

COMMUNITY Governance...

 SAI GLOBAL

AUSTRALIAN BUSINESS EXCELLENCE AWARDS

Governance
Systems Excellence Award

RUNNER UP
2007



...Boards Govern, Managers Manage

Presentation Objectives

- * To provide the opportunity for Board members, Chief Executive Officer and senior managers to gain new or enhanced understandings about governance frameworks, systems principles and processes.
- * To provide Board members, Chief Executive Officers and senior managers with practical governance tools and templates that can assist them to put governance principles and processes into practice.
- * To provide Board members, Chief Executive Officers and senior managers with a variety of ways they can review and improve their Board's performance.

Governance Definitions

...from Standards Australia

'the processes by which organisations are directed, controlled and held to account'

...from the Macquarie Dictionary

'to steer, guide and govern, exercise authority or control, a method of government'

...from the Australian Stock Exchange Corporate Governance Council

'the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations'

Governance is a term increasingly understood by Boards of directors and Chief Executive Officers, but its practical implementation and usage still remains a challenge for many.

Governance, A Leadership Process

Governance is a leadership process undertaken by the directors of a Board.

Directors undertake this leadership process and therein their respective governance roles and responsibilities as 'stewards or custodians' of the organisation/company, on behalf of members, shareholders and stakeholders.

Understanding and applying a contemporary governance system, therein its documentation, tools and resources requires a serious commitment, the allocation of time and a willingness to personally grow and develop one's governance skills, experience and knowledge.



The Establishment Of A Board

A Board is a group of skilled and experienced individuals who have been appointed or elected by an organisation's members or shareholders.

Prior to election or appointment, directors should have access to a Board Induction Manual and undertake an orientation process that enables them to undertake a personal due diligence.

The elected or appointed directors come together with existing directors to form a Board.

Directors who join a Board, whether it is a company, incorporated association or other legal entity, will be required to sign legal documentation required by State and/or Commonwealth Government departments.

Typically the directors elect their own chairperson, who has their own Terms of Reference.

The Purpose Of A Board

Board members are 'stewards and custodians' on behalf of the members, shareholders and stakeholders of the organisation/ company and the keepers of, amongst other things, its vision, mission, values, core business, assets, reserves and history.

Directors are appointed or elected to a Board by the organisation's members or shareholders to 'direct and guide' the organisation/ company.



The Purpose Of A Board

A Board's purpose is to translate the wishes of members, shareholders and stakeholders, 'the owners', via its vision, mission and values into organisational performance.

Therefore a Board is foremost a voice from 'ownership to management' and only secondarily a link and a voice in the other direction.

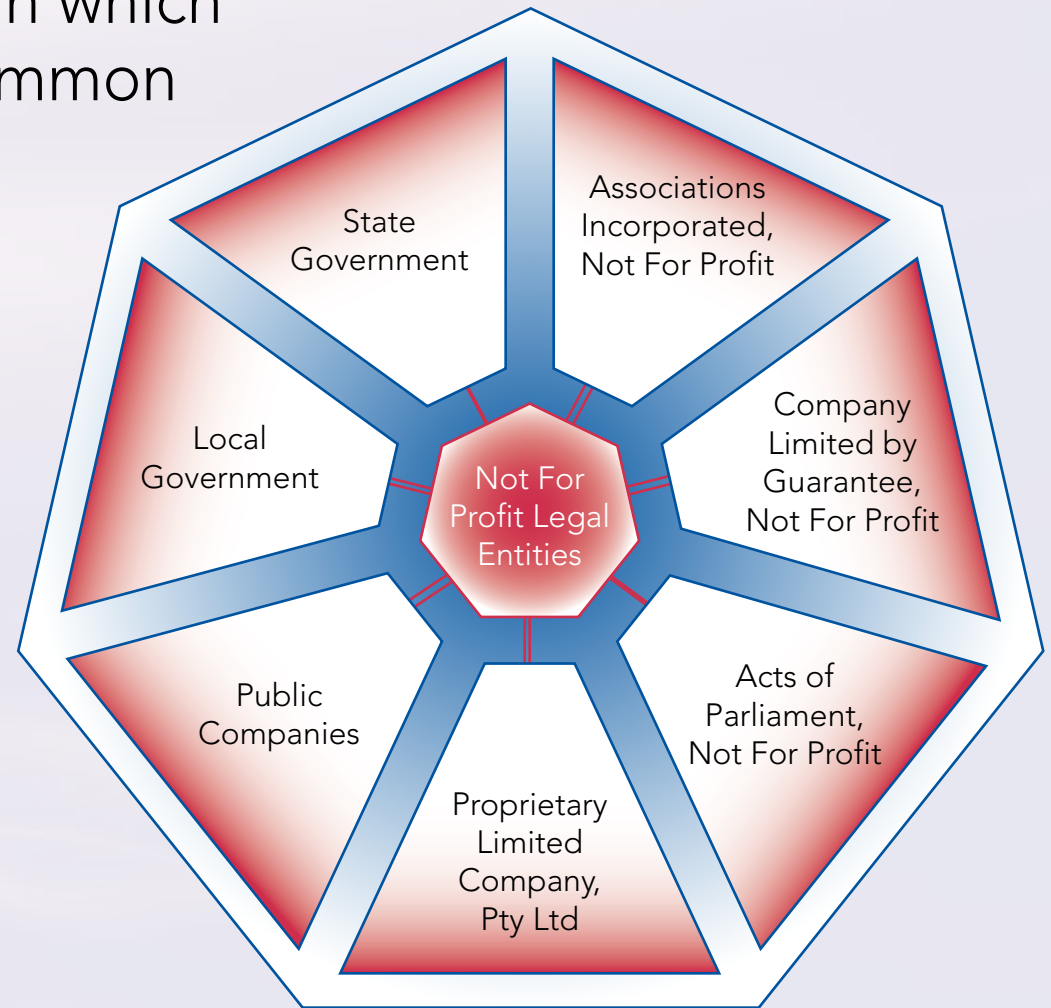
At a high level a Board should focus on the vision, mission, values and core business, in essence what the organisation stands for, rather than what the organisation does.

A Board should focus on the organisational ends or key result areas, whilst management develops and delivers the means or the how, more commonly known as strategic objectives.

Typical Legal Entities

There are various legal entities within which boards operate. The seven most common types are:

- * Associations Incorporated, Not For Profit
- * Company Limited by Guarantee, Not For Profit
- * Acts of Parliament, Not For Profit
- * Proprietary Limited Company, Pty Ltd
- * Public Companies
- * Local Government
- * State Government



The following pages describe these in some detail.

Legal Entities

Associations Incorporated, Not For Profit

Incorporated associations are State based, Not For Profit, organisations. They operate within their respective State's *Associations Incorporations Act*.

Typically called Committee, Committee of Management, Management Committee or similar, many are changing their title to 'Board'.

Incorporated associations tend to be small to medium size organisations.

They deliver a social dividend, through balancing and integrating business and service objectives and outcomes.

