

REMUNERATION, *To Pay Or Not To Pay?*



Remuneration Observations & Considerations For Boards

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Introduction

Remuneration, To Pay Or Not To Pay follows on from Brian Herd's presentation.

This presentation is designed to be interactive and practical, giving you and your Board the information and tools to consider this emerging issue.

Disclosure: ASSPL has a governance system called The Australian Governance System, TAGS™. TAGS™ contains a remuneration policy, associated tools and a range of related policies and tools.



"On the chase of a litigation case"

The Big Picture Of Community Businesses (Not For Profits)

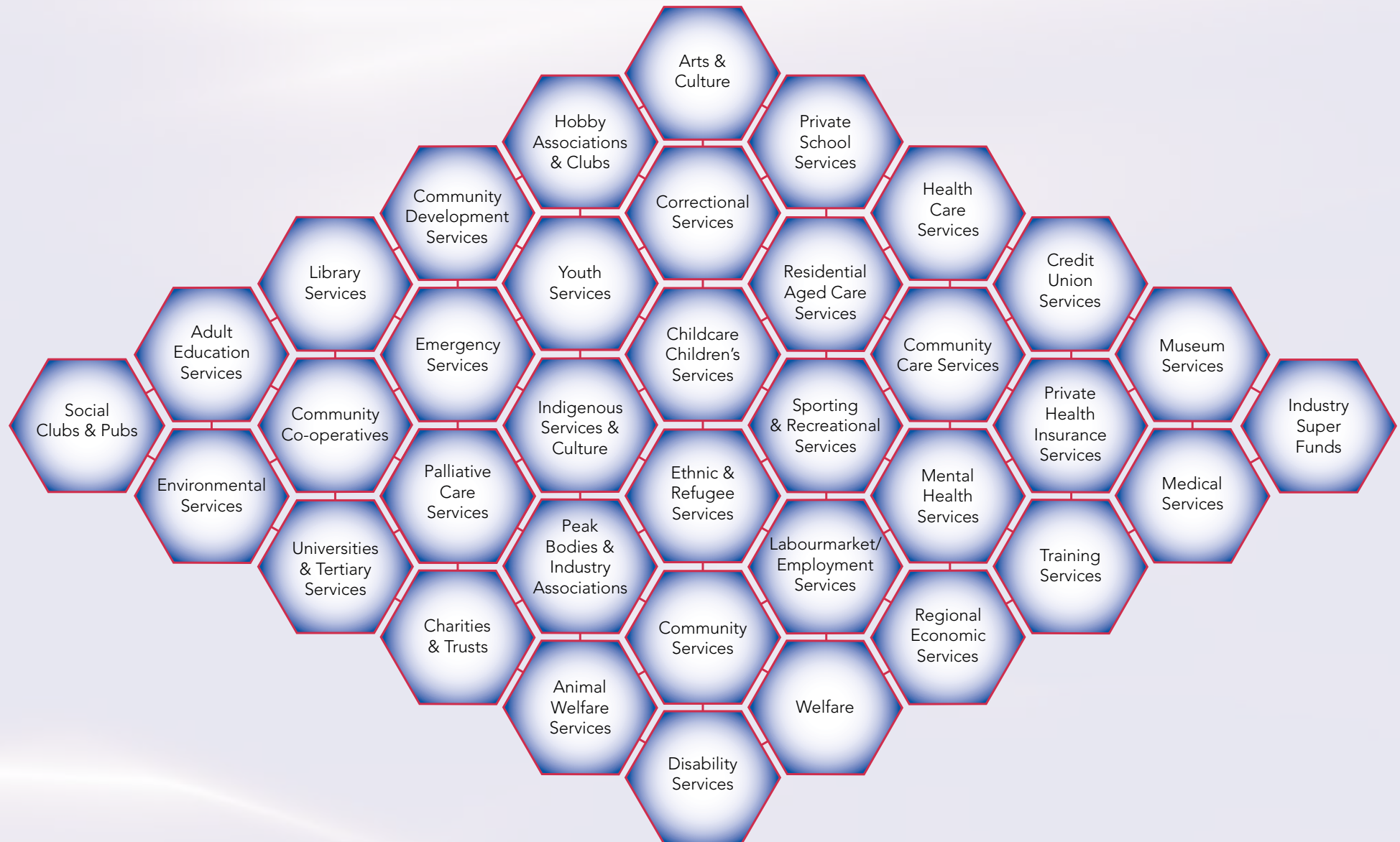
There are between 700,000 – 835,000 community businesses (Not for Profit) organisations operating in Australia, 12–15% of these remunerate their Boards.

