Board size and effectiveness: advice to the Department of Health regarding health professional regulators

September 2011

1. Introduction

1.1 On 7 June 2011, the Department of Health (DH) wrote to CHRE, requesting advice about the efficiency and effectiveness of health professional regulators in delivering a high quality regulatory regime.1 The letter from DH requested, amongst other things, advice on proposed reforms to deliver greater cost effectiveness and efficiency across the health professions’ regulatory bodies. This paper is designed as an input to the cost and efficiency work being undertaken by CHRE, and in particular the issue of whether there is a case for moving to smaller councils as a way of delivering more board like and effective governance.2 It does not deal with the case of moving to smaller councils as a way of constraining costs, since this is being addressed as part of the wider commission from DH.

1.2 In answering this question, we have assumed that the status quo prevails in terms of the non-executive membership of councils, and the split between public (lay) and professional membership. Following the proposals contained in the White Paper, Trust, Assurance and Safety,3 the latter entails, as a minimum, parity of membership between lay and professional members, to ensure that purely professional concerns are not thought to dominate councils’ work.

1.3 The advice we offer in this paper is based on the experience we have gained from overseeing the councils of nine health professional regulators, backed up by literature on a wide range of matters pertinent to the question of board size. It is not intended to be a literature review although a variety of sources are discussed.

2. The role of the governing board

2.1 To address the question that has been put to us, we must first establish the typical role or function of a council or board.4 In the words of John Carver, ‘We must ascertain what the board exists to accomplish; form follows function. Appropriate practices are determined on the basis of the accomplishments expected’.5

2.2 Much has been written on the topic of board functions and roles and, but a few main functions can be detected from the literature. Following the work of Cornforth, these can be described as follows:5

- Strategic leadership and strategic decision making
• Stewardship, including holding the executive to account
• External relations and accountability
• Board maintenance.

2.3 Strategic leadership includes strategic direction and decision-making, setting an organisation’s overall goals and high level policies, defining its mission and values and shaping a positive culture. It corresponds to what is sometimes termed the ‘performance’ dimension of the board’s role. Performance evaluation is also a key part of the board’s work but we classify it under ‘board maintenance’ below.\(^7\) Effective boards distinguish between governance and management, focusing on the former. In practice, this means focusing on the long-term, overall direction of the organisation rather than the more day-to-day aspects of running an organisation.\(^8\)

2.4 ‘Stewardship’ means looking after, or taking care of, something for someone else. In a corporate governance context, the term encompasses: holding the executive to account on behalf of those to whom the board is accountable; supervising and supporting the executive; establishing suitable schemes of delegation; ensuring legal, ethical and financial probity and integrity and taking care of organisational resources. It corresponds to the ‘conformance’ dimension of the board’s role.\(^9\)

2.5 The term ‘external relations and accountability’ describes the fact that a board acts as a ‘bridge …between those to whom the board is accountable and those who are accountable to the board’.\(^10\) This includes: maintaining relations with important stakeholders, ensuring obligations to stakeholders are understood and met, representing the organisation externally and – where applicable – mobilising volunteers and fundraising. Some of these jobs also form part of the ‘conformance’ dimension of a board’s role, but it is conformance in terms of external accountability rather than internal supervision.

2.6 The final function, board maintenance, refers to that fact that boards have a responsibility for sustaining, checking and repairing the ways in which they function. High performing boards recruit members, review and evaluate their performance and develop their capacity to work effectively.

2.7 The functions outlined above apply to boards in a wide range of different sectors and organisations. In the context of health professional regulation, the Enhancing Confidence Working Group placed particular emphasis on the first two functions. It said, ‘the role of a council should be to set the direction of the organisation in line with its mission and purpose. It should ensure systems are in place to enable it to monitor performance and to hold the executive to account. It should also ensure probity’.\(^11\)

2.8 This followed the July 2006 report, *Good Doctors, safer patients*,\(^12\) and the subsequent White Paper, *Trust, Assurance and Safety*,\(^13\) which associated the term ‘board like’ with a focus on high level strategic issues, oversight and accountability rather than involvement in the day-to-day operations of an organisation or the representation of particular constituencies.
2.9 These reports illustrate the difference between the functions undertaken by the board and by management in an organisation. The role of the board is distinct from the role of the organisation it oversees. It is the function of the board that determines its form, not the function of the organisation. In health professional regulation, it is the function of the council (board) that determines its form, not the function of the regulator, which may vary according to the details of its legislation.