Members nominate and elect new committee members to the committee or elect existing committee members whose terms have expired.

Legal Entities

Company Limited by Guarantee, Not For Profit

They operate under the *Corporations Act* which is administered by the Australian Securities and Investment Commission.

Typically called Board of directors or Board.

Tend to have small Boards, 5–7 directors.

Tend to attract specialist Board skills.

They deliver a social dividend, through balancing and integrating business and service objectives and outcomes.

Members nominate and elect new directors to the Board or re-elect existing directors whose terms have expired.

Legal Entities

Acts of Parliament, Not For Profit

Typically, religious or church organisations operate under State or Commonwealth Acts of Parliament.

Typically they are governed by a Synod, Council, Conference or similar mechanism, thereunder sits a Board, Advisory Group or similar entity.

Most religious or church organisations are owned by their church, but not all, some are Companies Limited by Guarantee or Incorporated Associations.

Many of these organisations operate under church law eg: Canon Law, Catholic Church.

They deliver a social dividend, through balancing and integrating a wide range of business and service objectives and outcomes.

Board and Advisory Group members tend to be appointed by church leaders rather than elected.

Legal Entities

Local Government

Local government organisations are known as either Councils, Shires or Municipalities.

Local governments are governed by councillors who form a Council.

Councils operate within the framework of their respective State's *Local Government Act*.

Traditionally many local governments throughout Australia have developed and delivered a wide range of human services, which are usually governed by Advisory Boards.

Currently, increasing numbers of local governments throughout Australia are divesting themselves of these services, returning to their core business.

Legal Entities

State Government

Some State government departments operate human services within the framework of their respective legislation and regulation, eg: Victorian Health Services.

State government and departmental governance and organisational policies and procedures provide the framework for the development and delivery of these services.

State government departments must meet the requirements of Local, State and Commonwealth legislation, regulation, industry standards and quality systems.

Legal Entities

Proprietary Limited Company, Pty Ltd

Proprietary limited companies are privately owned and operated, with up to a maximum of fifty shareholders.

Boards range in size from 1–12 directors.

The aim of directors of proprietary limited companies is to return a profit/dividend to shareholders, whether they are directors or non-directors.

They are often family owned organisations.

Boards tend to own and govern many sites and services, usually are a very large organisation.

Proprietary Limited Companies are often attached to family trusts or other legal entities.

Legal Entities

Public Companies

Public companies are listed on the Australian or International stock exchanges.

Boards range in size from 5–12 directors.

The aim of directors of public companies, whether they are directors or non-directors, is to return a profit/dividend to shareholders.

Operate within the *Corporations Act* which is administered by the Australian Securities and Investments Commission.

Individuals or other legal entities can purchase shares in public companies.

Shareholders may be individuals, other national or international companies or other legal entities. They may reside within Australia or overseas.

Key Roles & Responsibilities

In summary, a Board has two key roles and four key responsibilities.

The two key roles are:

First & Foremost:



Secondly & Importantly:



Key Roles & Responsibilities Of Boards

In summary the four key responsibilities of a Board are:

- * Strategic leadership
- * Policy based decisions
- * Compliance and coverage
- * Monitoring and review



Strategic Leadership

A Board needs to ensure, amongst other things, that it:

- * provides leadership, wisdom and common sense
- * asks pertinent and insightful questions and expects appropriate, timely and accurate responses from management
- * employs, works with, builds the relationship with and robustly monitors the performance of management
- * undertakes an annual performance appraisal of management
- * causes the development and driving of the vision, mission, values, core business, desired future and key result areas
- * keeps the organisation in mission mode or for a limited time in maintenance mode, but does not let it fall into muddling mode

Strategic Leadership

- * continuously monitors and understands the current and future internal and external challenges and opportunities facing the organisation
- * enables the necessary strategic thinking, discussion and decisions to occur
- * enables the development and regular monitoring and reviewing of the strategic plan.



Policy Based Decisions

A Board should ensure, amongst other things that:

- * the majority of decisions are made and actions are undertaken against its agreed governance principles, policies, procedures and indicators
- * it consistently uses, annually reviews and continuously improves its governance policies, procedures, indicators, tools and resources
- * it initiates new governance policies, procedures, indicators and tools and resources as and when required
- * a governance committee is established and undertakes the development of the Board's new governance policies, procedures, indicators, tools and resources and also annually reviews the existing governance system.

Compliance & Coverage

A Board needs to ensure the organisation is compliant with (behaviour), and has documentation and resources (coverage) against the following key areas:

Key Compliance & Coverage Areas

Examples

Local, State and Commonwealth Legislation and Regulation	Aged Care Act, Disability Services Act, State Occupational Health & Safety Acts
Industry or Government Standards and Quality Systems	State Disability Standards, Food Handling & Safety Standards
Funding and Service Agreements, Memorandums of Understanding, Contracts & other agreements	Funding and Service Agreements or Contracts
Governance Principles or Standards	TAGS, The Australian Governance System

Monitoring & Reviewing

A Board needs to ensure that it robustly monitors the organisation's performance on a monthly or quarterly basis against agreed performance categories of measurement such as finances, stakeholder satisfaction, quality, strategy and contractual outcomes and within each category the various key performance indicators, targets, ratios or measures of success.