As these organisations can be broadly divided into some thirty-five different industries and sectors, it's a given that many organisations operate in a variety of service types.

The thirty-five industries or sectors operate on a spectrum that spans corporate/commercial to community/welfare to social/hobby.



The Big Picture Of Community Businesses



The Big Picture Of Community Businesses

Whilst some community businesses were established pre World War I, significant growth of these organisations occurred post World War II, an era acknowledged as “the welfare paradigm”.

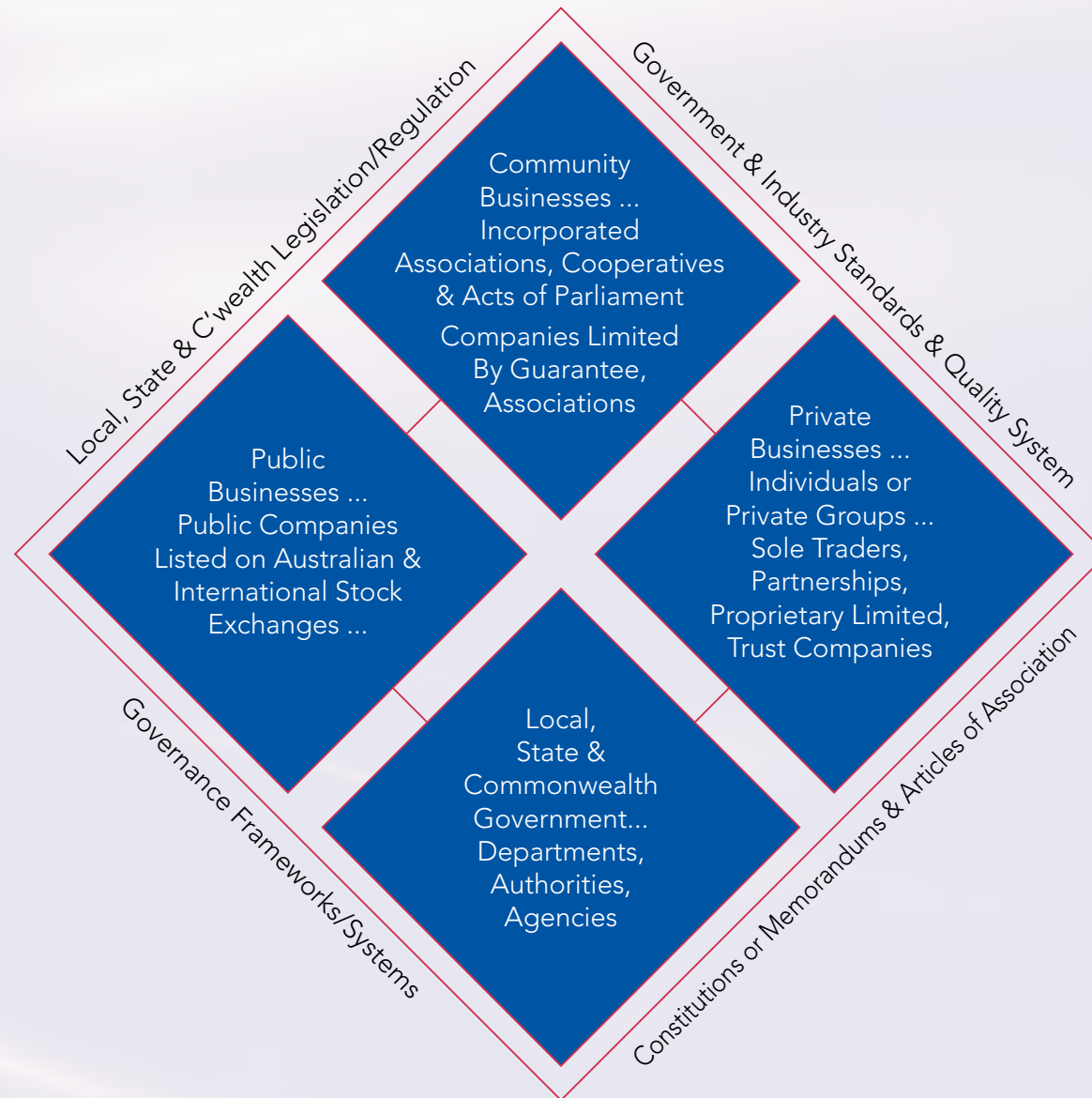
Since the mid-1990s the majority of community businesses, particularly those involved in human services have commercialised and corporatised with the rise of “the market paradigm”.

Today, community businesses rigorously compete against public, private and other community businesses and Local, State and Commonwealth Governments.

