Taken on Board

Corporate Governance in the NHS:
Developing the Role of Non-Executive Directors
The Audit Commission

... promotes proper stewardship of public finances and helps those responsible for public services to achieve economy, efficiency and effectiveness.
Summary

The Audit Commission has written this paper to help chairmen, chief executives, executive directors and non-executive directors develop the role of non-executive directors and thus the effectiveness of the boards of local NHS organisations.

The paper has some key messages, often accompanied by case studies giving examples of good practice. These messages are:

♦ Induction programmes should equip non-executive directors with basic knowledge about the national structure and policies of the NHS, their organisation and the local health service. These programmes should be individually tailored to meet the different needs of each non-executive director.

♦ The role of non-executive directors should be set out clearly at a local level. Chairmen should specify what they expect. They should give non-executive directors feedback on their performance, and vice versa.

♦ Giving non-executive directors a specialist focus can increase their involvement as they can understand and influence an area of the service in greater depth.

♦ Non-executive directors can build on their basic knowledge of the service by contact with providers (in the case of non-executive directors of purchasers), with members of other boards, and with those outside the top executive group of their organisations.

♦ The monitoring of performance and of the implementation of previous decisions should be rigorous but not confrontational. The right climate is created at board meetings when chairmen lead non-executive directors in reviewing performance in the context of a culture of non-executive and executive directors working as a team. Non-executive directors should include the quality of medical care within the process of performance review, in dialogue with clinicians.

♦ Non-executive directors should be involved in the development of the strategy and should monitor its implementation.

♦ Boards should specify the performance reports they wish to see. Financial reports should be designed to be accessible to non-executive directors.

♦ Non-executive directors should take a lead in developing the board’s responsiveness to the local community. They should ensure that the public’s views are debated by the board, and that the board answers in public for its decisions.

In this paper we identify questions for boards to ask themselves in looking for ways of enhancing the contribution made by non-executive directors to the boards’ effectiveness. We have drawn these together as a checklist for action in a pull-out centre section.
Introduction

Why the Audit Commission has written this paper
1. Over the last four years there has been a significant change in the governance of local NHS organisations. Boards of directors, on which non-executive and executive directors sit as equals, have replaced District Health Authorities (DHAs) and Family Health Service Authorities (FHSAs) where there was a distinction between representative members and officers who served the authority. Some 3,700 non-executive directors have now joined the boards of Trusts, DHAs and FHSAs, and more will join the boards of fifth-wave trusts and newly merged authorities in 1995.

2. In 1994 the Department of Health issued Codes of Conduct and Accountability ('the Codes') which outlined the principles of corporate governance in the NHS and the role of non-executive directors within it. Because the position of non-executive director is relatively new, there is interest in how this role can best be carried out in practice. Even for more experienced boards, the Codes have caused them to review their practice.

3. The Commission has therefore decided to produce practical guidance based on the experience of a number of NHS boards in developing the contribution made by non-executive directors to corporate governance. This paper may be followed by others dealing with further aspects of corporate governance.

How this paper should be used
5. Non-executive directors are part-time and on many boards have specific functions, such as undertaking disciplinary hearings, in addition to the main roles outlined in the Codes. Few will have time to develop all aspects of the role. And different boards will legitimately have different views about which aspects of the role are most important, depending on the contribution and skills of other board members. Therefore at the end of each chapter we have included a series of questions for boards to ask themselves to enable them to identify the most important areas for action. These have been drawn together as a single checklist in a pull-out section in the middle of this booklet. Boards can use this checklist to stimulate a discussion, for example when undertaking an annual review of progress.

Whom this paper is intended for
4. Non-executive directors are part of a corporate team, and so the development of their role has implications for all board members. It is difficult, for example, for non-executive directors to 'walk the shop floor' in a Trust without the consent of the chairman and chief executive, or to monitor the performance of executive directors if this part of their role is not accepted as legitimate by executive directors and the chairman. So the target audience for this paper is all local NHS organisations' board members.

The research on which this paper is based
6. The paper is based primarily on visits to 19 NHS boards. Research was also conducted into the use of non-executive directors in the private sector. It has a longer experience – good and bad – of corporate governance and the Commission believes that there are lessons which can be applied in the different environment of the NHS.
Overview of the role

7. The role of non-executive directors has to be seen within the context of the role of boards as a whole, which are accountable to the Secretary of State. This is summarised in Exhibit 1.

8. Within this, the Codes identify particular responsibilities for non-executive directors, including bringing independent judgement to bear on issues of strategy, performance, key appointments and accountability. They also have other, more specific functions, such as sitting on audit committees and acting as lay conciliators in relation to individual complaints. But there are four overarching issues concerning the fulfilment of their role which are commonly raised by boards:

- The most frequently identified barrier to non-executive directors' effectiveness is insufficient knowledge of the health service, which limits the degree to which they can apply their skills and experience to the business of the board.