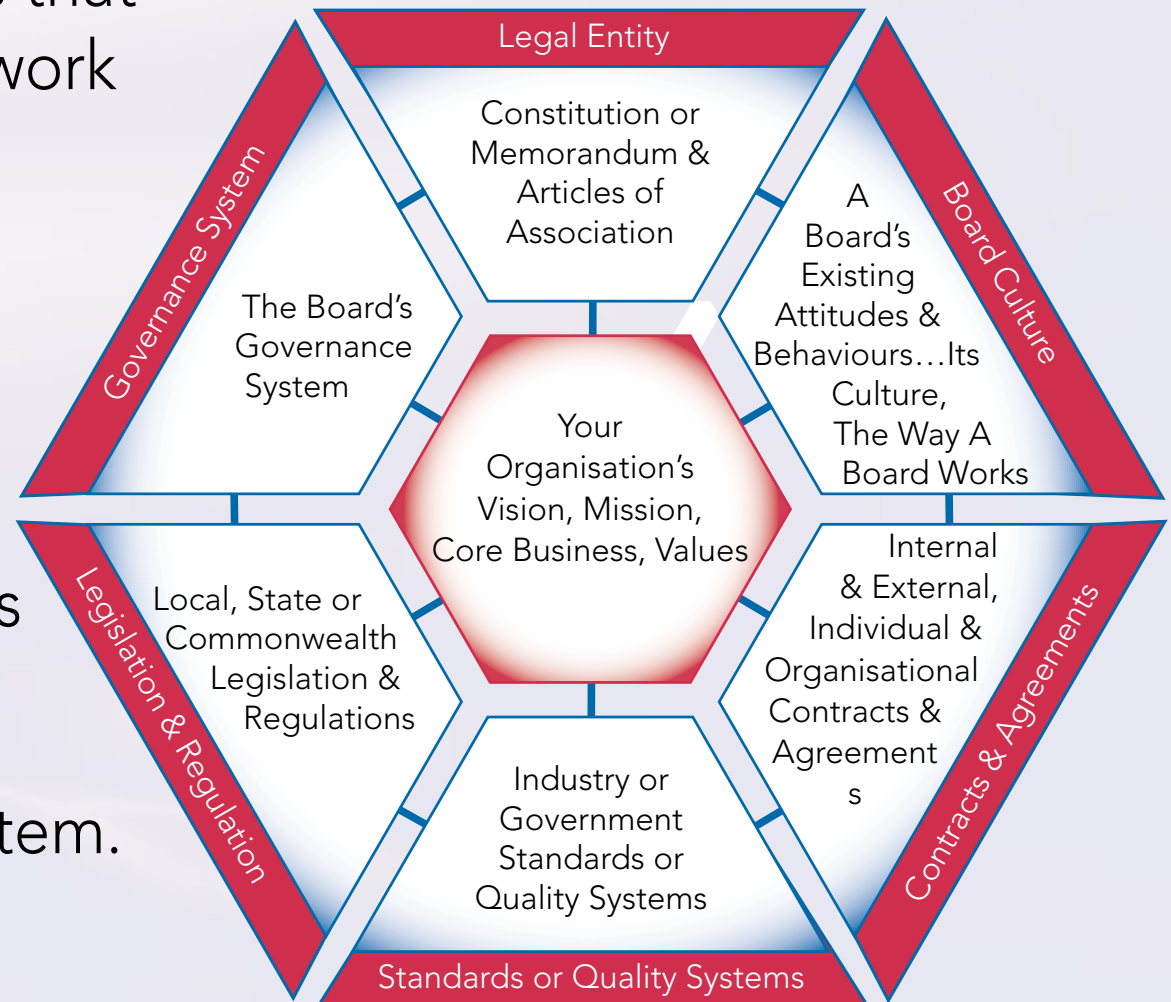
A Board also needs to ensure that it annually reviews the current and future internal and external environments.

Thereafter the Board should review the vision, mission, values, core business, desired future and key result areas or ends contained in the strategic plan.

The Framework Within Which Boards Work

There are six key components that create the governance framework within which a Board works:

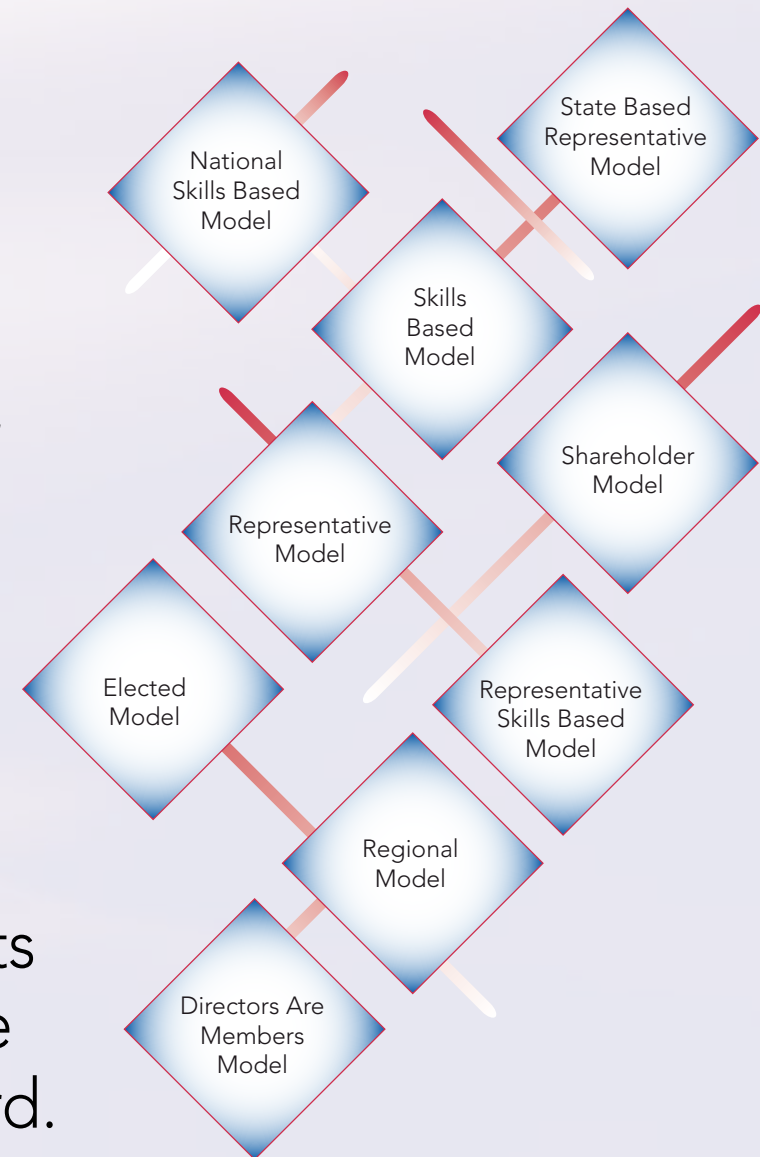
- * the legal entity
- * the Board culture
- * contracts and agreements
- * standards or quality systems
- * legislation and regulation
- * the Board's governance system.



Governance Model

Discussing and determining a Board's governance model is fundamental to determining a Board's governance structure, therein the positions, numbers and skills, as well as appointing or nominating potential Board members for members or shareholders to elect.

No matter what a Board's governance model, whether representative, state based, shareholder, regional or purely an elected model, determining the Board positions and therein the required skillsets and mindsets can substantially contribute to the establishment of an excellent Board.



Governance Model

There is no one governance model that fits all Boards, a combination of models may be suitable. A Board must determine its own governance model.

Once a governance model has been determined a governance structure can be determined and established.

