



# Non-Executive Directors in Government



## ■ About Odgers Berndtson

Odgers Berndtson is one of the leading international executive search firms and the largest in the UK. Our reputation for excellence and integrity has been established over 40 years. We act as trusted advisors to clients who need help recruiting for important positions.

In the UK we work in all commercial and financial sectors and we have strong teams serving government, health, education and charities. We also have functional teams which specialise in recruiting for the main management functions. Our Interim and Select teams can help fill interim executive or middle management roles. Our assessment team also offers a wide range of evaluation solutions.

We have over 300 people in London, as well as offices in Scotland, Wales, the Midlands and the North. In total, we have over 150 fee earning consultants and 70 researchers serving the UK market. Internationally we have offices in more than 30 countries.

For more information on the services that we provide please visit our website or call one of our consultants for an exploratory conversation.

### ■ Nicky Oppenheimer

Nicky Oppenheimer chairs the Central Government team. She has experience of working on the appointment of many Departmental Non Executives and on other senior public appointments, specialising in bringing private sector people into the public sector.

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Beverley Steel is the Managing Director of our public sector business which covers Central and Local Government, Education, Charities, Healthcare & Life Sciences, Housing and Regeneration. She also oversees the Wales practice and is focused on board, Chief Executive and other senior executive roles.

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Nick is a Research Analyst. Prior to joining Odgers, Nick worked as a Policy Officer in a consultancy representing the interests of public and quasi-public sector organizations in Brussels.

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## Executive Summary

Although NEDs have been sitting on Departmental Boards for at least a decade, the talented and experienced non-executives who have been attracted to the role have all too often found it difficult to make a real difference to the way Departments do business. This Paper asserts that the complex decision-making matrix within which Whitehall Boards are located, the increasingly inter-Departmental nature of policy-making and the particularity of Departmental budgetary processes make the governance structure of Government Departments and their relationship to ultimate decision-making power fundamentally different from that of the companies from which the majority of NEDs are recruited. Lack of clarity over the role of Boards has hindered the development of a culture of effective non-executive challenge. There is a need, as policy attempts to establish for NEDs a more central role in Departmental performance-management, to deepen understanding of the contribution of Boards and NEDs within each Department, to clarify the Board's role in governance and strategic leadership and to formalise the relationship with Ministers which would lend greater confidence to Boards - and NEDs in particular - as they look to challenge "business as usual".



Central Government Departments are increasingly aware of the difficulty of the task they must take in hand. In an age of financial retrenchment and of entrenched public scepticism as to the integrity and worth of our political institutions, they must simultaneously overhaul and strip down their own systems, structures and workforces, and lead a thorough-going transformation of the entire architecture of public service delivery.

Fashioning a lean organisation with the right skills, systems and culture to engineer such a transformation requires confident and outward-looking strategic leadership of the highest quality; Government must avail itself of the experience, talents and knowledge of all its people – executive and non-executive, as it plans and enacts its response. There has been considerable attention paid in recent years to the capacity of Departments to meet their respective delivery challenges, and to the leadership dimension of the process of building and nurturing that capacity.

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The Capability Review process has done much to turn Departments towards developing their ability to strategise, plan and deliver policy and to account more openly for progress. Functions are gradually being professionalised and the civil service as a whole has developed a more sophisticated and strategic understanding of skills for and styles of leadership. Attention has also been paid to the role of Departmental Boards in providing strategic leadership.

But the machinery and constitution of governance at the top has remained largely unchanged; organisations across the public sector are increasingly held to account for the quality and value for money of the services they deliver for citizens, but governance and accountability at the centre of Government need to evolve to keep pace with the changes to the design, funding and delivery of services as well as the expectations of the public.

Departments tend to overlook the need to develop a detailed understanding of the requirements of public service users and of the culture of the increasingly diverse constituent organisations delivering services at the local level. They will find themselves increasingly in need of fresh perspectives on the particular internal challenges they will face as they undertake whole-organisation change programmes, in areas such as HR, audit, outsourcing and organisational development. Astute, experienced and engaged non-executive members of Departmental Boards will be a very significant asset as Whitehall looks to develop a less risk-averse and more strategically-minded style of governance and decision-making.

NEDs have been sitting around Board tables in Government for more than a decade; the quality of the people brought into these positions has, in the main, been very high. Despite the endless reorganisations and carve-outs of Departments, which have undoubtedly done damage to the brand of Government as a settled place to work and make a difference, the appeal of the role is still strong.



But, despite the quality of appointees and the established nature of the role, it has been difficult for even the best people to make a real impact; there has been confusion as to the correct role of the Board and the more complex decision-making matrix within which Whitehall (as compared with corporate) Boards sit has retarded the development of a culture of genuine challenge. Yet this latter would seem to be a sine qua non for the effective functioning and job-satisfaction of NEDs and for more open-minded strategic decision-making.

There are some reasons to hope for a change in Board and governance culture in Whitehall; prior to the election, Departments were instructed to give NEDs responsibility for overseeing the building of capability in key areas, and to reflect this responsibility in their performance-management. The Conservatives, as part of their preparations for Government, examined in detail the case for significant reform of the governance culture, to help embed a culture of challenge on Departmental Boards, and to strengthen the hand of non-executives. The diffuse and complex systems through which policy is developed, cascaded and delivered can make it difficult for NEDs on Departmental Boards to exert strategic influence at key moments of decision-making, since these moments may be many, fleeting and removed from the more formal policy-making forum of the Departmental Board.