- The behaviour adopted by chairmen, chief executives, executive directors and by non-executive directors themselves strongly influences the degree to which non-executive directors can make a constructive contribution to the board's business.

- Boards' working practices are important in helping non-executives to contribute to the team. Failure to provide appropriate and manageable amounts of information or to involve non-executives in an appropriate way in the development of the strategy, for example, inhibits their effectiveness.

- Non-executive directors in the NHS are given a specific role in enhancing boards' responsiveness to the public in the Codes. Most boards have concentrated on informing the public but they should also focus on how to take account of the public's views and on making themselves more answerable to the public.
9. The paper addresses each of these issues in turn. Each section is illustrated with evaluations of boards' experience. These provide examples of good practice, which boards can evaluate within their own situations.

10. The role of non-executive director carries with it some inherent tensions which we have tried to take into account in preparing this paper. Some they share with other board members:

♦ They have to balance national priorities with local ones.

♦ They have a complex set of accountabilities and responsibilities although some of these are different for different board members. In the case of non-executive directors, these include sharing responsibility for the board's decisions, being responsive to the local community and being accountable to the Secretary of State, who appoints them or on whose behalf they are appointed. The Secretary of State, or others acting on his or her behalf, also decides whether to renew their appointment at the end of their term.

11. But other tensions are peculiar to non-executive directors:

♦ They are part of a corporate team and should be supportive of the chairman and chief executive. But they also act as a counterbalance to the power of chairmen and chief executives.

♦ A good team spirit is essential to the efficient operation of the board. But non-executive directors have a particular role in monitoring the performance of executive directors, which has the potential for conflict.

♦ It is generally accepted that non-executive directors should contribute to the development of the strategy and should not usually become involved in the detailed running of the organisation, which is the province of executive directors. But in monitoring the implementation of the strategy, non-executive directors need to be drawn into some discussion of operational issues. Further, if there are serious operational problems, the independent judgement of non-executive directors may be needed to help the board find a solution. The dividing line between strategic and operational issues is by no means clear cut.
Understanding the health service

12. Gaining an understanding of the health service is not a 'once-and-for-all' process only for new non-executive directors. It is important for them because without this knowledge they cannot bring their skills and experience to bear. But all non-executive directors need to stay up-to-date on developments in health care and changes in national policy.

Informing new non-executive directors

13. Two out of three non-executive directors of private sector companies identify insufficient knowledge of the business as one of the main factors inhibiting their effectiveness¹.

Non-executive directors in the NHS are no different:

'The main barrier for me was a lack of knowledge of the health service. I've got huge experience of managing an operation just like [x] Trust, but I couldn't be confident that what I had to say was relevant.'

14. There are two ways of helping new non-executive directors to understand the basics:

- training in how the NHS operates nationally;
- a formal induction programme to equip non-executive directors with basic knowledge about their organisation and the local health service.

15. Training in the national structure of the NHS is vital for non-executive directors who are unfamiliar with the NHS and its finances. Non-executive directors then need to understand how national policies are implemented locally. Boards may need to establish a small budget to provide this training.

16. Non-executive directors new to the health service often find it more complex than they imagined. They frequently comment on:

- The complexity of the organisation. The NHS is a huge organisation, employing over 850,000 people and spending over £30 billion a year. It has both a policy arm (the Policy Board reporting to the Secretary of State) and an executive arm (the NHS Executive).

- The wide range of professions, both inside and outside the NHS, to which NHS boards relate. A community trust, for example, may have dealings with doctors, nurses, social workers, and schools, to name but a few.

- The role of boards in making value judgements. Although some priorities for health care are set by the Secretaries of State, others are determined locally. Purchaser boards in particular have to make decisions about which of the many competing health needs of local communities should be given priority. Although such decisions should be based on as objective an assessment of needs as possible, the decisions about which services should be a priority are inevitably often finely balanced.

¹ "Non-Executive Directors – Watchdogs or Advisers," BDO Binder Hamlyn Special Briefing No. 91. 1994.
Many non-executive directors are uncertain what is required of them...

17. Local induction programmes should reflect non-executive directors’ individual experience. Having a mix of skills among non-executive directors is fundamental to boards’ effectiveness. As each non-executive director has different knowledge gaps, induction programmes should be individually tailored (see Case Study 1). This is not difficult because the number of new non-executive directors is small, being limited to new appointments to existing boards in most cases.