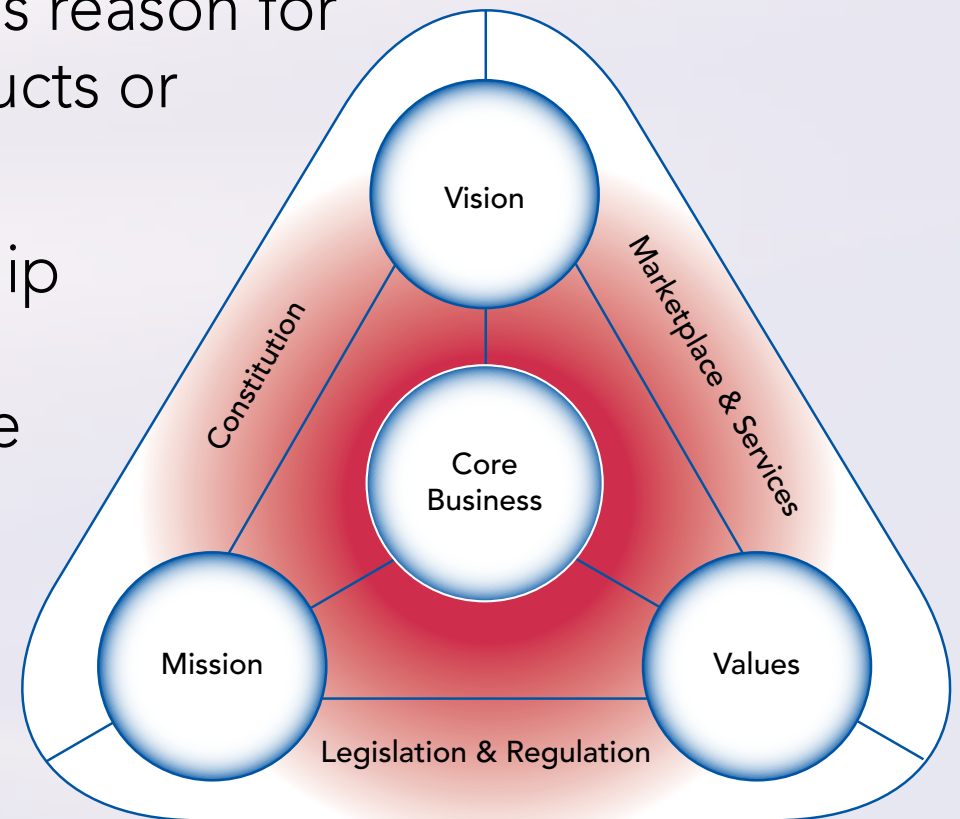


Core Business Or Reason For Being

The core business is the organisation's reason for being or 'raison d'être', not the products or services it develops or delivers.

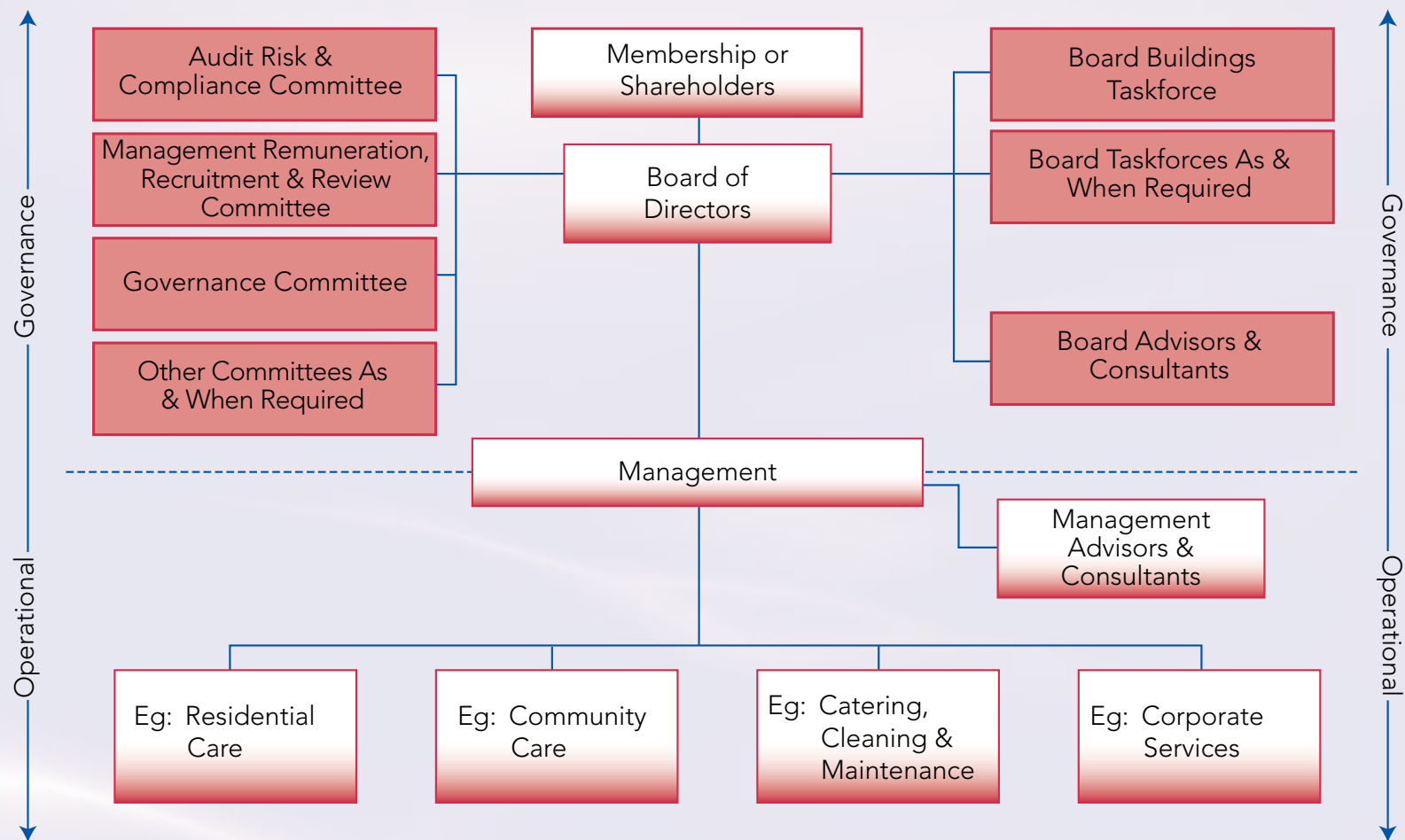
A Board or an organisation's leadership group (Board, management, senior management team) should determine and disseminate the organisation's core business.

A Board should drive the core business whilst management and staff deliver the core business via the organisation's products or services. Agreement about the Core Business assists the Board design and develop its governance structure; Board, committees and taskforces.



Governance Structure

A Board needs to determine, document and establish its governance structure, aligning it with the organisation's structure. For example:

