

**The Impact of Governance  
on the Performance of  
Registered Social Landlords in Scotland**

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**Introduction:** I recently completed my Executive Master's Degree in Consulting and Coaching for Change at HEC Paris/Oxford University. Writing a dissertation is one of the course requirements. In this paper I would like to share my research subject, the approach I took, the key findings as well as a set of recommendations that may be useful for anyone working in the social housing sector, or more broadly, the not-for-profit sector. I will conclude by suggesting implications for theory, policy and practice as well as for leadership.

## **1 Research subject**

My research focused on the impact of governance on the performance of Scottish Registered Social Landlords ("RSL"), not-for-profit companies that provide social housing. I investigated how governance is organised, set out to identify the main drivers related to governance that explain the disparity in the performance of housing associations and formulated suggestions that are likely to improve performance. These recommended courses of action may be applicable more generally across the industry.

## **2 Approach: methodology, sample size and interview style**

My review of the existing literature and relevant research confirmed that there is considerably more literature on governance and boards in the private sector than for the not-for-profit sector. As RSLs have some unique features, I developed a specific framework (see annex 2).

I used hybrid methods: a combination of comparative design and cross-sectional research methodologies. I designed an initial survey to affirm or modify a set of assumptions, topics and questions. I used the output to construct my framework to guide my analysis.

I selected qualitative, inductive research with a sample size of 5 case studies with 18 interviews to discuss the cases and benefit more broadly from the interviewee's experience. Half of my interviewees had first hand knowledge of one or more of the case studies while the others had broad sector expertise as well as informed opinions on the specific issues my case studies were confronted with. Several participants represented sector organisations.

I used semi-structured interviews, each interview informing the next one, allowing me to finesse the coding that I used in my analysis.

### **3. Key findings and suggested courses of actions**

I developed a framework to structure my data analysis and I applied a leadership and organisational lens. My analysis largely validated the relevance of the contingent factors in my framework. But it also brought out diverging views.

My findings provided a basis to formulate suggested courses of action or best practices that may improve the governance and performance of Scottish RSLs.

#### 3.1 External contingent factors:

These do have an impact: economic and budgetary concerns were part of the reasons housing associations were created. Positioning RSLs as independent entities with their own governance resulted in replacing representative boards with professional ones. The regulator has also increasingly emphasised skills and competencies of board members. Corporate governance models for the sector have evolved through self-regulatory codes as the regulator has moved away from an inspection-based approach to risk-based regulation that relies heavily on landlords assuring themselves, tenants and the Scottish Housing Regulator (“SHR”). I argue there are a few flaws in this approach: the SHR expects conformance but provides a framework without sufficient guidance in implementing it; the reporting framework does not provide early warning signals of imminent issues. The recent introduction of the annual self-assurance statement may well be aimed at increasing accountability at RSLs and encouraging them to reflect on how to monitor and affirm conformance and compliance. It is too early to tell if this will be sufficient to address these shortcomings. SHR’s policies and actions do not seem to fully match their stated objectives. This is the prevailing perception.

An interesting finding was that the power balance between boards and executives is impacted by the regulator demanding increasing levels of evidence of board compliance. This external conformance pressure can and has been used by executives to reduce the ability of their boards to take independent decisions for fear of breaching external regulatory requirements. It may further managerial hegemony. Ironically, the regulator may achieve the opposite of what they set out to do, ie increased board oversight. I expect that also here self-assurance will over time improve this balance.

#### 3.2 Internal organisational conditions:

These were confirmed to be relevant for the research subject. Features such as size, type of activity, continuity of strategy, staff professionalism and organisational learning ability

are not necessarily independent variables. But they place different requirements on governance as well as impacting the organisation's ability to meet these. An initial survey revealed divergent views on the importance of size and how it should influence the oversight over an RSL as well as its governance. The subsequent interviews provided a more nuanced understanding of this. They confirmed that the size of an RSL is indeed a factor in its governance and performance. Large RSLs may be classified as 'systemic' and will attract more scrutiny from the regulator. They will also have more staff and will be more likely to have a broader skills basis and deeper in-house knowledge than a small RSL.. Arguably their staff can be expected to be more professional as well.