Case Study 1

Induction programmes for non-executive directors should be designed to meet their individual needs

A non-executive director of a purchaser, in discussion with the chief executive, identified four areas of the health service which she needed to understand before she could fulfil her role:

♦ the structure and systems of the local health organisations;

♦ the jobs of health professionals, particularly the medical professionals, and the constraints on them;

♦ the differing health needs of the area (ie which areas are disadvantaged and which not) in order to help make decisions about priorities for expenditure; and

♦ the views of local people on health care in the local community.
Case Study 2

Chairmen should define the success criteria for non-executive directors

The chairman of Shropshire’s Mental Health Trust drew up success criteria for non-executive directors, for example:

♦ they form an assured opinion on each issue brought to the board;
♦ they establish sustained two-way communication with a section of the community;
♦ the chairman and executive directors seek their counsel;
♦ they undertake considered appraisal of senior management effectiveness and take appropriate action swiftly; and
♦ they are able confidently to exercise judgement in Mental Health Act Review Panels.

Defining and developing the role

18. Many non-executive directors are uncertain about what is required of them and consequently cannot gauge how valuable their contribution is. Chairmen can help by giving non-executive directors an outline of their responsibilities and of how their performance will be assessed (see Case Study 2).

19. Chairmen should also give non-executive directors feedback on their performance. This is relatively rare at present. This need not be a bureaucratic process – it can be done through occasional informal discussion, for example, after a board meeting. The result should be an agreed plan for the development of each non-executive director. This process should also be used to enable non-executive directors to give feedback to the chairman on his or her performance.
20. Non-executive directors often find it helpful to develop a degree of specialisation, linked to their particular areas of expertise. When deciding what this role should be, chairmen have to perform a difficult balancing act, weighing the benefits of giving non-executive directors ‘niches’ against the risk that they develop too limited a focus, or that not all the functions of the board as a whole are effectively carried out. The fact that individual members of the board develop areas of special interest should not be taken as reducing the responsibility of the board as a whole for monitoring performance in those areas.

21. Purchasers can use non-executive directors to gain a better knowledge of their providers, which may have the additional benefit of deepening the non-executive directors’ understanding of one aspect of health care (see Case Study 3). In other cases, purchasers have set up meetings between non-executive directors and chairmen of their boards and local providers’ boards. Although the aim of these groups is to foster understanding between purchaser and providers, such groups have the useful by-product of allowing non-executive directors to learn from the experiences of others. In yet further cases, groups have been formed specifically for all non-executive directors within a geographical area (see Case Study 4).

Case Study 3
Non-executive directors can develop closer knowledge of providers

In Liverpool Health Authority, each non-executive director is encouraged to gain a particular understanding of one of its main providers. This approach has both advantages and risks. The advantages are that non-executive directors can:

♦ develop an overview of all the key issues such as finance, quality, and contracts in one provider; and

♦ have the opportunity to meet key staff and develop a richer understanding of that particular organisation.

The risks are that non-executive directors may:

♦ not maintain an appropriate distance from their providers; and

♦ see their role as one of championing or defending the provider rather than using the contact to inform the purchaser board’s decisions.

In Liverpool Health Authority the risk of non-executive directors losing their independence of judgement is reduced because the results of these visits are shared with other directors at a quality panel. The risk can be further reduced by rotating non-executive directors between different providers, thereby also helping them develop an overview of different types of provider.
Finally, both purchasers and providers can place non-executive directors on task-forces or committees of the board. On most boards, three non-executive directors comprise the audit committee, and this closer involvement is welcomed by non-executive directors who have experience of it. Where non-executive directors have the time available, membership of a committee or task force can allow them to understand and influence an area of the service in greater depth.

Developing an independent view

Non-executive directors need scope to gain an independent understanding of the service, drawing on views from outside the top executive group on the board. This can be difficult territory. Some non-executive directors are constrained from ‘walking the shop floor’ and making contact with managers by their chairman or chief executive, who may fear that non-executive directors will jump to the wrong conclusions on the basis of unrepresentative observations, or interfere in the running of the organisation. Overall, such fears are not justified by the experience of most boards. Chairmen and chief executives should encourage non-executive directors to develop independent sources of information because this will help them provide a more informed view on the board's business. Non-executive directors can help allay fears by observing protocols – for example, letting the relevant executive director know when they are visiting and discussing their observations after a visit.

Making wider contact with staff also helps non-executive directors to fulfil their role in securing probity. In a recent report¹ the Commission found that a third of the staff they interviewed would take no action in the face of impropriety because of the fear of losing their job if they 'rocked the boat'. Whilst non-executive directors saw themselves as a safeguard against such problems, staff said they would be unwilling to approach them. If non-executive directors make themselves known, approachable and accessible, staff will be more willing to come forward and report any suspicions they have.

Developing an independent perspective is a bigger problem for non-executive directors on purchaser boards because they need to visit providers as well as their own organisation. Some are frustrated to find that what they intend as informal visits are in practice stage-managed. Whilst formal meetings between board members of purchasers and providers are commonplace, it is also helpful to purchaser non-executive directors to be able to see for themselves how providers deliver health care. The benefit for Trusts in encouraging non-executive directors of purchasers to make such informal visits is that it is a useful forum for disseminating information and keeping themselves up to date on health issues; and it provides an opportunity to meet other non-executives to exchange ideas and learn from each other's experience.