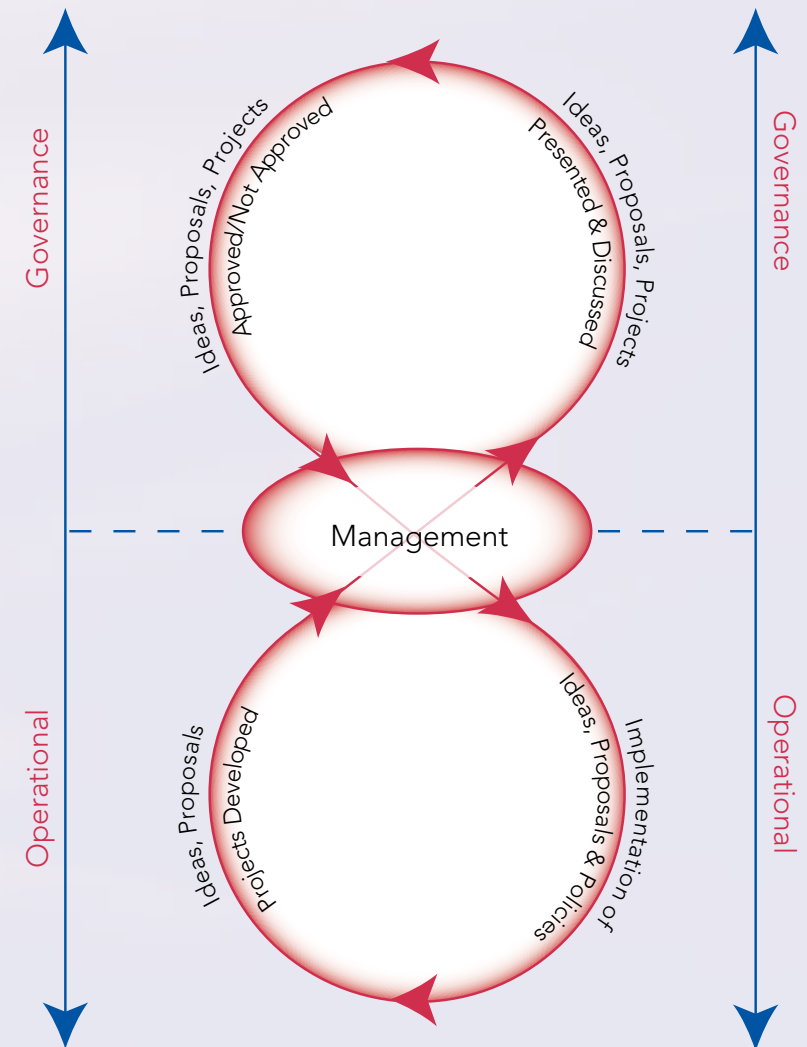


How A Board Works

Fundamentally there are two internal mechanisms that cause the work of a Board, either:

- * management puts forward documented reports, proposals, feasibility studies or business plans to a Board, or
- * a Board puts forward ideas, directives or decisions for the management to research, develop, action and report on.

On the basis of the two aforementioned processes the Board and/or management may or may not take action using governance or organisational policies and procedures as a guide.



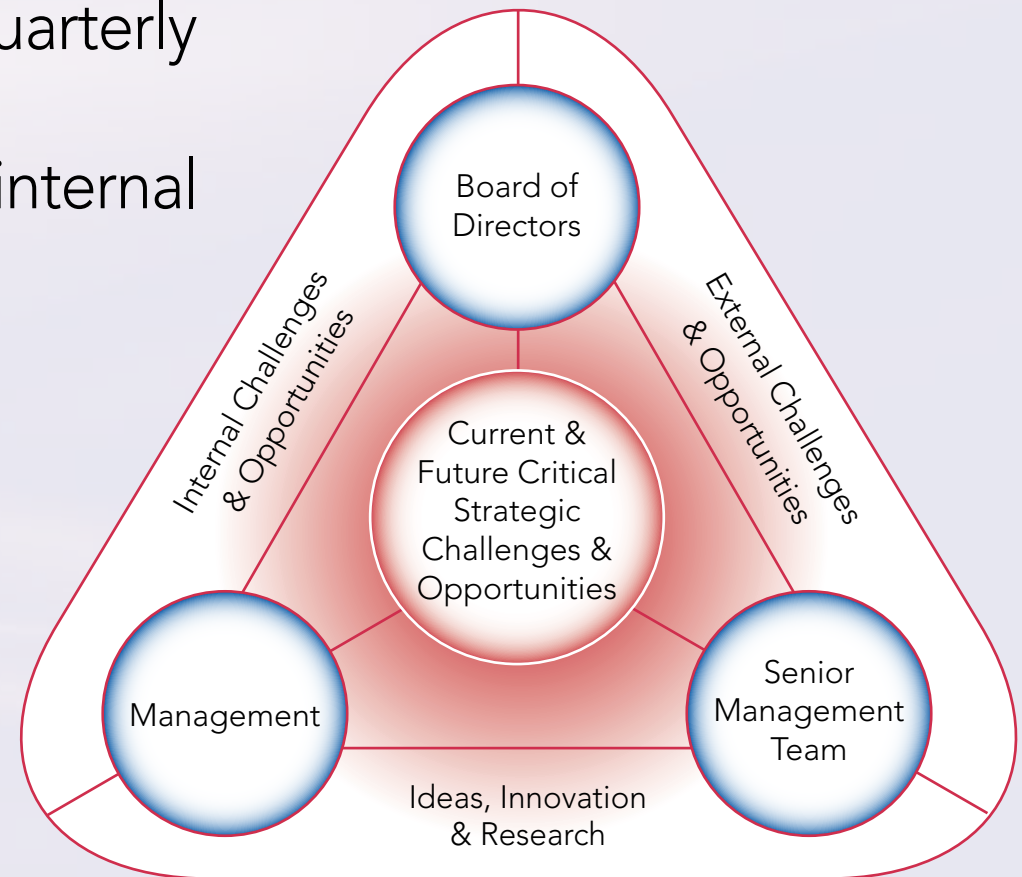
The Leadership Group, A Board's Part

Many Boards establish and operate a leadership group (Board, management and senior management team).

Typically the leadership group comes together at strategic planning or Board retreats, quarterly reviews or in a crisis.

They should focus on both the critical internal and external strategic challenges and opportunities facing the organisation, now and in the future, undertaking the necessary strategic thinking and discussion. Later the development of the strategic plan occurs.

Or they may focus on one or two critical strategic challenges or opportunities.



Available Governance Systems For Boards

There are five governance systems or models available to Boards of private, public or community businesses in Australia. Alternatively, a Board can develop their own governance system or model.

Governance System Or Model	Developer & Owner	Typically Used By
ASX Corporate Governance Principles	Australian Stock Exchange www.asx.com.au	Australian Public Companies, Listed on the Stock Exchange
Corporate Governance Standards AS8000/AS8004	Standards Australia www.standards.com.au	Australian Public Companies, Listed on the Stock Exchange, Private Companies
TAGS™, The Australian Governance System	Australian Strategic Services <i>email: office@asspl.com.au</i> www.asspl.com.au	Community Businesses, Not for Profit Organisations
The Carver Model, American Governance System	<i>John Carver, America</i> www.carvergovernance.com	Community Businesses, Not for Profit Organisations
The Australia National Audit Office Governance Framework	www.anao.gov.au	State and Commonwealth Government Departments

A Comparison Of Governance Systems

This matrix provides information about the five governance systems available to Boards and what elements are contained within each governance system.