### 3.3 Influences focusing on attributes and characteristics of the CEO, chair and board:

Most of my data gathering and analysis was dedicated to this. I included board composition and criteria for recruiting new members. My research observations confirm that chair and CEO attributes are relevant to the workings of governance and the performance of the company they manage and direct. This is equally valid as it regards individual board members. Tenure however is seen as an area for vigilance: it does assure sector knowledge but may be indicative of complacency, ill-preparedness for handling change and, in some cases, collusion.

Selecting people based on the desired attributes is an important part of the process and I see room for improvement in the sector. The balance of power between chair and CEO and between the board and executives has tangible consequences for the effectiveness of governance and the performance of the company. Balanced relationships are key: they should be built on mutual trust and respect and, crucially, embrace and promote constructive challenge. Increasingly boards are looking for specific skills in new members: this is a positive development but it would be desirable for these members to be invited to contribute their broader corporate experience.

Regulations, policies and guidelines do not appear to hamper a board's ability to manage the company although they were seen as reducing the board's independence. My initial findings were entirely confirmed.

Group dynamics is in my opinion an underdeveloped aspect. All RSLs are expected to perform annual board appraisals but even those that take this very seriously focus mostly on individual performance and do not enquire into how members perceive the interaction

between board members. This means that important features such as psychological safety and the way the board functions as a group are not likely to be examined in this appraisal. One feature that solicited diverging views is remuneration of board members. My interviewees were divided on whether paying board members is important in ensuring the right skill levels and professional qualifications are represented on the board. An additional factor became relevant: the size of an RSL influences the salary of a CEO. This, in turn, can be expected to positively impact the professionalism of the CEO but it will also impact the balance of power between the CEO and the board. This is then compounded by the increasing skill sets demanded by the regulator. Positive developments appear to have a reinforcing undesired effect on the power balance.

#### **4. Best practices or recommended courses of action**

For this section I used my framework to identify the main drivers related to governance that explain the disparity in the performance of housing associations. When an RSL faced serious issues I looked into the potential root causes. When an RSL performed better than its peers I endeavoured to find the drivers for its success.

I have formulated suggested courses of action that may be applicable more generally across the industry and perhaps even more broadly to the not-for profit sector. These suggestions may be viewed as 'best practices' that are typically encountered in higher performing RSLs or that may enhance performance in my opinion. I have organised these in different categories based on my framework: external conditions, management and governance structure attributes, internal organisational conditions and the regulator. I have also assigned a potential benefit and degree of difficulty of implementation to each suggestion on a scale of 10, with 10 being most complex. The scoring reflects complexity of implementation and the required resources. Annex 1 contains a chart mapping them along complexity and resource intensity.

##### 4.1 Relevance of external conditions: economy, policies and the situational context:

**Suggestion 1:** RSLs should maintain a risk register that needs to be reviewed regularly by its board. The risk register should also contain external elements that could have an impact on the RSL.. Boards will typically consider mitigating actions to reduce the risk. External elements are readily seen as difficult to predict and too complex to deal with. But rather than trying to predict the future, I would argue that organisations need to strengthen

their abilities to cope with uncertainty. Scenario planning can help companies reframe their long-term strategies by developing several plausible scenarios around the most important external factors. This technique has proven to be very effective. *Difficulty: 8; benefit: 8; external conditions*

#### 4.2 Management and governance structure attributes:

**Suggestion 2: CEO attributes:** When recruiting for a CEO or appraising the performance of the CEO, the chair should not only evaluate their sector knowledge and managerial skills, but also screen for the required core values and fit with the mission and ethos of the RSL. *Difficulty: 5; benefit: 7; role attribute*

**Suggestion 3: Chair attributes:** When selecting a chair, the board should use all available information from annual appraisals to select the person with the right attributes. This is not an easy discussion to have as the chair is usually selected from among the sitting board members. *Difficulty: 5; benefit:7; role attribute*

