules that govern 'how we do things around here'.

Take rules first. Could boards follow the example of the US department store Nordstrom

(Lutz, 2014) in designing a rules-based culture? Its rule book is shown in *Box 1*. How would this approach play with the regulators? Probably not very well but, then again, if trust performance is at the level of Nordstrom, then this approach might be given a try.

Requisite for this rule-light approach is not just the capability and capacity of ‘middle leadership’, namely those who head operating divisions down to ward level, but all staff in the organisation. Who should not be trusted to use their own judgement? If the appraisal and performance management process identifies gaps in capability, then this is where training and development kicks in, or staffing changes are made. The process can, of course, be made more complicated than that, but on the surface this is not a complex leadership issue—rather one of best practice management.

Middle managers are often viewed as the obstacles to change—stuck in old ways of doing things, protective of their domain, not thinking ‘organisation’, and not communicating the message of change from the top of the organisation to the shop floor. This is a biased view, and reflects the frustration of board members with failure of strategy execution. In reality, middle leaders are those who hold the culture of the organisation in their hands—it is up to the board to tap into this knowledge, to realise its potential, and to work with these leaders to bring about change. Engagement is key here, building relationships down and across the organisation, and communicating face-to-face and by social media. A remoteness has crept into board leadership, so that when the going gets tough, communication is ‘tell’ rather than ‘sell’.

The board will therefore need to decide on its approach to devolved responsibility and accountability. This is an in-built dilemma in any organisation, as observed by Richard Rumelt (2011):

‘In any organisation there is always a managed tension between the need for decentralised autonomous action and the need for centralised direction and coordination’.

Box 1. Nordstrom rules

Welcome to Nordstrom

We’re glad to have you with our company. Our number one goal is to provide outstanding customer service. Set both your personal and professional goals high. We have great confidence in your ability to achieve them.

Nordstrom Rules: Rule #1. Use best judgment in all situations. There will be no additional rules.

Please feel free to ask your department manager, store manager, or division general manager any questions at any time.

As ever, there must be a balance. Developing middle leadership will enable the board to feel comfortable that patients and finances will not be put at risk, and through devolving leadership responsibility, the organisation will be able to tap into commitment and innovation that only bottom-up leadership can provide.

Another benefit of developing middle leadership is that the board will not have to step down into a leadership void. If the operational delivery aspects of the organisation are not functioning effectively, then the board and its executives are by default drawn into operational matters. They should, of course, have their eye on these aspects of the business, but with effective middle leaders, they will have confidence that matters will be dealt with by operational managers.

KEY POINTS

- There are several key areas to the board knowing its business: strategy insight, system approach and devolved leadership
- Viewing the organisation from the balcony is essential in order to see what is going on
- Boards need to develop strategy beyond their local health economy into the wider range of public sector organisations
- Developing leaders across the organisation will enable the board to continue to operate strategically

Conclusion

There are a number of things the board and governing body can do in order to build up its knowledge of the business it operates, such as:

- Carry out balcony work on a regular basis, namely board members taking a step back to view the system and organisation from the balcony, rather than operating solely from the dance floor
- Take regular time outs in order to consider the context in which the organisation is operating and how it will respond to changes
- Build networks and relationships across the system that will enable the sharing of problems
- Engage with partners in the system and middle leaders and staff in the organisation to communicate the story of change
- Relate the board agenda to its strategy, so that there is a clear link between what the board discusses and what it has to achieve
- Ask the question ‘What’s going on around here?’ in order to get both strategic and operational insight to problem areas
- Think ‘patient’ rather than ‘organisation’ when it comes to viewing what is important to the business

This last point refers back to Peter Drucker’s question: ‘What does the customer consider

valuable?’ For this, the board needs adequate information, and this will be the subject of the second article in the series. [BJHCM](#)

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