So the centre of Government needs a fundamental change to the way it governs its business; there have been improvements to the capability and visibility of Board and senior civil service leadership but it is now essential that the governance and leadership cultures of Departments change to clarify understanding amongst NEDs, civil servants and Ministers of the appropriate role of Boards. This would afford non-executives the opportunity and the confidence to bring their knowledge and experience fully to bear on the huge challenges facing Whitehall. NEDs embody and enact experience of executive decision-making in areas of considerable current strategic importance; leveraging maximum impact from this stock of knowledge should be a priority, but achieving this will require greater clarity of purpose, and stronger links to decision-making and to Ministers.

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Reform should start with the recognition that the institutional context and accountability culture of Departmental Boards differ markedly from those of corporate Boards.

The particularity of the political decision-making context and the location of a Board vis-à-vis budgetary decisions and executive power in Whitehall mean that analogies with corporate Board-level governance are problematic and may be unhelpful. In Government, responsibility for finance and risk-management is vested in the Permanent Secretary, who also oversees the recruitment, appointment and performance-management of the Departmental NEDs. This has undeniably served to hinder the development of effective non-executive challenge. On corporate Boards, the presence of non-executive representatives of shareholders allows the latter to



devolve executive decision-making power to professional managers, while reserving significant powers in the areas of remuneration and (re)appointment. This balance is what – on a well-run Board, at least – permits effective challenge and strategic oversight to flourish.

In Departments, the crucial balance is that struck between the Government of the day and the permanent civil service; there are no shareholders. There is also (and this is increasingly true, with the emergence of complex, cross-cutting areas of policy such as climate change, anti-social behaviour, security and “nation-building” foreign policy interventions) a strong element of inter-Departmental policy-making, budgeting and delivery to consider – a key difference when you consider the relative autonomy of a corporate Board. The architecture of governance in Departments has been changing, too, with the addition of sub-Boards, the establishment of committees and so forth, as new lines of accountability up to Board level have been created.

All of which makes it all the more urgent that Government develop a distinctive model of Board-level governance. The challenges in each Department will vary, so the particular constellation of skills which could most usefully be brought to a Board will not be the same in every case. Not all elements of the classical corporate model will be suitable for translation into Whitehall, so if borrowings are to be made, there needs to be a clear rationale in each case.

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If the intention is to move beyond a system and culture of advisory appointments to Boards (and the apportioning to NEDs of personal responsibility for oversight of particular elements of Departmental business planning suggests that it is), then the balance of power will have to shift in favour of Boards; this will have implications for the relationship between non-executives and the Permanent Secretary, and may require of Ministers that they evolve into Departmental Chairmen. The merits of this sort of reform have been discussed, but there remain doubts as to the constitutional implications of such a role and to the willingness of Ministers to undertake it. At the very least, more formalised relationships between Secretaries of State and NEDs would seem to be a prerequisite for the development of a more collective culture of Departmental leadership, more open and built on mutual challenge and engagement.

Whatever the shape and scope of any eventual reform to Departmental governance, if Boards are to be encouraged to take a stronger and more visible role in strategic decision-making and in strengthening accountability – and that is currently the direction of travel - then they will need to have and to project a clearer understanding of their role and purpose. Departments – from Ministerial level down - will need to think more clearly and more subtly about where and how they want their NEDs to exert their influence. The quality of the information reaching Boards and informing decision-making and risk-management will also have to improve; the public sector as a whole has rather different informational requirements from the private but



tends to be less strategic in its collection, analysis and use of data at Board level. The challenge is especially urgent in Government Departments if they are to grow into a leaner, strategic leadership role. Getting this right means building a cleverer information management architecture and culture, all the way to the top and locating Boards within a clearer decision-making context where their strategic contribution is understood and valued.

As Departmental approaches to governance and the challenge role of NEDs develop, then, there will be varying degrees of divergence from the corporate archetype, but having a shared understanding of, and pan-Governmental benchmarks for, effectiveness of Board-level decision-making and governance will be important in focusing minds on the task at hand.

“We combine long experience of working to fine-tune top-level decision-making cultures and systems in the private sector, with an unparalleled knowledge of public sector organisations. ”

At Odgers Berndtson, we're uniquely well-placed to help Government Departments address the issues of governance and leadership they face. We have unrivalled expertise in bringing private sector NEDs into Board-level positions in the public sector, to provide confident, challenging and effective oversight and strategic leadership. We have an established, cross-sectoral Board Practice of executive search consultants, an integrated Board assessment capability and a range of mentoring and induction programmes aimed at helping individual appointees find their feet in new organisational surroundings. We combine long experience of working to fine-tune top-level decision-making cultures and systems in the private sector, with an unparalleled knowledge of public sector organisations. We have worked at all levels of Government and with the highest-profile private sector Boards; we are able to develop a tailored Board development programme, and to attract and develop individual NEDs of the very highest calibre.

We believe that the fresh perspectives that NEDs bring, and the power of a well-functioning Board to drive change in complex environments, can catalyse the development of more confident strategic leadership at the centre of Government.

If you would like to know more about the support we can offer Government Departments and other public sector organisations (PSOs), or you would like to read more of our thinking on the challenges PSOs and their leaders face, please contact Nicky Oppenheimer or Beverley Steel on 020 7529 1111.

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