GOOD GOVERNANCE PRINCIPLES FOR PUBLIC SERVICES

PhD Candidate **Ion DOGEANU**
E-mail: ion_dogeanu@hotmail.com

ABSTRACT

The governors of our public service organisations face a difficult task.They are the people responsible for governance – the leadership, direction and control of the organisations they serve. Their responsibility is to ensure that they address the purpose and objectives of these organisations and that they work in the public interest.

They have to bring about positive outcomes for the people who use the services, as well as providing good value for the taxpayers who fund these services. They have to balance the public interest with their accountability to government and an increasingly complex regulatory environment, and motivate front-line staff by making sure that good executive leadership is in place. Governors shoulder a heavy responsibility in relation to health, education, housing, criminal justice and many other aspects of public service. In Romania more than 150,000 people contribute as governors to a wide range of public service organisations and partnerships. There is clear evidence that many have diffi culties in fulfilling these responsibilities. To help them with their tasks, there is an urgent and ongoing need to be clear about the purpose of governance and the role of the governor, expand the supply of governors, improve induction programmes and encourage good relationships between governors and the executive teams who are accountable to them.

KEYWORDS: *Corporate governance, Good Governance, Public Management, Public Services, Standards*

JEL Clasification: D73

It is perhaps surprising that there is no common code for public service governance to provide guidance across the complex and diverse world of public services, which are provided by the public sector and a range of other agencies. The *Good Governance Principles for Public Services* addresses this issue head on.

I hope that this publication will encourage public bodies to review their own effectiveness, and that it will

provide commissioners and regulators of public services with a common framework for assessing good governance practice. We hope that this will be useful to governors who are striving to do a diffi cult job better, and to individuals and groups who have an interest in scrutinizing the effectiveness of governance.

The Principles focuses on the ways different functions of governance can support each other. Governance is dynamic: good governance encourages the public trust and participation that enables services to improve; bad governance fosters the low morale and adversarial relationships that lead to poor performance or even, ultimately, to dysfunctional organisations.

Applying Principles to different governance structures and sizes of organisation

The principles form a universal Standard of good governance and we encourage all organisations to show that they are putting it into practice in a way that reflects their structure and is proportionate to their size.

The many types of organisations to which the Standard applies – central government and local service providers, and public sector and independent organisations – have a wide range of governance structures; for example, some governing bodies will be elected and some appointed. Organisations also vary enormously in size and complexity, from, for example, a small school to a large hospital trust.

This Standard comprises six core principles of good governance, each with its supporting principles.

Terminology

In order to be applicable to different kinds of organisation, the Standard uses some general terms, with the following defi nitions:

- **Governing body**: the body with overall responsibility for directing and controlling an organisation. For example, the police authority; the governors of a school; the board of a housing association, an NHS trust or a non-departmental public body; the council in local government
- **Governor**: member of the governing body, whether elected or appointed.

For example, member of a police authority, school governor, board member of a housing association or non-departmental public body, elected member or councillor of a local authority

- **Non-executive**: governors without executive responsibilities (nonexecutive directors are sometimes referred to as independent directors)
- **Executive**: the senior staff of the organisation. Some types of boards include executive directors as governors.

Governments have significant interaction with the community, with a significant proportion of this conducted through statutory authorities and office holders. This is particularly so in the areas of taxation, regulation and the provision of services. The community has a right to expect that these functions will be carried out in a manner that is efficient, effective, objective and transparent.

Corporate governance encompasses the arrangements by which the power of those in control of the strategy and direction of an entity is both delegated and limited to enhance prospects for the entity's long-term success, taking into account risk and the environment in which it is operating.

While this definition is employed for the review it is noted that there is no universally accepted definition of corporate governance, or agreement on the structures and practices that are required to achieve good governance.
A well-governed organisation will clearly understand what it is required to achieve, will be organised to achieve it through the success of its executive management and will focus on ensuring it achieves its goals.

In other words, by ensuring that the effort of an organisation is well directed, a well-governed organisation will be more efficient and more likely to produce effective outcomes.

Governance should be enduring, not an instrument that is exercised from time to time depending on circumstances.

A good governance framework should guide the actions of individuals by providing clarity of direction as to appropriate behaviour and decision-making. When working well, a governance framework produces better outcomes simply because it exists.

Good governance principles for public services:

1. Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users

1.1 Being clear about the organisation's purpose and its intended outcomes for citizens and service users
1.2 Making sure that users receive a high quality service
1.3 Making sure that taxpayers receive value for money

2. Good governance means performing effectively in clearly defi ned functions and roles

2.1 Being clear about the functions of the governing body
2.2 Being clear about the responsibilities of non-executives and the executive, and making sure that those responsibilities are carried out
2.3 Being clear about relationships between governors and the public

3. Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour

3.1 Putting organisational values into practice
3.2 Individual governors behaving in ways that uphold and exemplify effective governance

4. Good governance means taking informed, transparent decisions and managing risk

4.1 Being rigorous and transparent about how decisions are taken
4.2 Having and using good quality information, advice and support
4.3 Making sure that an effective risk management system is in operation

5. Good governance means developing the capacity and capability of the governing body to be effective

5.1 Making sure that appointed and elected governors have the skills, knowledge and experience they need to perform well
5.2 Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
5.3 Striking a balance, in the membership of the governing body, between continuity and renewal

6. Good governance means engaging stakeholders and making accountability real

6.1 Understanding formal and informal accountability relationships
6.2 Taking an active and planned approach to dialogue with and accountability to the public
6.3 Taking an active and planned approach to responsibility to staff
6.4 Engaging effectively with institutional stakeholders

The review identified a number of elements that are central to the governance of entities, irrespective of whether they operate in the public or private sector.