The Big Picture Of Community Businesses



The Big Picture Of Community Businesses

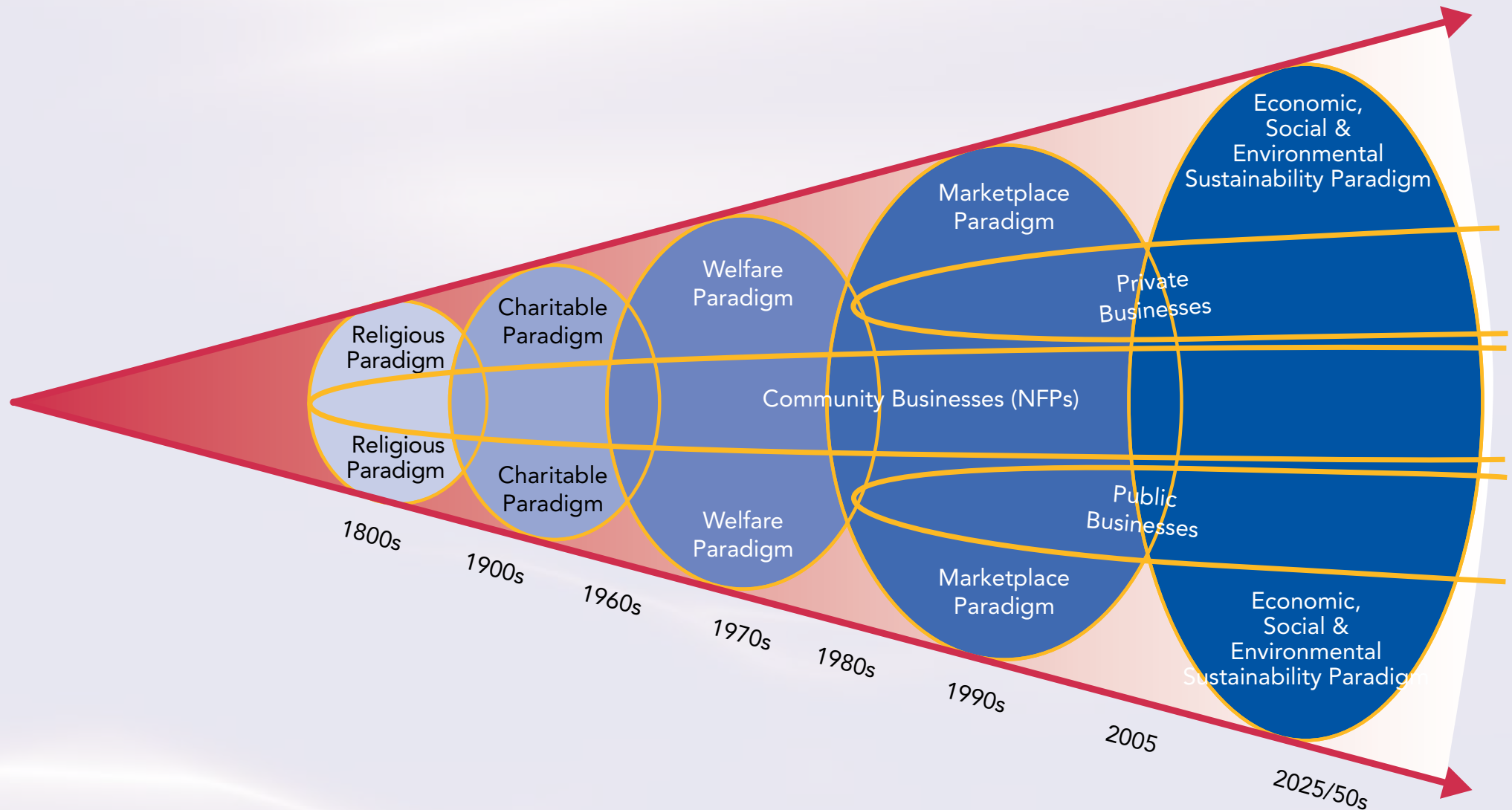


The Big Picture Of Community Businesses

In the “welfare state” or “welfare paradigm”, Boards of Directors were mainly viewed and operated as committees of management/management committees or similar. As founders, managers and governors of the organisation and as committee members they were typically “hands in the business rather than hands around the business”.

Today there is an increasing focus on governance and a falling away of the many Not for Profit methodologies and misunderstandings of previous eras, eg: where committees managed.