**Suggestion 4: Group dynamics:** Widen the scope of the annual appraisal of the members of the governing body to include members' views on the performance of the governing body as a group. Consider using external expertise in this review and ask the external advisor to join a few board meetings. If and when there is a shift in strategy or an important change in senior management or the governing body, consider asking a process consultant to guide a reflective exercise. *Difficulty: 6, benefit:6; role attribute*

**Suggestion 5: Individual members' attributes:** Prepare a skills and competencies matrix that is informed by the strategy, ask sitting board members to score themselves on it, evaluate the outcome and map the gaps or overlaps. In a next step, try to up-skill board members where there is a gap or recruit a specific profile to fill this gap. Develop a training programme, submit it for approval to the board and ensure the board monitors the implementation.

Any concern a board member may have about time commitment can be alleviated by selecting the programmes in such a way that they enhance the board member's employability in the labour market. *Difficulty: 4; benefit: 5; role attribute*

**Suggestion 6: CEO-Chair relationship:** When recruiting for a CEO or appraising the performance of the CEO, the chair should also consider their relationship as that needs to be productive, built on trust but also conducive to constructive challenge. *Difficulty: 4; benefit: 6; role attribute*

**Suggestion 7: Engagement:** Introduce a standard practice for filling vacancies in the board. Prepare a full induction package and include the expectations in terms of engagement. Make sure it is reader friendly: spend more time drafting it so the new member can read a summary and will need to delve into piles of policies only if and when needed. *Difficulty: 3; benefit: 3; role attribute*

#### 4.3 Internal organisational conditions:

**Suggestion 8: Lifecycle position:** when an RSL is shifting its strategy or moving into a different lifecycle phase, it should not only consider the change itself but include in its reflections the impact on structure and governance as well as the changing demands that will be placed on these before and after the change. *Difficulty: 6; benefit: 7; internal*

**Suggestion 9: Staff professionalism:** As a board avoid the temptation to compensate for a lack of professionalism in the senior staff. If senior staff is not sufficiently competent or professional, direct the CEO to remedy it. *Difficulty: 7; benefit: 6; internal*

**Suggestion 10: Learning organisation:** when an RSL is shifting its strategy or experiencing significant change such as for example growth or engaging in a different type of activity, it should also consider the required organisational learning. Action science is one approach that can be contemplated. *Difficulty: 10, benefit: 10; internal*

#### 4.4 The Regulator:

**Suggestion 11: Vetting:** Despite the cost constraints, I would strongly advocate that the SHR approve the appointment of the chair and the CEO in the context of a review of the skills and competencies matrix of the board. When I discussed this in the interviews, there was considerable resistance to this idea: some said the sector would view it as interference and an attack on their independence, others commented that the regulator would not want the responsibility either. This does however happen in other sectors, ie the

financial sector, and I believe it would have a positive effect on governance and performance of RSLs. *Difficulty: 8; benefit: 9; external*

**Suggestion 12: Performance indicators:** The performance indicators that RSLs report on to the SHR do not provide for early warning signals. My case studies and interviews show that whistleblowing is often the intelligence that triggers action by the SHR. This should lead the SHR to reconsider their performance indicators. Tenants should continue to be at the centre and rent affordability and housing quality is key, but a review of the performance indicators is a necessity in my view. The challenge will be to not increase the reporting burden while improving the relevance of the reporting. *Difficulty: 8; benefit: 8; external.*

In this section I have formulated some best practices that may help improve the performance of an RSL. Of course, not all RSLs are in the same situation and some do better than others. Some may benefit more than others from a suggested course of action. That is why I have classified my suggestions and assigned a benefit and difficulty score. This will be of assistance in selecting the appropriate course of action.

I do not pretend that my suggestions will work for all and in all circumstances. But they may be thought-provoking when an RSL finds itself in a challenging situation.

## **5. Implications for theory, policy and practice**

My findings largely corroborated prevailing theories: I explained earlier that I constructed a framework based on theoretical considerations, specific features of RSLs as well as feedback on my initial survey. I also highlighted that my interviews confirmed many of the contingent factors in the framework. In the previous section I outlined suggested courses of action that may improve performance. But my research also brought to light several areas for further investigation.