Case Study 4

Groups can be set up to allow non-executive directors from different boards to meet

The chairman of Rotherham Health Authority set up an informal gathering of chairmen and non-executive directors of the authority and of local Trusts. This was well received because non-executive directors and chairmen of providers could meet their purchaser colleagues. It also provided an opportunity for non-executive directors to exchange experience on how they had developed their role in the NHS.

The Yorkshire Non-Executive Development Group was formed to allow non-executive directors from different boards to meet in an informal setting. All non-executive directors within the Yorkshire region are invited to events and average attendance is 50 (out of a possible 250). Most meetings follow a standard format with keynote speakers in the morning and workshops in the afternoon. The main benefits reported by the group are:

- it is a useful forum for disseminating information and keeping themselves up to date on health issues; and
- it provides an opportunity to meet other non-executives to exchange ideas and learn from each other's experience.

visits is that the latter can get an impression of the impact on the ground of their purchasing decisions. This will help to secure a more informed debate about future purchasing plans.

26. Non-executive directors who are members of the audit committee have access to a unique independent view of, and judgement on, their organisation – that of the external auditor. Audit committees provide an opportunity for regular meetings between non-executive directors and auditors in a relatively informal setting. Issues can be covered in more depth and good working relationships developed. The value of this independent view is that auditors can identify for non-executive directors problem areas where action needs to be taken.
Questions for boards

1. Have non-executive directors received training in the operation of the NHS nationally?

2. Is there a formal induction programme tailored for individual non-executive directors?

3. Has the chairman outlined key responsibilities in consultation with non-executive directors and drawn up success criteria for non-executive directors?

4. Does each non-executive director have an informal plan for developing their role?

5. Is there mutual feedback on performance between chairmen and non-executive directors?

6. Is there a group enabling non-executive directors to share experience with those on other boards?

7. Are non-executive directors encouraged to draw on views from outside the executive group?

8. Are non-executive directors encouraged to have independent access to the Trust (or to providers in the case of purchaser non-executive directors)?

9. Do non-executive directors use the audit committee to build good working relationships with their external auditors, enabling auditors to bring problem areas to their attention?
Behaviour

27. The way the chairman, the chief executive, executive directors and non-executive directors behave on boards strongly influences the degree to which non-executive directors can make a constructive contribution to the board's business.

28. Experienced non-executive directors in the NHS and private sector agree that one of their main tasks is, through questioning, to call the executives to account at board meetings for their running of the business. To do this effectively, non-executive directors need information and sufficient time to formulate their own view and they need the confidence to speak out:

'The notion that non-executive directors should turn up and ask the so-called naive question is itself naive. Questions must be simple, but they must also be informed.'

'It can be a very lonely thing to do. If you start intervening, you can be on your own.'

29. Chairmen can help by leading the questioning, creating an environment in which it is easier for non-executive directors to speak out. But if non-executive directors feel that they are being constrained from carrying out this key questioning role by their chairman there is a course of action open to them, aside of resignation. The Codes state that non-executive directors should seek advice from the regional non-executive member of the Policy Board 'on matters of grave concern to them relating to the effectiveness of the board'.

30. The behaviour of chief executives is also important. Nervous or defensive chief executives tend to respond immediately to points made by non-executive directors, effectively killing a discussion. More confident and open chief executives will encourage and facilitate debates involving non-executive directors.

31. A problem is that in practice, at many board meetings, a lot of time is taken up by executive directors giving information. In board meetings which are dominated by discussion rather than information-giving, non-executive directors are able to play a more active role and make a fuller contribution to the meeting.

32. Two types of behaviour are required to ensure that the performance of the authority or trust remains on track:

♦ a robust review of performance; and
♦ follow-up of decisions.

Robust review of performance

33. Many non-executive directors express the concern that the process of monitoring the performance of executive directors should not become confrontational. But in practice, it often goes too far to the other extreme, and becomes too cosy:

'It is, after all, the task of the non-executive to maintain an attitude of constructive scepticism (...). This puts a high premium on establishing mutual trust and respect between the two parties, based on a clear and shared understanding of what the non-executive director is required to do.'

34. Ideally, non-executive directors will recognise that executive directors are equal members of the board and executive directors will acknowledge that non-executive directors have a specific role in monitoring their performance. In practice, there is often some potential for conflict which can inhibit performance review.