3. The characteristics of an effective board

3.1 Various studies have been conducted in the past to explore the link between different board attributes and board performance or effectiveness. Before dealing with board size as a discrete topic, it is worth looking at some of these other attributes. In 2001, Cornforth examined the contribution that various aspects of board structure, processes and inputs make to the effectiveness of boards. One of the most important variables was whether boards had the right mix of skills and experience, or ‘board competencies’.

**Competencies**

3.2 Codes of governance for organisations in different sectors often emphasise the importance of recruiting board members with the right skills and experience. The final report of the Higgs Review recommended the following as a code provision:

> An effective board should … be of sufficient size that the balance of skills and experience is appropriate for the requirement of the business and that changes in the board’s composition can be managed without undue disruption.

3.3 During 2004, an Independent Commission Chaired by Sir Alan Langlands developed *The Good Governance Standard for Public Service*. Similar to the Corporate Governance Code but for public services, the Good Governance Standard focuses on the need for public service organisations to recruit people with the right skills to direct and control them effectively. It states that ‘The governing body should assess the skills that appointed governors need to fulfil their functions … Where an outside body makes appointments, it should consult the governing body about the skills and experience it considers to be necessary or desirable in the new appointee’.

3.4 The March 2009 report, *Tackling Concerns Nationally*, provided a summary of the main areas of required competence for council members of seven of the health professional regulators overseen by CHRE. Recognising the importance of recruiting board members who collectively display the right mix of skills and competencies, many governing bodies and their nominations committees draw up a skills matrix. This matches existing board members against a list of required competencies and thereby identifies any gaps or weaknesses that need to be filled.
3.5 The need to recruit board members who collectively bring the knowledge and expertise required to provide successful leadership to an organisation provides one set of parameters that indicate the optimal size of a board. At the minimum end of the scale, there comes a point where a board comprises too few members to possess all the competencies required. Moving up the scale, a greater number of members brings a greater range of competencies to the board. However, boards do not require and members cannot possess an infinite number of competencies. There comes a point where increasing board membership further does not add to the sum of the board’s competencies but instead reduces the effectiveness of the board.

**Behaviour**

3.6 A number of studies have suggested that larger boards are less effective than smaller ones because they suffer from co-ordination, communication and motivation problems. This in turn can hamper their strategic decision-making and scrutiny functions. As with board competencies, considerations about board behaviour – the way in which board members behave individually and collectively – can provide parameters for optimal board size.

3.7 In their 1992 paper, *A Modest Proposal for Improved Corporate Governance*, Lipton and Lorsch argued that ‘When a board has more than ten members, it becomes difficult for them all to express their ideas and opinions in the limited time available. This contributes to the expectation … that directors are not supposed to voice their opinions freely and frequently’. In 1993, Jensen argued that ‘Keeping boards small can help improve their performance. When boards get beyond seven or eight people they are less likely to function effectively and are easier for the CEO to control’. He quotes research ‘support[ing] the proposition that as groups increase in size they become less effective because the coordination and process problems overwhelm the advantages gained from having more people to draw on’.

3.8 In 1996, Yermack published research supporting the findings of Lipton, Lorsch and Jensen. In particular, he found an inverse association between board size and firm value, and evidence that this inverse association proved robust to a variety of tests for alternative explanations.

3.9 In 2008, Pesh Framjee, Special Advisor to the Charity Finance Directors’ Group, commented upon the problems of fragmentation that can beset large boards. He observed that in meetings of large boards, it is often the case that ‘A small number of individuals dominate and sometimes factions emerge. It is almost inevitable that a sub-group or inner cabal emerges to take on a disproportionate share of the power and governance role’.