One area covers internal organisational characteristics and how they affect board practice: professionalism, specifically of the CEO, and changes to the board's role that may result in managerial hegemony in more extreme cases. The size of the organisation is relevant here and it would be interesting to study the relation between professionalism, controlling for size, and the typology of board governance.



Prospective members are selected for specific skills. Those with a corporate background are often asked to join to strengthen financial or risk expertise but are not often invited to contribute their broader corporate experience. Studying the effect of using this broader experience on governance and performance is a research subject in its own right.

A third subject is that of remuneration of board members. There is quite a bit of resistance to this concept in this not-for-profit sector and it is deeply rooted. Yet I believe it will become an even hotter topic and further research could help defuse this and create an open debate.

There are also a few implications on policy level. The SHR's drive to increase skills and competencies in boards creates tension with the boards' voluntary nature. And the increasing number of policies combined with the requirement to evidence compliance would appear to impact the balance of power between the CEO and the board, unwittingly pushing towards managerial hegemony. I have only touched upon this concept but I would argue it is important for the SHR to take this into account when evaluating the effectiveness of their policy writing. Revisiting the current performance indicator framework or policy is also of interest. It may no longer be fit for purpose as it does not offer early insights into simmering problems at an RSL. That would first and foremost benefit the RSLs but also the SHR.

In other sectors, the regulator vets the CEO, chair and other board members against a 'fit and proper' test. My interviews clearly showed that few in the sector believe this is a good idea. Yet I believe it would be beneficial for the sector and an empirical study on the value of vetting in the not-for-profit sector would certainly fuel the discussion.

I have observed that Scottish RSLs tend to be somewhat insular. People move around in the sector and this ensures sharing of best practices. It is a networked environment that arguably could benefit from some new perspectives. A social network analysis would likely support this view and that would be a worthwhile analysis to perform. I believe the learning curve could also be shortened by looking across borders to other social housing sectors or to other sectors. Problems could be avoided or recognised earlier resulting in a speedier resolution with less stress on the organisation.

## **6. Implications for leadership**

RSLs face what are called "adaptive challenges" or "wicked problems", situations where there are no known existing solutions to a problem. This is not unique of course to RSLs. It

requires individuals throughout the organisation to change their ways: in order to resolve wicked problems rather than having to re-solve them again and again, sooner or later those who lead must ask themselves and the people in the organisation to face a set of deeper issues and to accept a solution that may require turning part or all of the organisation upside down. This generates considerable uncertainty and requires a leader to address the challenge.

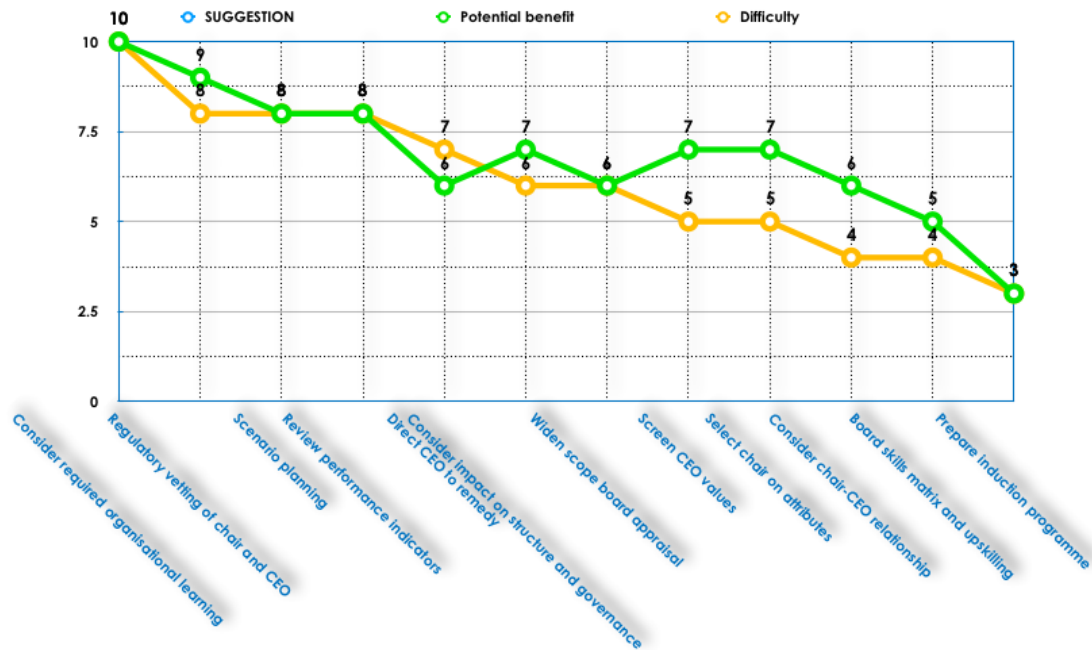
The term 'culture' was raised often in the interviews: it was used by my interviewees as a broad container. Embedding the right culture is a leadership responsibility. In my analysis I hypothesised about the reasons why regulatory intervention was not avoided when an RSL faced particularly acute challenges. I found that leadership was cited often and I argue that leadership clearly is a central theme.