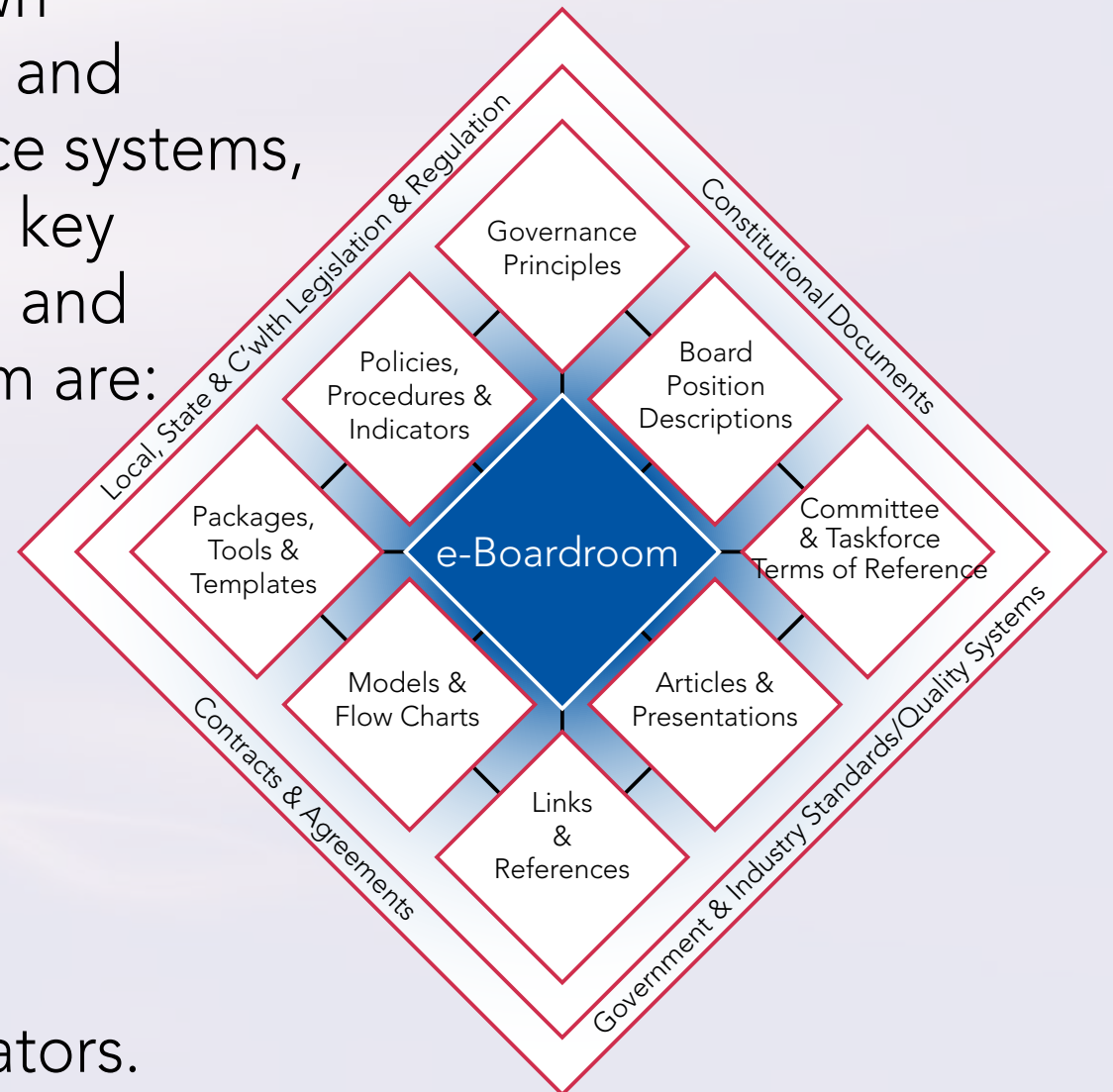
Gov. Framework/ Systems	Elements	Framework/ Approach	Principles/ Standards	Policies	Procedures	Indicators	Tools & Templates	Packages & Manuals	Articles & Models
ASX Governance Principles, ASX		✘	✔	✘	✘	✘	✘	✘	✘
AS8000/AS8004 Standards Australia		✘	✔	✔	✘	✘	✘	✘	✔
Carver Model, America		✔	✘	✔	✘	✘	✘	✘	✔
Australian National Audit Office Governance Framework		✔	✔	✘	✘	✘	✘	✘	✔
TAGS™ The Australian Governance System		✔	✔	✔	✔	✔	✔	✔	✔

TAGS™ is the only comprehensive, Australian governance framework/system available to Boards/committees that is practical, easy to use and cost effective.

Key Components Of A Good Governance System

Whether a Board develops its own governance system or purchases and customises one of the governance systems, shown on the previous page, the key components of a comprehensive and contemporary governance system are:

- * Governance principles
- * Board position descriptions
- * Terms of reference
- * Articles and presentations
- * Links and references
- * Models and flowcharts
- * Packages, tools and templates
- * Policies, procedures and indicators.



How Boards Manage Their Governance Systems

The number, type and requirements of Local, State and Commonwealth Governments' legislation and regulation, industry or government standards, contracts and agreements continues to increase.

A Board needs access to a contemporary quality management system that allows them to collate, manage, distribute, report and archive all their governance documentation, tools and resources.

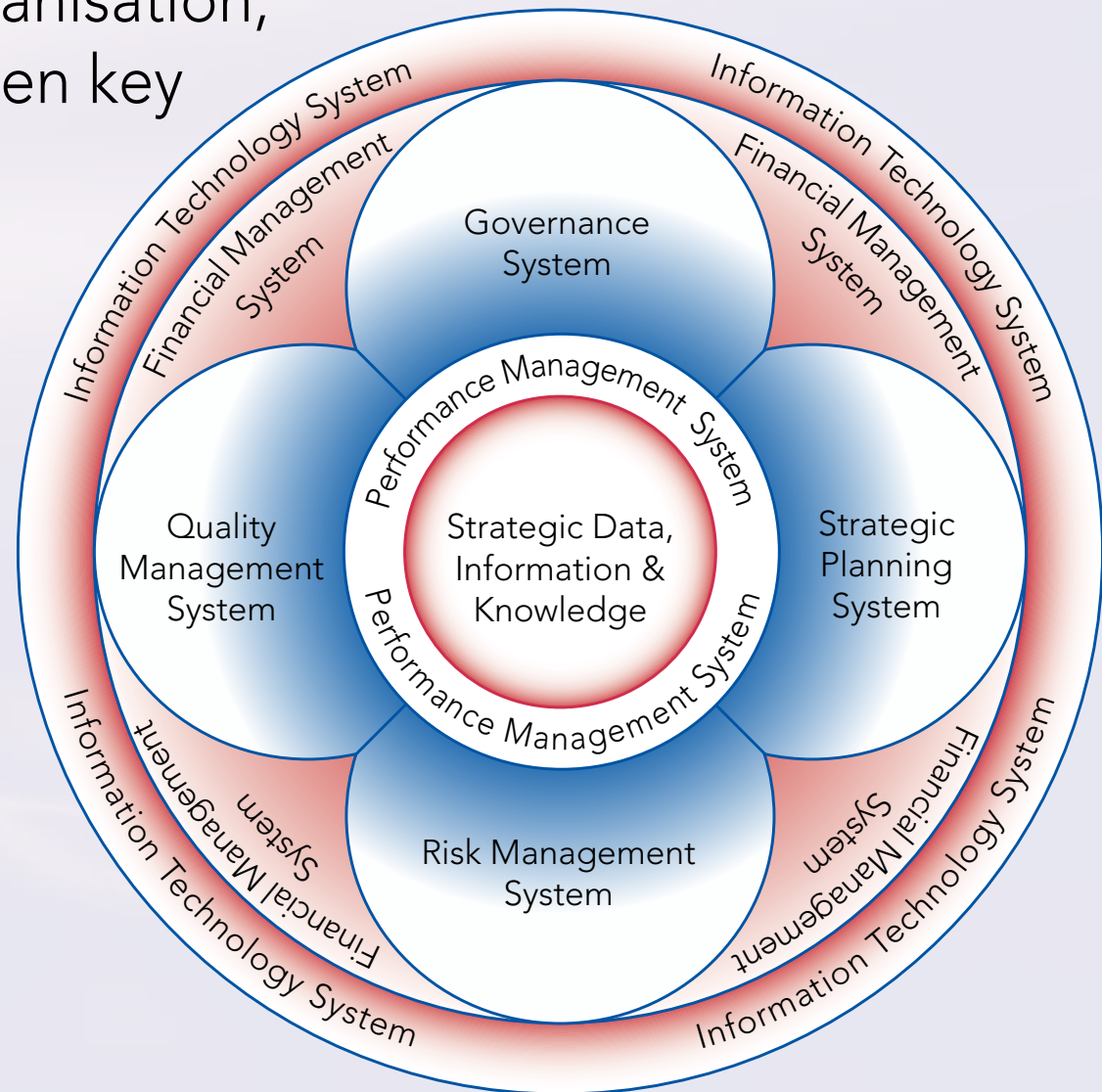
There is a clear difference, but relationship between, a Board's governance quality system and the organisation quality system. Both should be contained in the organisation's quality management system.