The Big Picture Of Community Businesses



Community Businesses: The Difference

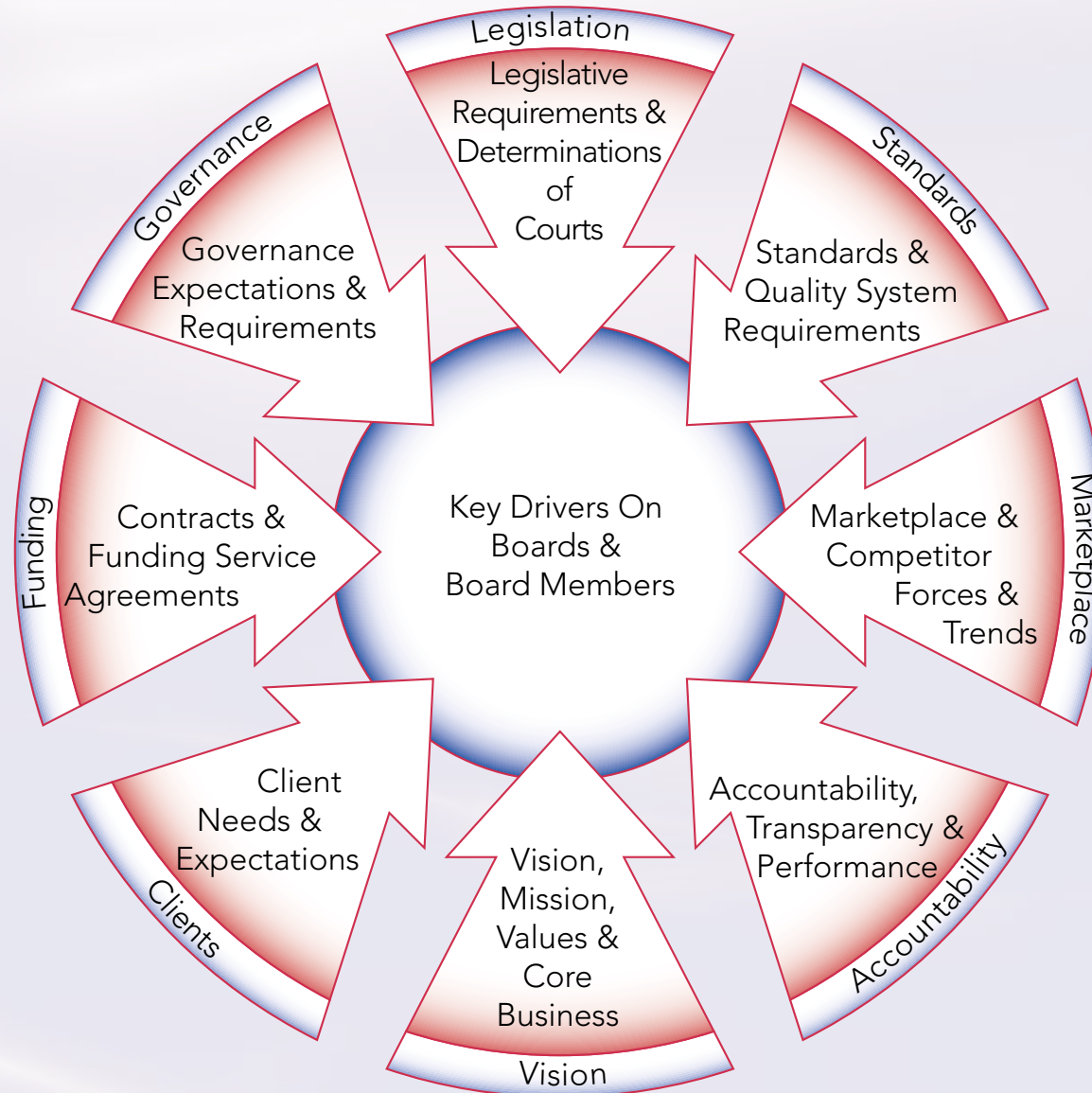
Community businesses have an important place in local, regional, state and national communities, society and economies; they have either Not for Profit and/or Deductible Gift Recipient and/or Public Benevolent Institution registrations.

Community businesses primarily deliver a social or community dividend, whilst private businesses and public businesses primarily deliver a financial or economic dividend.

Research does not yet tell us who delivers better services, private, public or community businesses.

However, if you are passionate about community businesses and their roles and responsibilities in developing and delivering human services into the future, then how does a Board ensure their organisation's future success?