In section 4 I formulated 12 suggestions. They vary in complexity and practicality. What they have in common is that they require leadership that recognises not only that change is needed but also what it takes to get that change successfully embedded. The tandem chair-CEO is a critical axis in this but they will need to convince other stakeholders. It is not just about the application of techniques for change or the use of a leadership framework for adaptive challenges. It starts by CEO and chair recognising that they are an instrument themselves and being aware of the importance of their role as change agents. Self-awareness is a necessary condition and can be improved upon if needed. They also have to distinguish between themselves as change agents and their roles. CEO and Chair need to be anchored and maintain a balance themselves and between them.

Much like my suggested courses of action, the knowledge and techniques may be relatively straightforward in concept but difficult to execute. I have argued that size of an RSL is a factor in the scope of skills present in internal staff. This makes it very difficult for the majority of RSLs to be aware of the tools that they could deploy once they have recognised a problem and assessed it. But it is of course the board's role to guide management and to provide assistance. They need to display leadership when there is a (adaptive) challenge and offer or impose consulting or coaching when they recognise the need. I already mentioned that some of my case studies would have greatly benefited from a process consulting approach.

In my view the boards of RSLs are too much about managing risks. And with the growing (legal) responsibilities of its members, they risk becoming more risk-averse. Yet they should make sure they bring in the required skills, whether on board level or other, and remain accountable throughout the difficult period. This requires leadership.

## Annex 1 Suggested course of action:



### Suggested course of action

SUGGESTION	Potential benefit	Difficulty	Category
Scenario planning	8	8	external
Screen CEO values	7	5	role attribute
Select chair on attributes	7	5	role attribute
Widen scope board appraisal	6	6	role attribute
Board skills matrix and upskilling	5	4	role attribute
Consider chair-CEO relationship	6	4	role attribute
Prepare induction programme	3	3	role attribute
Consider impact on structure and governance	7	6	internal
Direct CEO to remedy	6	7	internal
Consider required organisational learning	10	10	internal
Regulatory vetting of chair and CEO	9	8	external
Review performance indicators	8	8	external

## Annex 2: Developing a framework to analyse the qualitative data gathered in interviews:

My review of the existing literature and relevant research confirmed that there is considerably more literature on governance and boards in the private sector than for the not-for-profit sector. As RSLs have some unique features, I set out to develop a tailor-made, specific framework to guide me in my research.

In order to do this, I looked at it through the lens of BART, an acronym for four elements of group analysis: Boundary, Authority, Role, Task (more detail and background can be found in (Green & Molenkamp, 2005). Although a (unitary) board can be viewed as one group it really consists of two sets: an executive group and a non-executive group who provides oversight over the company and its management. BART provides a framework for understanding the extent to which groups and organisations are interdependent and structurally organised to do work. The task of groups need to be clear to its members as should its boundaries. The authority of its members should also be sufficiently clear and the respective roles

should be agreed upon. Executive and non-executive board members do not always agree on what roles they have and how they interact as a result of these. In order to delve deeper into this, I used Wells' 5 levels of organisational processes (fig. 1, Wells, 1995)). I situated my case studies at the "group-as-a-whole" level despite the implied 2-tier structure.