3.10 In an article published in the same year in the *Cornell Journal of Law and Public Policy*, Barros explored the inhibiting effect of increases in group size on helping behaviour. He said, ‘The group dynamics that inhibit response to emergencies resemble the group dynamics of a corporate board of directors.
and other oversight groups facing possible wrongdoing. He thought three factors, identified in previous research by Latané and Nida, were present in this context: audience inhibition, social influence and diffusion of responsibility. Barros concluded that, ‘To address this problem, it would make sense to both limit overall board size and clearly assign responsibility for uncovering wrongdoing to an audit committee, or another small subset of the board’.23

3.11 In his November 2009 review of corporate governance in UK banks and other financial entities, Walker observed ‘a widely-held view … that a larger board is less manageable, however talented the chairman, and that larger size inevitably inhibits the ability of individual directors to contribute’.24 He published a summary of key psychological issues relating to board performance based on research and a literature review from the Tavistock Institute of Human Relations and Crelos Ltd. One of the findings from this research was that ‘The optimum size for a Board is within the range of 8–12 people. When boards are composed of more than 12 people a number of psychological phenomena, namely, span of attention, the ability to deal with complexity, the ability to maintain effective inter-personal relationships and motivation are compromised.’ In particular, it was found that ‘large boards tend to suffer from the phenomena of passive free riding, dislocation and “groupthink” reducing the ability of the board to effectively monitor senior management and govern the business’.25

Credibility

3.12 In the past, it was common for large, elected councils (boards) of health professional regulators to attempt to represent various constituencies or stakeholders. Representativeness is no longer a valid concept for a board, as we move away from self-regulation and from large elected councils, but the board must be credible to stakeholders. It achieves this primarily through performance not specified membership but it is legitimate, in forming an effective board, to take account overall of the balance of board members.

3.13 It is also appropriate to take account of credibility within and across the UK if the organisations are UK public bodies. This does not mean boards should be ‘representative’ of the UK but that they should be credible and competent to deal with UK matters. To some extent this links with arguments about board diversity. The point is well made by Spencer Stuart, a firm that compiles board indices in different countries: ‘Boards are not normally embracing diversity to be politically correct or because of outside pressure, but because it expands their views on issues, options and solutions’.26

3.14 The most important aspect of the balance of membership in the health professional regulators’ councils is the balance between professional and public members. The councils would struggle to perform their oversight responsibilities if they lacked the knowledge and skills that professional members brought with them. In the same way, they would struggle to acquire and demonstrate insight into patient and public experience, and the
independence and flexibility of thinking that are central to credibility if they had no suitably skilled public members.

4. **Board size**

4.1 Lipton, Lorsch and Jensen are regarded as ‘the first [authors] to hypothesise that board size affects governance in a way that is independent of other board attribute issues’. They argue that the communication and coordination problems that arise once boards exceed an optimal number (around eight or ten members) cause board effectiveness to suffer and, hence, firm performance to decline. In 2009, Guest found that that “The empirical evidence … appears to support this view, with a majority of studies documenting a significantly negative relation between board size and corporate performance”.

4.2 There are papers and studies pointing to different conclusions. In his 2009 paper, Guest highlights research suggesting that board size reflects particular characteristics of the organisation being governed – including its size - and that the size of a board will be that which best suits the organisation. After weighing up the evidence, Guest rejects such a view. He observes that large firms, which are more likely to have large boards, are those for which the negative relation between the size of the board and corporate performance is strongest.

4.3 Research published by Cornforth in 2001 suggested that ‘In general, structural variables were not important in explaining board effectiveness … we found … board size and horizontal complexity (i.e whether boards had sub-committees) unrelated to board effectiveness’. A July 2011 study by Chambers et al of Manchester Business School concluded that there was no difference in the board sizes of high performing NHS organisations and ‘not so high’ performing organisations. In the same year, research by the National Foundation for Educational Research (NFER) for the Local Government Group in 2011 found that school governors considered board size the least important element of an effective governing body from a set of ten elements suggested.