Key Drivers On Boards & Board Members

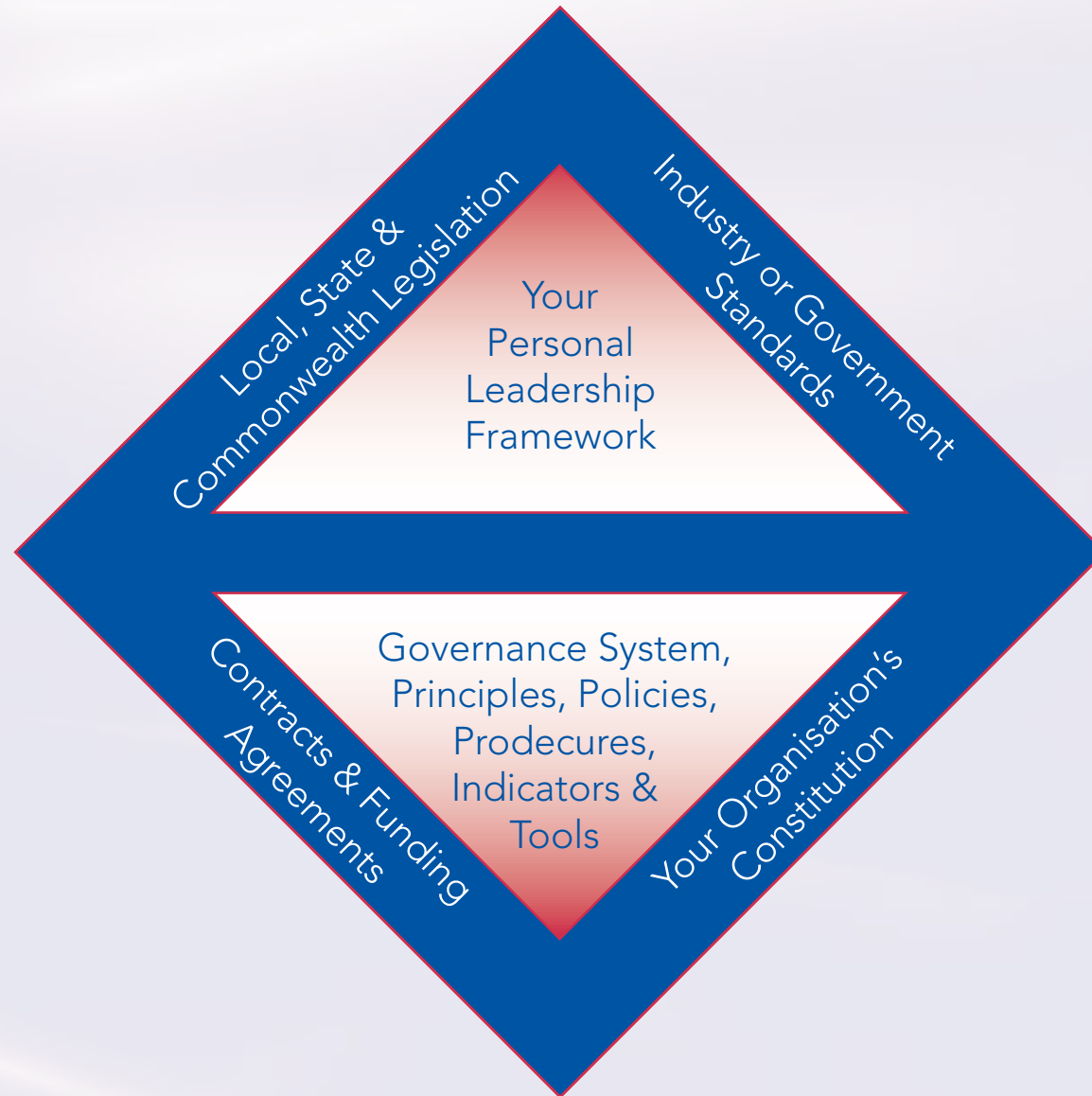


The Community Governance Framework

Contemporary Boards are governing their organisation, enabling management to manage the organisation. Broadly speaking, the community governance framework has three key components:

- * firstly, a legislative framework, comprising Local, State and/ or Commonwealth legislation, an organisation's constitution or similar document and government or industry standards or quality systems, contracts or funding and service agreements.
- * secondly your leadership framework which, whilst theoretical, provides the basis for the practical application of governance
- * thirdly, a governance system that provides the necessary governance principles, policies, procedures, indicators, tools and resources that assist a Board to undertake its governance work in a very practical way.

The Community Governance Framework



Your Personal Governance Framework

It's worth recalling that as a Board member you also operate within a personal framework:

- * Your ethos/philosophy/values
- * Your governance roles and responsibilities
- * Your governance rewards
- * Your governance risks.