**Figure 1: Wells' 5 levels of organisational processes**

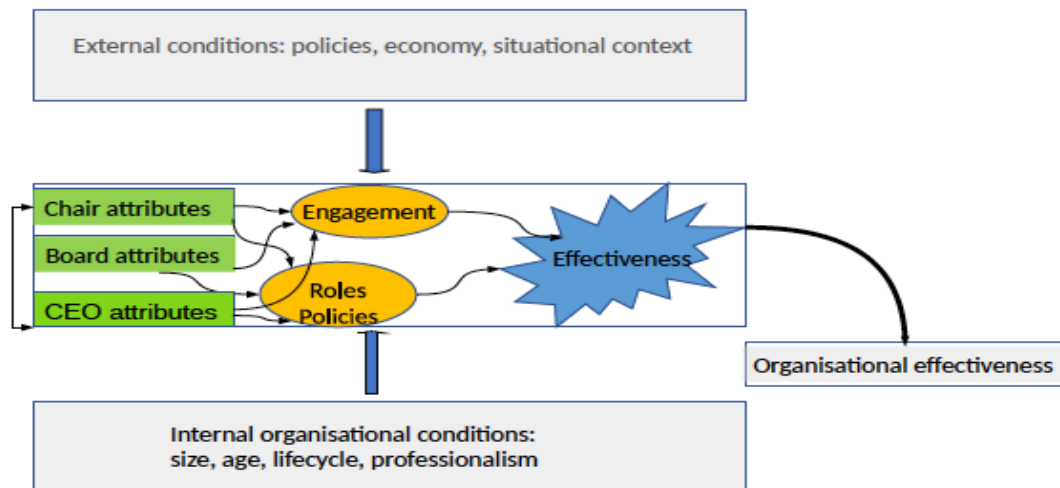


Figure 2 presents a framework I developed based on my review of the research literature, research from the SHR as well as the responses received on my initial questionnaire.

I looked at which factors were seen by experts as drivers for the performance of governance, specifically the situational context and the functioning of a board as well as root causes for nonperformance of RSLs. This resulted in following findings: there is expert consensus that size and group features (intra-board relationships, group dynamics,...) are relevant to the performance of an RSL. There was also agreement that tenant participation is important, that skill demands on board members are increasing and that professional qualifications matter. There was also clear agreement that remunerating board members is not in line with the ethos or mission of an RSL. On the other hand the panel was divided on whether paying board members is important in ensuring the right skill levels and professional qualifications are represented on the board. The panel also supported the statement there is no need to pay board members as there are enough volunteers to

fill vacancies. Paying board members is very topical at this time in Scotland and the answers suggest that this is a subject that requires deeper investigation. As to regulations, policies and guidelines: here the picture was less black-and-white. These elements do not seem to hamper a board's ability to manage the company for the public good, yet appear to impinge on its independence. The way governance is organised appears to be more a function of the type of activity rather than the size of the RSL. Size and complexity, however, should in the eyes of the panel be taken into account as it regards the level of regulatory scrutiny.

**Figure 2: Governance effectiveness framework**



Based on Ostrower, F and Stone, M.

This framework rests on several important assumptions. I conceptualised the board as part of both the organisation and environment. Major components of the framework include both external and internal contingent factors. External contingencies include broad dimensions, such as the economy, the legal, regulatory and institutional environments, and specific dimensions such as its origin, the area it is situated in and its funding environment. Internal contingencies include organisational age, size, degree of professionalism, and life cycle. I also argue that board attributes (such as heterogeneity, skills, size, psychological safety) and chair attributes relate to board roles and responsibilities as well as the level of engagement of the board members. Engagement is a psychological antecedent to performance and this, in turn, will have implications for the board's effectiveness. My framework also suggests that board roles influence board effectiveness, and that board effectiveness probably does contribute to general organisational effectiveness.

Different types of board behaviors will be influenced by different types of factors and different board behaviors may be influenced in different ways by the same variables. I do not expect all contingent factors to have an equal effect.