Key Systems A Board Should Use

A Board should ensure it, the organisation, has in place, at minimum, the seven key systems depicted in the model.

- * Governance system
- * Quality management system
- * Strategic planning system
- * Risk management system
- * Performance management system
- * Financial management system
- * Information communication technology system



The Key Systems A Board Should Use

These governance/organisational systems should provide a Board with relevant, timely and accurate data, information and reports, upon which it can make strategic or organisational decisions or directives.

When a Board interacts with these systems there is an 'iceberg effect': what is above the water line is for a Board, what is below the waterline is for management.

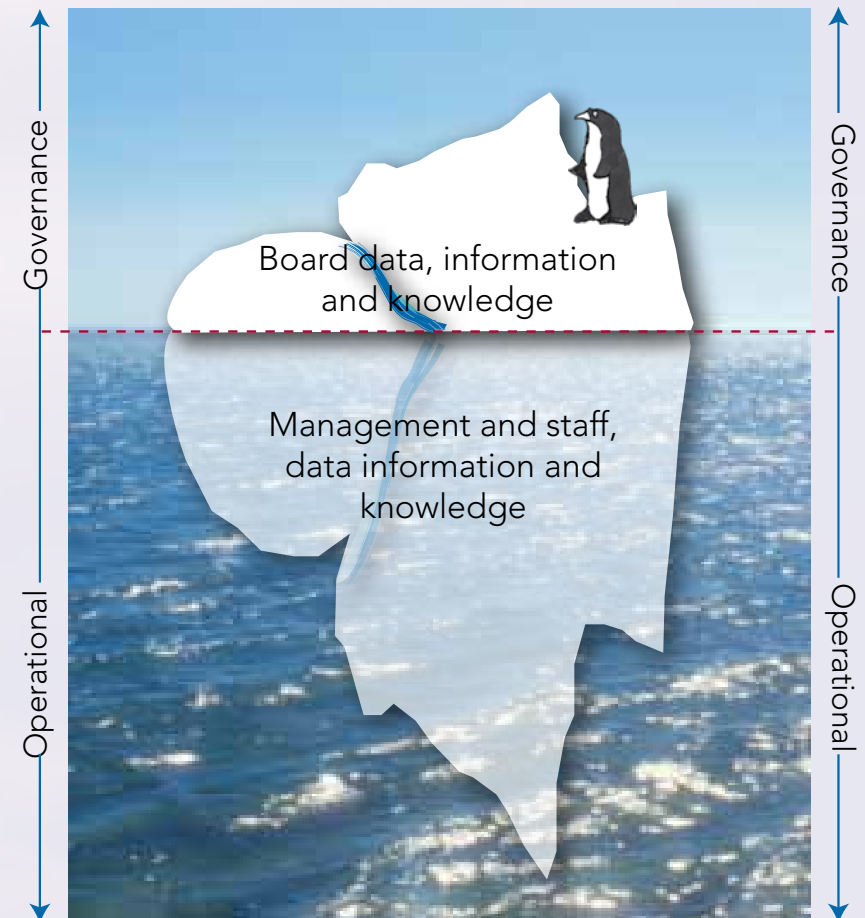


The Iceberg Effect

With the increasing use by Boards, management and staff of sophisticated organisational systems one may well question, 'but what is governance and what is organisational or operational data, information and knowledge?'

Many organisational systems can be viewed as icebergs, what they provide floats above the waterline as data, information and knowledge for the Board and what is below the waterline is data, information and knowledge for management and staff.

This view of organisational systems and how Boards interact with them can be likened to the 'iceberg effect'.