35. Performance is more likely to be reviewed robustly if chairmen lead the way for non-executive directors. It is more likely to be accepted and acted upon by executive directors if the chairman has also made it explicit that this is what is expected of non-executive directors and the culture of the board is generally to work together as a team.
Checklist for Action
Questions for board members

Please pull out and copy

In its management paper *Taken on Board*, the Audit Commission identified questions for boards to ask themselves in looking for ways of enhancing the contribution made by non-executive directors to boards' effectiveness. These have been drawn together in this pull-out checklist for action, for boards to use to stimulate a discussion of the role of non-executive directors.

Individual boards can use this checklist to identify which of the issues raised are a priority for them, what action is required and who should take the lead in addressing the priorities the board identifies.
## Checklist for Action

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<th>Priority</th>
<th>Lead person</th>
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<td><strong>Behaviour</strong></td>
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<tr>
<td>1. Does the chairman lead by example, questioning executives and asking them to account for progress made?</td>
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<td>2. Is there an appropriate balance of contribution between executive and non-executive directors?</td>
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<td>3. Do the chief executive and other executive directors welcome questioning and discussion by non-executive directors?</td>
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<td>4. Does the chairman lead non-executive directors in a robust review of performance?</td>
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<td>5. Does this review take place within the context that the culture of the board is to work together as a team?</td>
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<td>6. Is adequate time allowed for discussion at board meetings, as well as for information giving?</td>
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<td>7. What mechanisms are in place to enable the board to monitor the quality of medical care?</td>
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<td>8. Does the board receive feedback on the implementation of major decisions?</td>
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<td>9. Does the audit committee follow up audit reports to ensure that recommendations are being implemented and action taken?</td>
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Checklist for Action from
*Taken on Board – Corporate Governance in the WHS:*
*Developing the Role of Non-Executive Directors.*

**Boards' working practices**

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<th>Questions</th>
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<tbody>
<tr>
<td>1  What processes are in place to enable non-executive directors to be involved in formulating the strategy from the start?</td>
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<td>2  Do non-executive directors in practice influence the allocation of money?</td>
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<tr>
<td>3  Do non-executive directors monitor the implementation of the strategy through:</td>
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<td>- receiving regular progress reports?</td>
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<td>- weighing up executive proposals against it?</td>
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<td>4  Has the board decided what performance reports to see, and how frequently?</td>
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<td>5  Do financial reports have the five good practice hallmarks? (Box 1, page 21)</td>
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**Responsiveness to the community**

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<td>1  Do boards have policies for all key components of responsiveness to the community:</td>
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<td>- informing the public?</td>
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<td>- taking account of the public’s views?</td>
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<td>- answering the public?</td>
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<td>2  Are non-executive directors exposed to a range of views from the community?</td>
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<td>3  Do non-executive directors ensure that public opinion is taken into account when formulating the strategy?</td>
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<td>4  Do chairmen invite non-executive directors to lead a discussion with the board on the implications for the community of major decisions?</td>
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<td>5  Do public meetings meet the good practice criteria? (Box 2, page 25)</td>
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<td>6  Is feedback from public meetings reported to the board?</td>
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<td>7  Where public meetings do not provide a forum for boards to answer to the public, do non-executive directors stimulate discussion of alternative strategies?</td>
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Case Study 5
Boards can get closely involved in reviewing the quality of medical care

The board of one acute Trust became aware of significant problems in the paediatric department. The concern was triggered by a 'value for money' report produced by the Trust's external auditors in June 1993, but other warning signs included high use of locums and complaints from parents. The non-executive directors played a significant role in encouraging the board to investigate.

The Director of Paediatrics met with the board and as a result a taskforce was set up. The taskforce made 19 recommendations covering management issues (eg communicating with staff), clinical practice (eg nominating individual consultants to undertake all the surgery within a specialty) and issues for the main board (eg staffing levels).

The board met again with the Director to review the implementation of the recommendations. The board decided that further monitoring of progress was needed and delegated this role to a committee of the main board.

36. In practice, performance review rarely encompasses the quality of medical care. But contracts between purchaser and provider increasingly specify quality criteria, and systems need to be in place to monitor performance in relation to these criteria and any follow-up action taken as a consequence of that monitoring. Boards have a role in satisfying themselves that this is happening.

37. It is particularly difficult for non-executive directors to express a view on issues which have in the past been seen as the preserve of experts. One way of fulfilling this role is for boards to take a closer interest in the outcome of clinical audits. Clinical audit is widespread and some boards already receive lists of completed clinical audits. Other boards go further, looking at the details of the action recommended and following up progress in implementing these actions (see Case Study 5).

38. A natural desire to avoid confrontation with medical staff is one reason for non-executive directors' hesitancy in this area. Confrontation is less likely if reviews of the quality of medical care are part of a regular dialogue between the board and medical staff, with the board drawing on the expert advice of clinicians in interpreting data, for example, on clinical outcomes.