- **Understanding success:** Those in control of an entity need to be clear about what the entity is to achieve and communicate that effectively to management. This involves the establishment of a clear sense of purpose and the development of clear expectations of performance.
- **Organising for success:** Once an entity has developed an understanding of what it needs to achieve, it should be organised appropriately.
- **Implementing the right organisational structures**: Structuring an organisation in a way that is most likely to assist it to achieve its objectives is a commonly accepted proposition. The right structure will depend on many factors, including the nature of the entity's functions. A key question to consider in getting the structure right is whether it is designed so as to support (rather than impede) the operation of governance.
- **Power must be:** in existence, delegated, limited and exercised: In order for an entity to achieve its purpose, power must be given to executives to develop strategy and direction for higher level approval. Power will need to be further delegated as it is not

feasible for a small number of individuals to make all decisions. Delegated power needs to be limited to manage risk associated with decision-making and to limit the opportunity for non-alignment with the interests of those granting power. Finally, parties in receipt of power must exercise it and do so in a responsible manner.

- **Clarity of roles:** In organising for success all parties within the governance framework must have a clear understanding of their roles and responsibilities, including their personal accountability.
- **Making sure success is achieved:** Governance is about ensuring individuals responsible for performance understand what outcomes they are required to achieve and are provided with the capacity to achieve them.
- **With responsibility there needs to be accountability:** A robust governance framework should, through transparency and accountability mechanisms, link power and responsibility to performance and review.

Conclusions: developing good governance for the public sector

In developing a view of governance for the public sector, the lessons and developments in the private sector have been considered. The threat of commercial failure provides an incentive for the private sector, constantly, to develop and improve governance practices.

Private sector governance models will vary, depending on the ownership characteristics of the entity.

In the case of large listed public companies, ownership is widely dispersed and it is impractical for shareholders to be involved, personally, in the direct oversight and/or management of the enterprise. In these circumstances the main mechanism for achieving good governance in the shareholders' interests is a board of directors.

A key characteristic of a board in a public company is its full power to act and its responsibility to do so.

This includes the approval of strategy and direction for the business and important company policies, as well as overseeing the performance of management. A critical element of the board's power is the ability to appoint and terminate the chief executive officer (CEO). In carrying out its responsibilities the board is expected to apply objectivity, wisdom gained through appropriate experience, authority and judgement.

Private sector lessons confirm that these attributes are the essential primary attributes for board membership, rather than specific professional skills or representation of particular interests.

As with a public company, the issue of ownership has great influence on the governance structures and practices of closely held companies. A closely held company generally consists of a single owner, or a small number of owners, who have the ability to impact directly on the operations of the company, including its strategy and direction, defining its purpose and management appointments.

The owners have the power to oversee and provide direction to management. While the owners may elect to have a board of independent directors to oversee the performance of the entity, the establishment of a board, in itself, may not lead to good governance.

In circumstances where the board functions under the influence of the known views of a small number of owners, it cannot operate with the same entrepreneurial freedom and power to act as a public company board.

In this context, it is unlikely that good governance will prevail due to the board's limited ability to act.

The board may also have difficulty in defining its role and fully applying objectivity, wisdom, authority and judgement.

In the public sector, the characteristics of ownership, control and the extent of power to act should also inform the identification of appropriate governance arrangements.
Statutory authorities undertake a number of roles including commercial operations, regulation and the provision of services, with their delegated authority largely established through their enabling legislation.
The opportunity for elected bodies involvement in the governance arrangements of statutory authorities varies greatly.

The role of government is itself a defining factor in establishing appropriate governance arrangements for statutory authorities.

Governments are held accountable by the electorate for the performance of government as a whole.

Where statutory authorities are failing to perform adequately, the electorate will expect governments to act. Inevitably, therefore, there is a role for Elected bodies in the governance of statutory authorities.

There are a number of circumstances in which Parliament and government may choose not to provide a wide-ranging power to act, instead, establishing a narrow set of outputs to be delivered by a statutory authority.

In these circumstances a parallel can be drawn to closely held companies where a limited delegation of power, and the influence of a limited number of parties controlling the entity, indicate that an independent board may not provide the best governance.

In circumstances where government is not providing a broad delegation it is likely that holding either chief executives or commissioners directly accountable for performance will produce better governance.
In circumstances where government is able to provide a wide delegation and the authority can operate with ‘entrepreneurial’ freedom, a board will be the optimal mechanism for governance.

References

1. Argyris, Chr., 1998, *Organisational Learning. A Theory of Action Perspective*. Reading Mass
2. Bovens, Mark. 1998, *The Quest for Responsibility. Accountability and Citizenship* in Complex Organisation. Cambridge: Cambridge Univesity Press
3. Bovens, M.A.P. 2005, *Public* Accountability. In T*he Oxford Handbook of Public Management,* edited by E. Ferlie, L. Lynne and C. Pollitt. Oxford: Oxford University Press.
4. Kooiman, Jan. 2003, *Governing as Governance*. London: Sage
5. Pollitt, C. 2003, *The Essential Public Manager,* London: Open University Press/McGraw-Hill
6. Wessels, Wolfgang. 2005. *Emergence and Evolution of Models of Governance: Designing a Treaty-based Framework* – Towards an Index of Integration. Paper presented at NEWGOV Cluster 1 Meeting, 30/31 May 2005, at Florence