Remuneration: For & Against

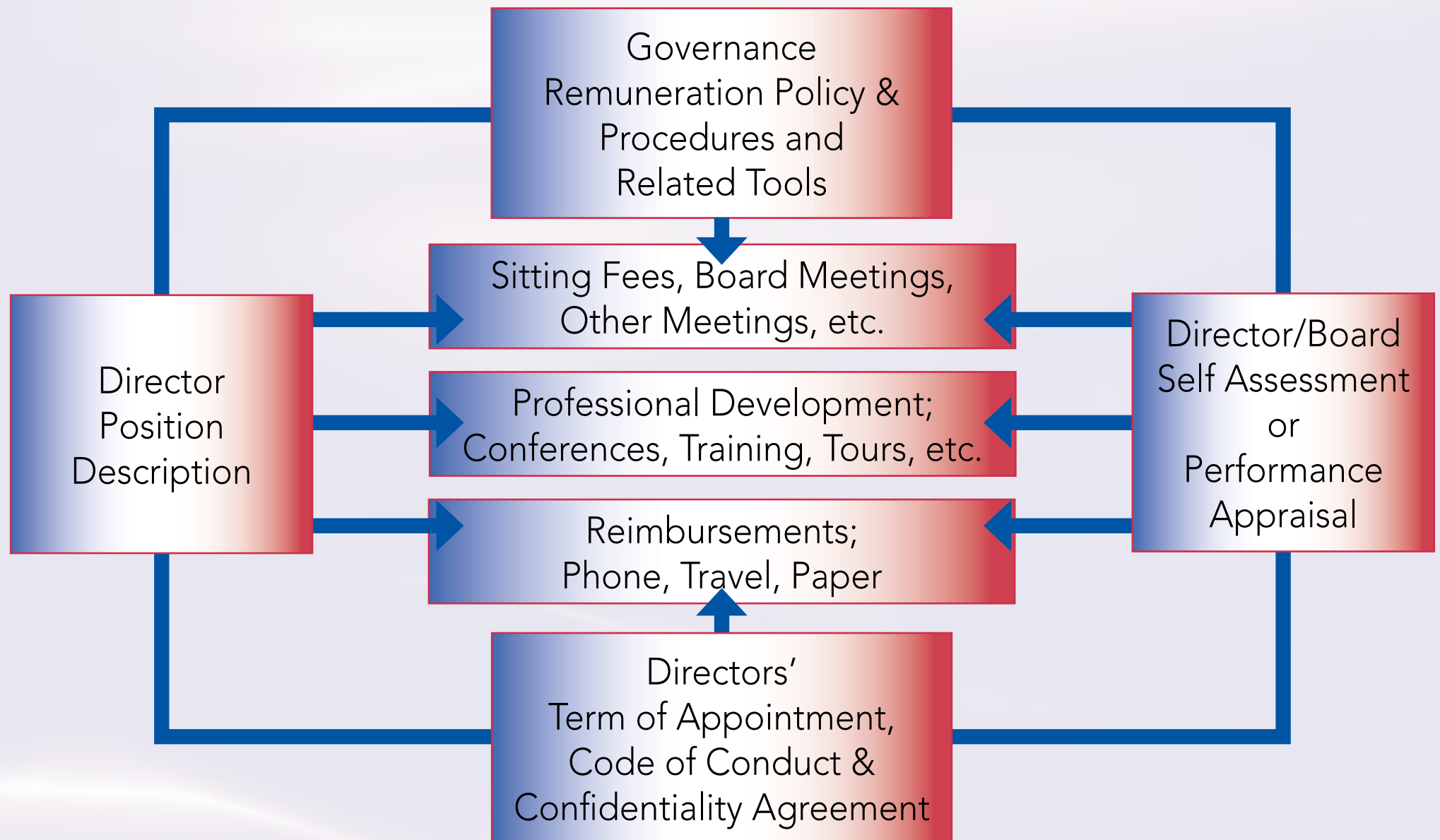
Against

- * Inconsistent with our organisation's ethos, philosophy, vision, mission, values, constitution etc
- * Our organisation is not in a financial position to remunerate Directors
- * Our constitution or funding and service agreements do not allow Directors to be remunerated
- * Compromises individuals' personal contribution/social obligation or community commitment
- * Adds additional costs to the Board budget/organisation's expenditure
- * Would not be seen in positive light by our clients, members or stakeholders