'The process of monitoring the performance of executive directors should not become confrontational. But in practice it often goes too far to the other extreme and becomes too cosy'
39. In the Codes non-executive directors are also given a particular responsibility to act as conciliators in non-clinical complaint cases. Non-executive directors can develop this role to bring to the board wider issues about the quality of the organisation’s services which arise from their consideration of trends in complaints and of the causes of complaints (see Case Study 6).

Case Study 6

Non-executive directors can take a lead in using complaints constructively to highlight problems with service delivery

The board of Hastings and Rother NHS Trust has taken a lead on complaints, making it clear that it views them as very important and setting out timescales and standards for handling complaints. A non-executive director is the chairman of the Complaints Panel which meets quarterly. The panel looks at the handling of individual complaints and reviews trends, linking information coming from complaints into the clinical audit programme. The other members of the panel are a GP, a hospital consultant, the Chief Nurse, a member of the Community Health Council, and the Consumer Relations Officer (who co-ordinates the handling of complaints and patient enquiries). In addition, the Consumer Relations Officer presents her quarterly report to the board in person so that other members of the board are kept well informed and up to date on users’ views.
Case Study 7
Boards should follow up the implementation of major decisions

At West Midlands Ambulance Trust when the board makes a decision, the chairman asks executive directors to report back at the beginning of the next meeting what progress there has been in implementing the decision. If a decision requires several months to be implemented, the board is given an update at each subsequent meeting until it has agreed that the decision is 'implemented'.

This process can take up to half an hour at some board meetings. Executive directors report that it has been an important stimulus in establishing a culture of accountability for performance within the Trust.

Follow-up of previous decisions

40. Boards tend to focus on new business every month, with much less time (sometimes none) devoted to following up the implementation of previous decisions. But without the latter, boards cannot effectively monitor the performance of executive directors. Chairmen should require that boards receive feedback from executive directors on the implementation of every major decision (see Case Study 7).

41. Many boards have recently established audit committees, allowing non-executive directors to discuss financial issues in more depth. Most audit committees have concentrated on regularity and probity to date, but another of their key functions is to ensure that action is being taken by executive directors on problem areas highlighted in audit reports and that audit recommendations are being implemented.

'Boards tend to focus on new business... ...with much less time devoted to following up the implementation of previous decisions.'
Questions for boards

1 Does the chairman lead by example, questioning executives and asking them to account for progress made?

2 Is there an appropriate balance of contribution between executive and non-executive directors?

3 Do the chief executive and other executive directors welcome questioning and discussion by non-executive directors?

4 Does the chairman lead non-executive directors in a robust review of performance?

5 Does this review take place within the context that the culture of the board is to work together as a team?

6 Is adequate time allowed for discussion at board meetings, as well as for information-giving?

7 What mechanisms are in place to enable the board to monitor the quality of medical care?

8 Does the board receive feedback on the implementation of major decisions?

9 Does the audit committee follow up audit reports to ensure that recommendations are being implemented and action taken?
Boards' working practices

42. Working practices of boards need to be designed to allow the full participation of non-executive directors if those boards are to work effectively. There are two key areas here:

♦ strategy and business planning; and
♦ information coming to the board.

Strategy and business planning

43. It is widely accepted that non-executive directors should be involved in the development of the strategy, not a rubber-stamp on a strategy already formulated by executive directors, but this is not always achieved in practice.

44. Many boards have an away day once or twice a year to develop the strategy. This process usually involves non-executive directors in:

♦ assessing local needs (for purchasers) or understanding purchasers' priorities (for providers);

♦ brainstorming about the organisation's strategic aims and priorities for future development;

♦ deciding what is achievable within the likely allocation of funds (for purchasers) or the anticipated level of contracts and other activity (for providers).

45. Unfortunately, sometimes the initial involvement of non-executive directors is later undermined because the final decisions on how money is allocated within the different parts of the strategy are made in a rush. The final allocation of funds to purchasers may be made only shortly before the start of the financial year. And contracts between purchasers and providers are also often finalised at that time. But this need not exclude non-executive directors from influencing the allocation of money, because the board can approve options for expenditure, subject to the final allocation of funds or completion of contracts:

'I felt really frustrated that decisions on expenditure on health care all seemed to be made at the last minute, so that there was, in effect, no opportunity for the non-executives to influence this process.'

46. It is equally important for non-executive directors, alongside other board members, to monitor the implementation of the strategy. Non-executive directors should check that changes in priorities in the strategy are reflected in the way in which money is being spent. And all non-executive directors should weigh up executive proposals for developments directly against the strategy.

Meeting information needs

47. For non-executive directors to meet their responsibilities on a part-time basis, the amount of information they receive must cover the key areas of the organisation's work, but also be kept to a manageable level and its content made comprehensible to lay people.
48. Non-executive directors need a limited range of performance measures. The challenge is to select from the hundreds of statistics produced in the NHS those which are relevant and to identify what additional information is required. This can be tackled in at least two ways – by starting from scratch and requiring executive directors to produce tailor-made performance information, or by sifting the information that is currently produced (see Case Study 8). The end result should be a schedule of performance reports the board wishes to see. This decision should be made by the full board, not by executive directors. 