4.4 Notwithstanding these points, in the reports and documents we came across, we generally found evidence of a trend towards smaller board sizes across a wide range of sectors, and a view that, in many cases, this was to be regarded as a positive development. A recent example was the announcement from the Royal College of Midwives (RCM) that it would be moving to a new 12 person elected board from a 29 member council from 1 September 2011. In consulting on the proposed reforms, it said, ‘The RCM Council proposes that the new RCM Board should comprise 12 members and thereby be smaller and more efficient than the existing Council. This is consistent with a trend in modern governance towards smaller boards, which are thought to be able to operate more efficiently and effectively than large’.

4.5 We look at evidence from a number of different sectors below. Ignoring comparative evidence on the grounds that it is not comparing like-with-like
would be a mistake. For one thing, evidence on effective groups which provides some of the rationale for smaller boards is usually applicable to human behaviour in a wide range of contexts. In addition, whilst form (size, composition, structure) follows function, the core functions of governing boards remain the same across different sectors. Moreover, organisations do, in practice, learn from other organisations operating in different sectors. The trend towards the adoption of private sector style governance arrangements in the public sector is a case in point.

4.6 For the same reasons, we do not think that differences in composition between boards of organisations in different sectors or between those operating in the same sector negate the value of comparative work. The boards of some organisations have a mixture of executive and non-executive members whereas the councils of the health professional regulators overseen by CHRE are comprised solely of non-executive members. This does not alter the implications of effective group literature or the fundamental aims of a governing board. It might, however, raise a separate issue about whether or not it would be desirable for the boards of regulators to include executive members as is now common in other public sector bodies.

**Boards in the private sector**

4.7 The February 2011 Davies Report, *Women on Boards*, stated that that board size within the FTSE 100 ranges from 6 to 18 members, whilst FTSE 250 boards tend to be much smaller. In its response to the Higgs Review consultation paper in 2002, the Institute of Directors (IoD) said, ‘It would be wrong to be too prescriptive about board size – conditions vary, but for a publicly quoted company 12 would be a reasonable norm, with the non-executives in the majority’. Since Higgs, the average size of UK boards has declined.

4.8 The Spencer Stuart 2010 UK Board Index which looks at FTSE 150 companies found that ‘Board sizes have continued to decline, in the belief that smaller groups of more expert directors are more effective than the larger boards that used to prevail’. It reported that ‘Average board size continues to fall slightly and is now 10 as against 10.3 last year. The number of boards with 12 or more members is now only 22 per cent, down from 30 per cent last year. Nine and ten are most common sizes at 38 per cent’.

4.9 The Eversheds Board Report 2011 found less evidence of a declining trend in board size but was nevertheless clear that ‘smaller, independent and diverse boards do better’. It found that ‘Better performing companies tended to have fewer directors … Directors interviewed were largely unsurprised by this finding, noting the benefits of smaller boards (in descending order of mentions) as: greater focus on the key issues; better management from the chair; quicker decision making; and better overall dynamics between board members’. Eversheds said, ‘Whilst it is always dangerous to generalise, our research suggests that, from the sample we reviewed, the ideal board would be made up of 11 directors’. 
Boards in the public sector

4.10 In its January 2010 study, the Institute for Government said, ‘At present, all [Whitehall] boards are chaired by the permanent secretary, and comprise anywhere from six to 14 members – with the average board having nine’. 44

4.11 In the health sector, guidance for NHS board members echoes the conclusions of the Higgs Review: ‘NHS boards should not be so large as to be unwieldy, but must be large enough to provide the balance of skills and experience that is appropriate for the organisation’. 45 A review of guidance and research commissioned by the National Leadership Council highlighted that membership of NHS trust boards may range from 8 to 11 members, Primary Care Trust Boards may have up to 14 members and Strategic Health Authority Boards may range from 8 to 13 members. 46 The review notes that, more generally, corporate guidance suggests boards ‘should be of sufficient size that the balance of skills and experience is appropriate for the requirements of the business’, whilst corporate guidance developed in the wake of the 2008/09 financial crisis suggests that an ‘ideal’ board size is between 10 and 12 board members. 47