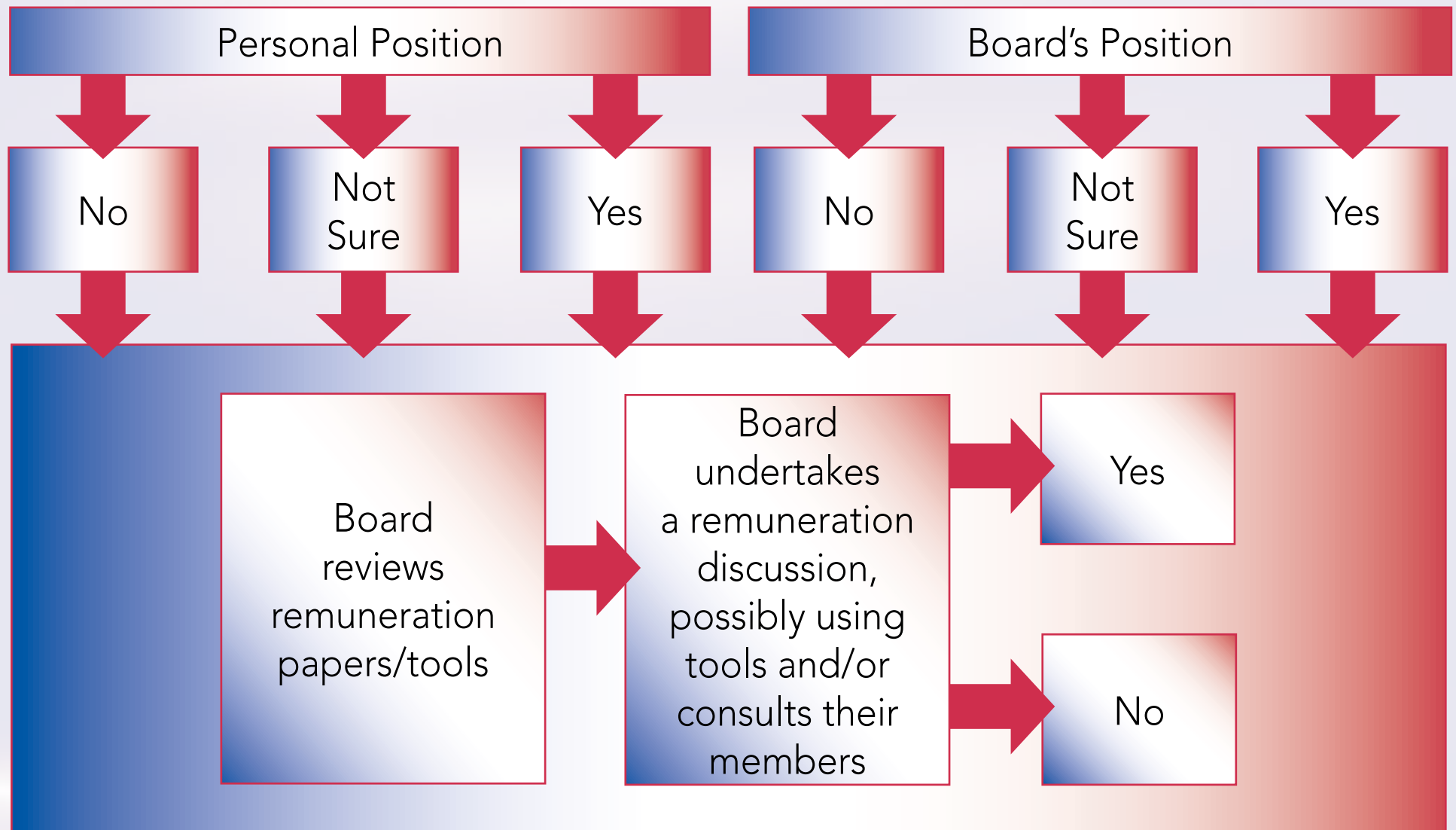
For

- * Compensation for a director's "Three R's", refer page 15
- * Recompense my time, skills/experience and knowledge, contributions, commitment, ideas and information
- * Provides a strong basis against which Board members can be assessed for their performance
- * Can draw on the time of Directors without feeling obligated, eg: weekend retreats, committee and taskforces
- * Can underpin the move to a smaller, more professional Board
- * Enables the accountability and/or termination of a non-performing Director