Case Study 8
Boards should decide what performance information they require

In 1994, the board of Walsall Hospitals Trust reviewed its information requirements. The starting point was to assemble a list (12 pages long) of all the financial and performance reports produced within the Trust. They added to this list new information which the board required. The board then identified which items should come to the board, how frequently, and named the manager responsible for producing them. Listed below is a selection of the types of reports and frequency with which they come to the board.

<table>
<thead>
<tr>
<th>Types of report</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current and projected activity levels</td>
<td>Monthly</td>
</tr>
<tr>
<td>Activity analysis</td>
<td>Monthly</td>
</tr>
<tr>
<td>Financial monitoring report</td>
<td>Monthly</td>
</tr>
<tr>
<td>Schedule of purchases over £10k</td>
<td>Two monthly</td>
</tr>
<tr>
<td>Summary of complaints, trends and actions proposed</td>
<td>Quarterly</td>
</tr>
<tr>
<td>Presentation of external audit report and findings</td>
<td>As appropriate</td>
</tr>
<tr>
<td>Presentation of Audit Commission management letter</td>
<td>Annually</td>
</tr>
<tr>
<td>Medical negligence claims</td>
<td>Half-yearly</td>
</tr>
<tr>
<td>Employment statistics (eg turnover, sickness)</td>
<td>Annually</td>
</tr>
<tr>
<td>Patient satisfaction survey</td>
<td>Annually</td>
</tr>
<tr>
<td>Approval of asset acquisition and disposal</td>
<td>As required</td>
</tr>
</tbody>
</table>

Non-executive directors have a list of the information available which does not routinely go to the board and can request copies of any additional information they wish to see.

The lesson from this is not that this type and frequency of reports is necessarily appropriate to other boards, but that the process of the board specifying what information is required and when helps avoid overloading non-executive directors with information.
Hallmarks of financial reports helpful to non-executive directors

Summaries of finances and activity are presented together
The financial summary needs to be put into context. For example, if a Trust is overspending because it is over performing against contracts, then, whilst action is still required, the situation is understandable. But if the Trust is both overspending and under performing against contracts, detailed probing is required.

There is a short written explanation
Non-executive directors without a financial background find it helpful to have a textual explanation highlighting the main issues.

Projections are included
Performance information in the NHS is usually at least a month out of date. So year-end projections are essential to help board members take timely action.

Comparisons are made
Comparisons are an important yardstick for evaluating performance. Comparisons can be made with similar organisations, previous years and against national standards.

A summary is provided – detail is available
Although many non-executive directors will look only at the summary, some level of detail should be appended to the summary so they can dig deeper if they wish.

49. Getting to grips with the finances is a daunting task for many non-executive directors. Yet if they do not do so they fail in a prime part of their role and risk being marginalised in the most important decisions:

‘If you don’t monitor the finances, the executives will make the decision for you because they have to balance the books.’

50. Many current NHS financial reports could be structured to be more helpful. Although there is no model format, as each board will have its own preferences, there are five hallmarks of financial reports which make them accessible to non-executive directors (see Box 1).
Questions for boards

1. What processes are in place to enable non-executive directors to be involved in formulating the strategy from the start?

2. Do non-executive directors in practice influence the allocation of money?

3. Do non-executive directors monitor the implementation of the strategy through:
   - receiving regular progress reports?
   - weighing up executive proposals against it?

4. Has the board decided what performance reports to see, and how frequently?

5. Do financial reports have the five good practice hallmarks? (Box 1)
Responsiveness to the community

51. The Codes of Conduct and Accountability set out for all board members a responsibility 'to ensure that there is effective dialogue between the organisation and the local community on (the organisation's) plans and performance and that these are responsive to the community’s needs.' Within this, the Codes give non-executive directors a particular responsibility to bring an 'independent judgement to bear on issues of (...) accountability through the NHS Executive to Ministers and to the local community.' In addition, in April 1995 the NHS Executive issued a Code of Practice on openness in the NHS which aims to ensure greater access by the public to information about NHS services. This role is widely accepted among non-executive directors – but difficult to translate into practice.

52. There are three key components of responsiveness to the community:

♦ informing the public;
♦ taking account of the public's views; and
♦ answering to the public.

53. Most Trust boards have concentrated their efforts to date on the first of these, on informing the public. Taking account of the public's views and answering to the public are proving harder to achieve because they involve establishing a richer dialogue with local communities.