Boards in the voluntary and community sector

4.12 In 2005, a body known as the Code Steering Group 48 produced a code of governance specifically for voluntary and community organisations, which it updated in October 2010. Entitled Good Governance: a Code for the Voluntary and Community sector 49, it is a code to which voluntary and community organisations are encouraged to sign up and thereby show that they are working towards a high standard of governance. Principle three of the Code states that an effective board will provide good governance and leadership by working effectively both as individuals and as a team. The Code suggests that, in adhering to this principle, it is important to consider, amongst other things, the need to ensure the board is big enough to provide the skills and experience needed (by the organisation and its beneficiaries or stakeholders) but not so large that decision making becomes unwieldy. 50

4.13 In September 2008, Cancer Research UK announced that it was cutting the number of trustees on its board from 20 to 12 and increasing the number of board meetings as part of its first governance review. 51 These changes, which were considered to make the organisation more compliant with the Good Governance Code, were supported by a number of commentators on the basis that a smaller board allowed for greater focus and more effective decision-making. 52 Research by Cornforth in 2001 revealed that the average size of a charity board in the UK was 9.5. 53

Boards in the education sector

4.14 The size of school governing bodies for maintained schools ranges from a minimum of nine to a maximum of 20 people, except in voluntary-aided (VA) and qualifying foundation schools where the minimum size of the governing body is to be 10 and 11 respectively. 54 Generally speaking, within this
range, each governing body can adopt the model of its choice, providing it complies with a set of guiding principles prescribing which categories of governor must be represented on the governing body and what the level of representation is for each of the categories.

4.15 The 2010 Schools White Paper stated that ‘Many of the most successful schools have smaller governing bodies with individuals drawn from a wide range of people rooted in the community ... Smaller governing bodies with the right skills are able to be more decisive, supporting the head teacher and championing high standards’.

4.16 A May 2011 report by Carmichael and Wild found that traditional school governing bodies typically numbered between 15 and 30, but that it was ‘the widespread view of those [they] interviewed that 15 should be the upper limit and that boards should have 12 as a target number’. It was argued that this ‘would focus the chair and nominations committee on ensuring healthy competition and seeking to appoint candidates with broad and varied skills’. The authors went on to suggest that ‘greater size does not entail greater strategic success or efficiency; indeed the trend would suggest the opposite to be more commonly the case’.

Boards or councils of professional regulators and oversight bodies

4.17 In 2008, the Department of Health published a report from Niall Dickson on implementing those aspects of the Trust, Assurance and Safety White Paper relating to enhancing public confidence in the regulators of health professions. The report examined a range of literature on effective boards and decision making. It recommended that regulators should aim for councils that are made up of between 9 and 15 members, whilst recognising that some of the regulatory bodies might need to move incrementally towards this range. In supporting this recommendation, it states that ‘a council cannot operate in a ‘board-like’ manner if it is too large, an issue reflected in a range of literature on effective boards and decision-making’.

4.18 The mean size of the councils of the health professional regulators in Great Britain, overseen by CHRE, is currently 17, with an even split between public (lay) and professional members. The range varies from 24 (GDC and GMC) to 12 (GOC). The NMC told the Commons Health Select Committee that, in 2009, it was the first of the nine health professional regulators to restructure its governing Council, reducing its size from 35 elected to 14 independently appointed members. It said that it also took the opportunity to reduce and streamline the number of its committees resulting in a saving of £500,000. It added that it was actively considering reducing the size of its governing Council further to make it a more board like decision making structure. CHRE’s own board has seven non-executives and one executive member.

4.19 In the legal services sector, the Legal Services Board (LSB) recently announced that the composition of the Board would be reduced from nine to seven non-executive members. David Edmonds, Chairman of the Board
said, ‘I believe that we can operate at the same high level with a smaller Board’.63

5. Conclusions

5.1 We have been asked whether there is a case for moving to smaller councils as a way of delivering more ‘board like’ and effective governance.64 The size of the councils of the health professional regulators currently ranges from 12 to 24. From the experiences of CHRE and the literature we have come across, it seems reasonable to suggest that smaller boards, in the range of 8 to 12 members, are associated with greater effectiveness. This strongly indicates to us that a move to smaller councils across the health professional regulators would be possible without compromising effectiveness. It appears that smaller sized groups are able to communicate more effectively and reach decisions more quickly than larger ones. In addition, they are less likely to suffer from fragmentation and clique-formation and more likely to develop a culture of inclusiveness than their larger counterparts. Finally, since smaller boards struggle to involve themselves in issues that should be delegated to the executive, a smaller size helps them to focus their efforts on core governance issues.

