

Governance in the public sector

There are significant opportunities and satisfactions in public agency directorships — as long as you know what you are getting into. **BY JOHN QUELCH**

BUSINESSPEOPLE ARE increasingly invited to be on the boards of public agencies, at the federal, state or community level. Too few agree to serve.

Being a director of a public agency is often dismissed as time-consuming, frustrating, and under-compensated. The public sector is viewed by many businesspeople, often unfairly, as inefficient, populated by placeholders, tolerant of mediocrity, slow-moving, risk-averse, and short on accountability. Although best practices from the private sector might seem desperately needed, the public sector has its own culture and norms. This is what makes governance in the public sector so fascinating.

There are six important differences between the public and private sectors which must be understood by any prospective public agency director coming from a business background.

Attention to process

First, the critical currency in the public sector is not money but power and the respect that power commands. Complete and transparent consultation with fellow directors, management, and other stakeholders, notably elected officials, is essential to the success of any policy initiative. Attention to process is key. And such consultation is often one-on-one, in-person or via telephone, never via email.



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Public meeting laws often prohibit a majority of directors of a public agency from meeting informally without the public (and the media) being notified and having the opportunity to be present. And Freedom of Information Act provisions, with some exceptions, open to public scrutiny the internal operations, including the board process, of public agencies. In the private sector, board communications can be more efficient. Decision making can move as fast as the CEO can convince board members and lead investors of his or her strategy. Managers, motivated by stock options, can forgive an absence of consultation and consensus if their net worth continues to climb.

Second, the discipline of bottom-line performance is not prevalent in the public sector, though some better-run agencies do hold managers accountable for meeting financial budget and performance targets, whether revenues, expenses or both. Absent P&L accountability, defining the mission of a public agency is especially critical so that the performance metrics used are outcomes rather than outputs.

Businesspeople can add considerable value by challenging public agency managers to do this and to translate the mission into specific outcome metrics and key performance indicators for the agency as a whole and by department, so that employees can relate their individual contributions to achievement of the organizational mission. Businesspeople can also show public agencies how to benchmark their performance against comparable organizations in the private as well as public sectors.

Third, the concept of serving customers does not translate cleanly from private to public sector. Many public agencies have clients, but these clients often do not pay for the services they receive, or do not pay in full. The resources that fund most public agencies come from taxpayers, and the ser-

vice level that taxpayers may deem appropriate may not be as extensive as clients would like. Using client satisfaction as a performance metric therefore has limitations. In this respect, managing a public agency is similar to managing a non-governmental organization whose customers are both the clients who receive services and the donors who fund the work of the charity.

Careful about conflicts

Fourth, for all the criticism of corruption in government, ethics regulations in most jurisdictions are tough and designed to preclude conflicts of interest. Public agency directors often have to sign off each year on a register of interests, available for public and media inspection. They can expect to recuse themselves from voting on issues where there is any appearance of conflict. Public bid laws ensure a level playing field but add a layer of process and complexity to any public procurements. Also, any social and business relationships that public agency directors may have with the agency's business partners may be subject to public disclosure and/or require recusals.

Fifth, human resources management is especially challenging. The salaries and benefits of individual employees are in the public domain. Structuring packages to persuade private sector managers to take leadership positions in the public sector is particularly difficult. Salary increases and performance bonuses for top managers at levels that the private sector would consider trivial can easily become political footballs and therefore have to be carefully considered and supported by third-party consultant studies. Many public agency board members are keen to avoid media controversy; it's sometimes easier to secure a majority vote for a complex \$100 million investment than a \$10,000 performance bonus for the CEO.

Sixth, taking a policy or business risk requires more courage in the public sector. The obstacles to change are many and a manager's compensation will not increase much if she succeeds while the downside if she fails can be substantial. As a result, public agencies are often more reactive than proactive, and cannot handle too much change at once. It is an important role of public agency directors to press their organizations to experiment; to innovate, and to take risks, and, if necessary, to

provide cover and support to management, lavishing praise and recognition when things go well and taking some of the heat if they don't.

Important contributions

Governance work at a public agency can be satisfying. There are significant opportunities to transfer best practices from the private sector. Appointing and evaluating the CEO, probing and coaching to shape mission and strategy, providing oversight on behalf of the taxpayer without micromanaging — these are some of the obvious contributions that

Before you sign up

Four pointers for businesspeople considering a public agency directorship:

- **First**, consider working pro bono rather than taking any directors' fees that may be offered. You will find that not being compensated makes what you do even more rewarding and may insulate you from media criticism.
- **Second**, understand the differences you will confront: the need for patience and for intense communication with fellow board members, senior staff members, politicians, and other stakeholders who may see the world quite differently.
- **Third**, meet with the board chairman and other members before you sign up. Is the board collaborative rather than contentious? Is the board well-managed? Can you see how your skills and experience will add value and complement those of the other directors?
- **Fourth**, view the opportunity as a chance to listen and learn and give back to your community.

— John Quelch

an experienced private sector nonexecutive director can make.

Those unfamiliar with, perhaps cynical about, the quality of public service employees will have their eyes opened. There are many excellent public servants who labor to do good in the face of considerable decision-making obstacles and political uncertainties. A public agency board with the ambition to achieve positive change can often empower these public servants to take more risk. ■

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