54. Yet taking account of the local public's views and answering to the public are important issues for all NHS non-executive directors. They are obviously important for purchasers, who are responsible for determining local priorities for health care and need to consult the public about their views. But the public are also interested in the provision of health care. People attending purchasers' consultation meetings are as keen to discuss the way in which providers deliver services as the priorities for purchasing health care. Yet not all providers have strong links with the local community, as opposed to their patients, particularly where they operate a specialist facility covering a wide area.

Taking account of the public's views

55. The role of non-executive directors in this area will vary. Some non-executive directors have been appointed because they are well known and respected in the local community. Although not appointed as representatives of the general public, they should be in touch with the concerns of local people and can take the lead in highlighting these in board discussions.

'...taking account of the local public's views and answering to the public are important issues for all NHS non-executive directors.'
'...listening to the public's views is not enough. Those views must then be brought to bear on decisions which purchasers and providers make.'

Case Study 9

Non-executive directors can find ways of taking account of the public's views

Shropshire's Mental Health Trust holds six open meetings a year – one in each of the six localities in its area. Each non-executive director is attached to a locality. They attend the meeting in their area and make a short presentation alongside other board members, explaining the Trust's policies, publicising its performance targets, accounting for the performance achieved and listening to the community's response. The presentations are followed by a question and answer session chaired by the Community Health Council. Average attendance at these meetings is about fifty.

An important point is that feedback from these meetings is reported to the board so that the board can take account of it when making decisions.

56. Although most non-executive directors have only limited time available, they should look for opportunities to open themselves up to the community's views. Attending public meetings is one obvious way of doing this and simultaneously being answerable to the public (see Case Study 9).

57. Some Trusts and purchasers have standing arrangements for consulting with community groups, inviting local branches of health charities and pressure groups to meet with non-executive and executive directors. Others undertake public surveys and run 'focus groups' of consumers of different types of health services and report the results of these to their boards.

58. However, on its own, listening to the public's views is not enough. Those views must then be brought to bear, balanced with other factors such as national priorities and board members' own views, on the decisions which purchasers and providers make. A task of non-executive directors is to ensure that local opinion features when the board is formulating its strategy. Chairmen can help them in this by explicitly asking them to discuss the implications of every major decision for the local community and the latter's likely reaction.
Box 2

The views of people attending public meetings

Some of the points made by the public concern basic issues, but they were frequently raised, suggesting that they are not routinely addressed.

Publicity
Meetings should be widely advertised in public places and in local newspapers with plenty of notice being given. Relevant local organisations should be individually invited to attend.

Venue
The emphasis should be on getting out to local communities rather than expecting them to come to you.

Timing
Meetings should be run twice, once in the daytime and once during the evening allowing as many people to attend as possible.

Quality of talks
Speakers should have good presentational skills, presentations should be crisp highlighting key messages and visual aids should be used.

Participation
As much time should be spent on questions and discussion as on information-giving and this needs to be facilitated and encouraged. For example, workshop sessions with smaller groups focusing on particular issues worked well.

Written information
Interested organisations and individuals should be sent written information before the meeting both for themselves and for distribution. It should also be available in packs for people to pick up as they come in.

Answering to the public

59. The most common way in which non-executive directors, in common with other board members, answer to the public is by being questioned at public meetings. Trusts’ and purchasers’ experiences of public meetings are mixed. Although all accept the need to be accountable, the experience of some boards is that attendance is often poor and even if significant numbers of members of the public or community groups do come, the level of participation in the meeting can be low. This does not have to be so. The way in which consultation meetings are organised can have a major effect on the level of attendance and participation. As part of the research for this paper, the audiences at nine public meetings were asked what they felt worked well or badly. The results are summarised in Box 2.
60. But even where Trusts or purchasers have gone to great lengths to interest the public, the response has sometimes been disappointing. Non-executive directors, particularly those with detailed knowledge of the local community, are often in a position to inject some fresh thinking on developing alternative approaches to answering to the public, such as:

♦ commissioning voluntary organisations to set up 'citizen juries' which involve a cross section of members of the public with an interest in health care in cross-examining directors and commenting on their proposals. Citizen juries have been used in a similar way in the United States of America; and

♦ using 'consumer laboratories' in which invited members of the public are asked to observe boards discussing key issues, to question the board and then to discuss the same issues themselves. This is followed by a relaxed discussion of the different conclusions which each group has reached.
Questions for boards

1. Do boards have policies for all key components of responsiveness to the community:
   ♦ informing the public?
   ♦ taking account of the public's views?
   ♦ answering to the public?

2. Are non-executive directors exposed to a range of views from the community?

3. Do non-executive directors ensure that public opinion is taken into account when formulating the strategy?

4. Do chairmen invite non-executive directors to lead a discussion with the board on the implications for the community of major decisions?

5. Do public meetings meet the good practice criteria? (Box 2)

6. Is feedback from public meetings reported to the board?

7. Where public meetings do not provide a forum for boards to answer to the public, do non-executive directors stimulate discussion of alternative strategies?
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