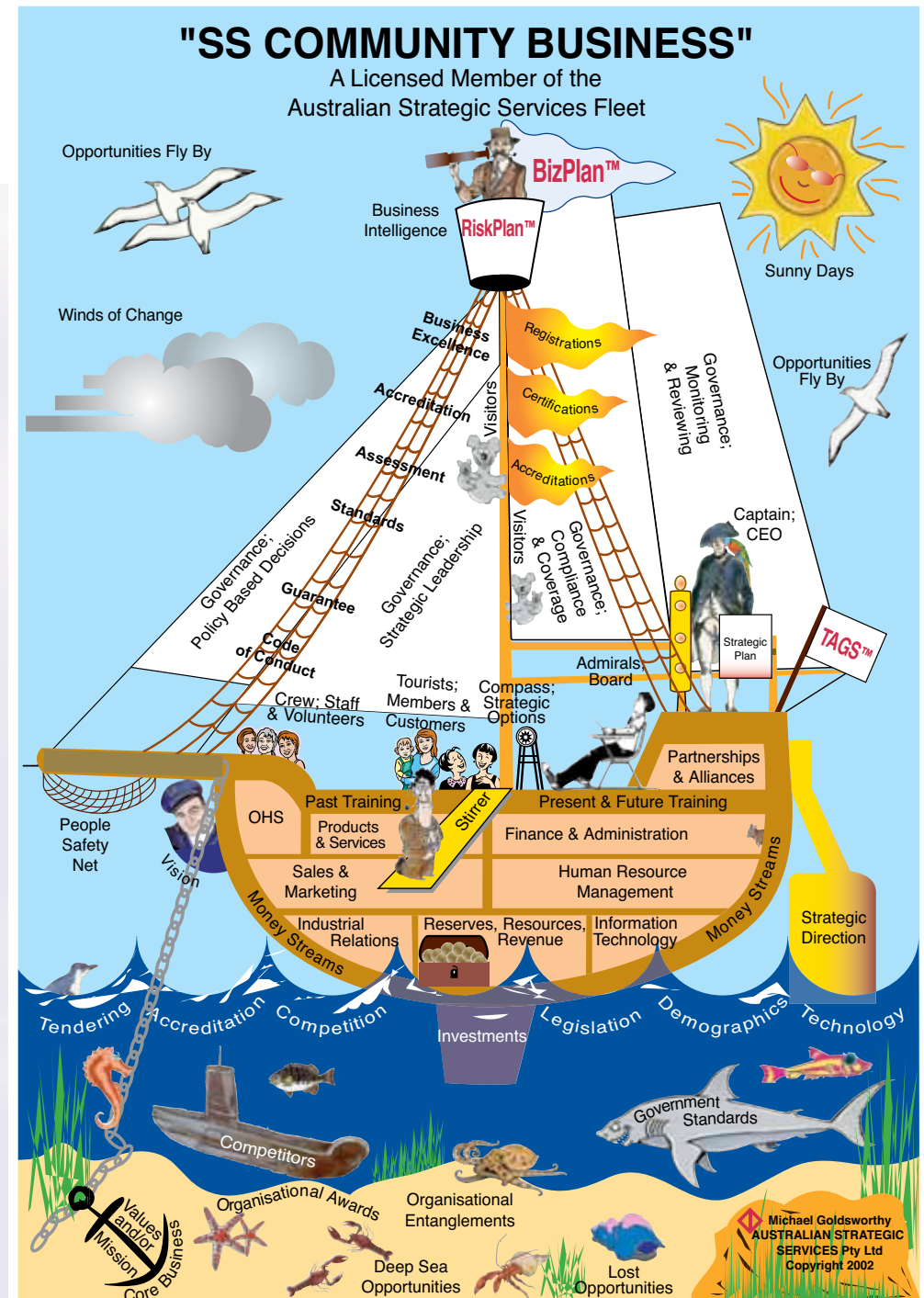
My Board Governance Improvement List

Board Ideas & Improvements	Who	When

Governance Thoughts, Governance Reflections

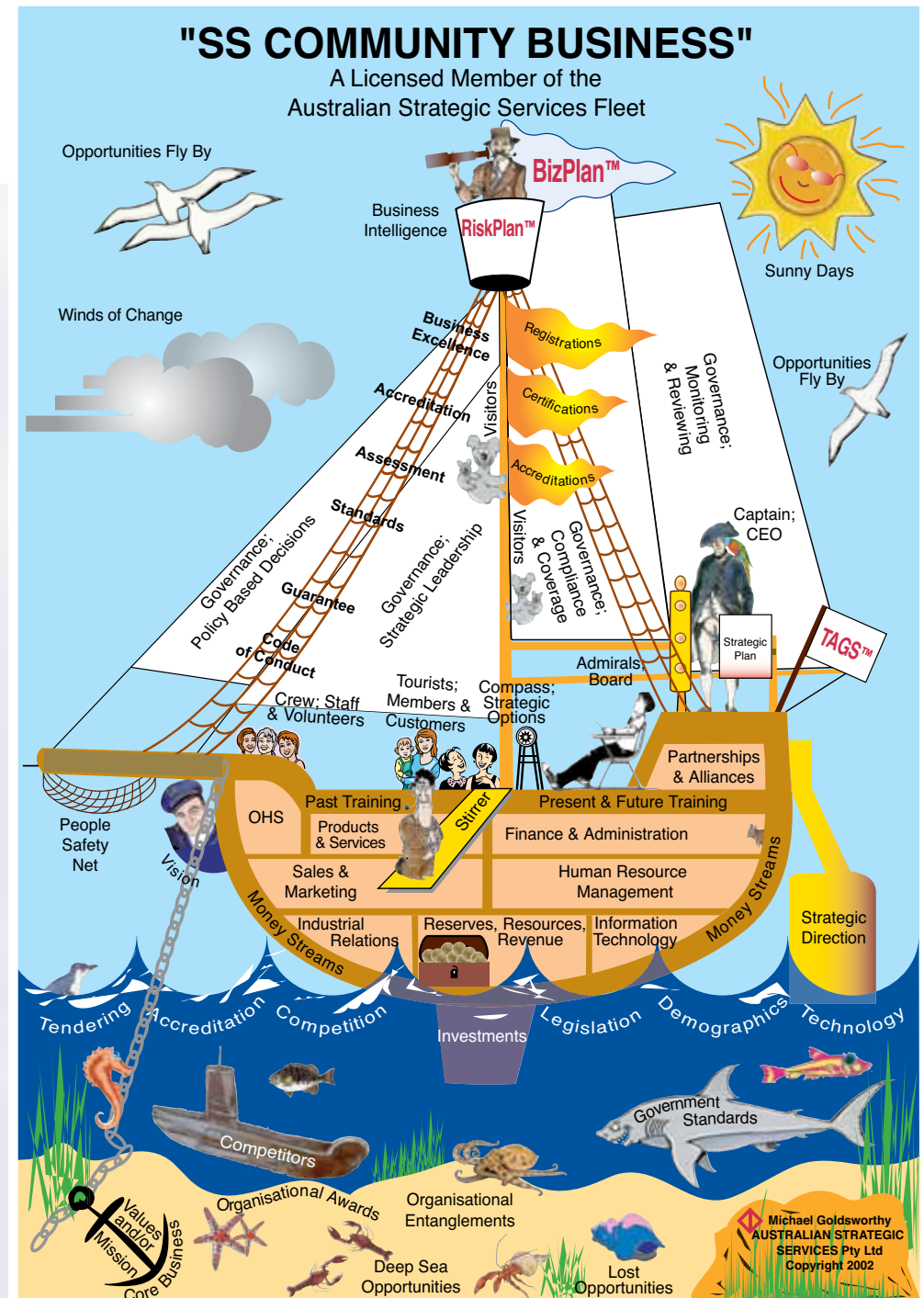
In conclusion a Board should:

- * put its hands around the business, not in the business
- * work on the business, not in the business
- * govern the organisation, not manage the organisation
- * focus on the future, not flounder in fear of the future
- * not walk backwards into the future, looking at its glorious past



Governance Thoughts, Governance Reflections

- * develop and drive the vision, mission, values and core business, leaving management to develop and deliver the products and services
- * always remember, a Board governs the organisation whilst management manages the organisation.



Further Information

For further information, a copy of this presentation, other governance or organisational presentations or to discuss your Board's requirements contact:

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