5.2 There is an important shift in thinking required in the governance of regulatory bodies in moving away from the concept of representativeness in membership. Small boards cannot ‘represent’ all relevant constituencies or stakeholders nor should they attempt to do so. Rather boards should demonstrate the knowledge, understanding and awareness to properly take into account relevant interests, such as those of different groups of professionals or the different health systems in the UK, but they should not attempt to ‘represent’ them. There is a strong legacy from the move in recent years away from elected boards and it is CHRE’s observation that some Council members of regulators still see themselves as bringing the perspective of a particular interest group to the board rather than being solely focused on effective governance in the interests of patients and the public.

5.3 In providing advice about council size, we are conscious that a balance needs to be struck. One the one hand, a board or council must have enough members to ensure that it has the necessary mix of skills and experience to carry out the various governance functions effectively, maintain credibility and have the necessary diversity of perspectives, bearing in mind that it can always ask for external specialist advice. On the other hand, it must not be so large that board or council meetings do not work effectively and the group cannot gel as a team. There is no single ‘right’ answer, but our experience suggests that a council of around 8 to 12 members65 is likely to be most conducive to effectiveness.
References

1. Letter from Matthew Fagg, Department of Health to Harry Cayton, CHRE, 7 June 2011.


4. For the purposes of this paper, we use the term 'board' to mean a group of people who sit at the top level of an organisation, directing and overseeing that organisation’s affairs. In the case of health professional regulators overseen by CHRE, that group of people is usually known as a council rather than a board. Boards themselves are accountable to external and internal stakeholders and these vary from organisation to organisation.


13 Secretary of State for Health, Op. Cit., p.27


37 The 2003 Higgs Review of Corporate Governance.


40 Spencer Stuart, Op. Cit, p.18

42 Ibid.

43 Ibid


47 Ibid.

48 The Code Steering Group comprises the National Council for Voluntary Organisations (NCVO), Association of Chief Executives of Voluntary Organisations (ACEVO), Charities Trustees Network and the Institute of Chartered Secretaries and Administrators (ICSA). Representatives from the Charity Commission also attend Steering Group meetings, and the Commission has supported the Code since its inception.


50 Code Founding Group, Op. Cit, p.17


52 Ibid


55 The scope of the White Paper is England only.


59 Ibid.

60 We do not include the Pharmaceutical Society of Northern Ireland (PSNI) in these figures since PSNI announced in its September 2010 Annual Report that it was planning to move to a smaller council of 14 members, consisting of 7 public (lay) and 7 pharmacist members.

61 These figures exclude the Pharmaceutical Society of Northern Ireland (PSNI). At present, under the Pharmacy (Northern Ireland) Order 1976, the Council of the PSNI must consist of 23 members, but this is due to change to 14.

62 NMC Written Evidence to Commons Health Committee Annual Accountability Hearing with the Nursing and Midwifery Council. Available at http://www.publications.parliament.uk/pa/cm201012/cmselect/cmhealth/1428/1428we03.htm [Accessed 13 September 2011] at para 4


64 Whilst we have been asked about Council size rather than the size of Council meetings, it is worth noting that many of the advantages of smaller Councils will be lost if large numbers on non-board level executives are ‘at the table’ and the Chair is still managing a large group. Problems are also likely to occur if the balance between executives and non-executives at Council meetings becomes skewed, resulting in ‘executive hegemony’. Whilst a small number of executives should be present and play an active role at board meetings, attention will be needed to ensure that the number non-member attendees does not overwhelm the number of Council members present.

65 These numbers refer only to those who are voting board members as defined by the organisation’s constitution. In the case of health professional regulators and oversight bodies, this will usually be non-executives only, but if some executives are on the board as voting members (as with CHRE where the CEO is a voting board member) they will be included in this number.