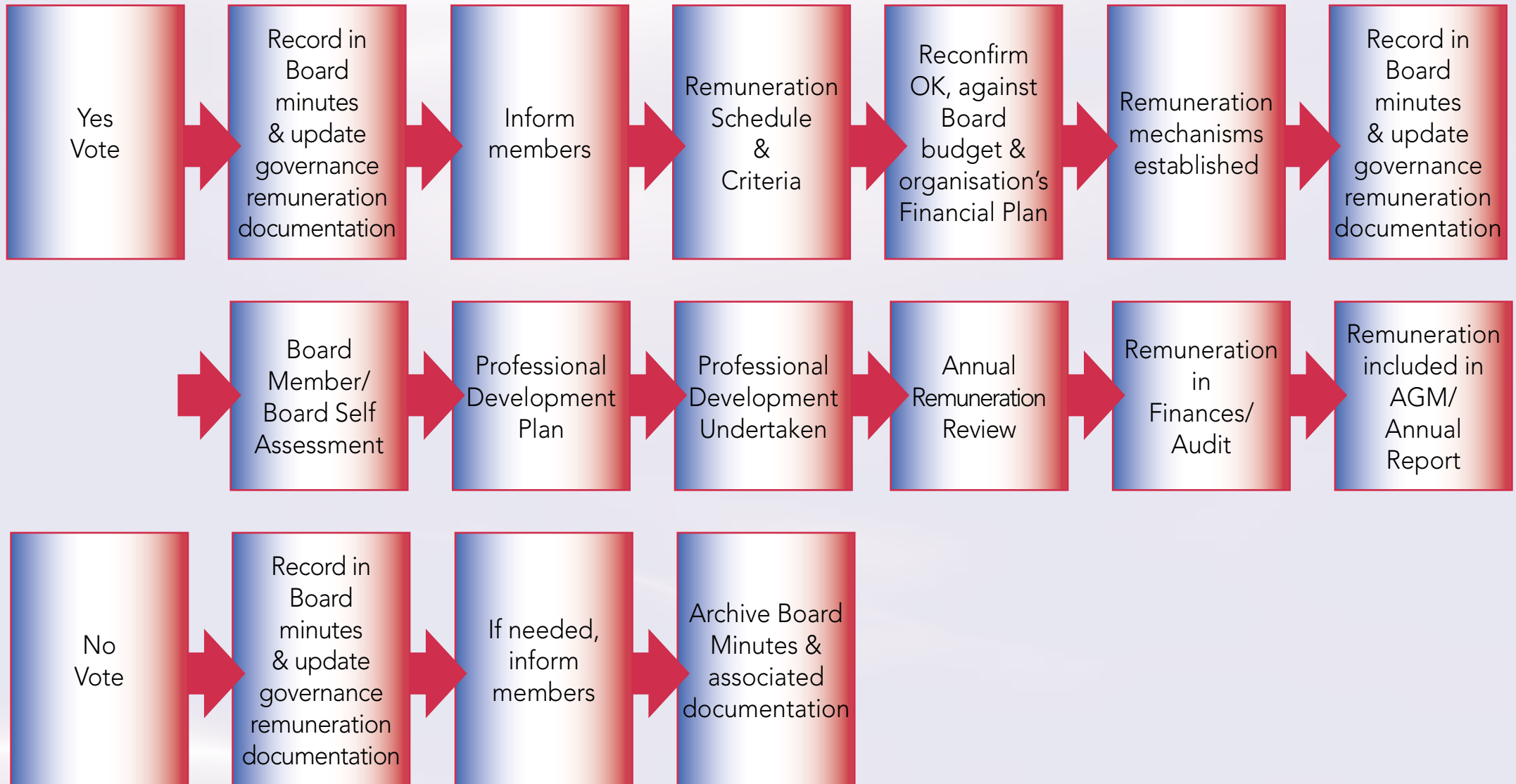
Remuneration Model



Remuneration, The To Pay Or Not To Pay Process



Remuneration, The To Pay Or Not To Pay Process



Remuneration, To Pay Or Not To Pay?

By looking at the perspectives that Brian Herd presented in his session and the aforementioned considerations individual Board members and Boards can consider the issue of "Remuneration: To Pay Or Not To Pay?"

The following sample of the Board Members' Self Assessment Tool may be of some assistance in a Board determining its position on this issue.



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EXAMPLE ONLY

TAGS™ Board of Directors' Remuneration Checklist

Board of Directors' Remuneration Checklist

Item	Remuneration Checklist	Unknown	Yes	No	Agreed Actions or Ideas	Who	Time	Status
1.	<p>Honest Discussion</p> <p>Has the board had open and honest discussion about the remuneration of directors?</p>							
2.	<p>Board Remuneration Policy</p> <p>Has the board developed and agreed on a Board Remuneration Policy or similar governance policy/ies?</p>							
3.	<p>Legal Entity Conflict</p> <p>Will the remuneration of directors be consistent with the organisation's legal entity/structure?</p>							
4.	<p>Constitutional Conflict</p> <p>Will the remuneration of directors be consistent with or in conflict with the organisation's Constitution, Memorandum and Articles of Association, Charter or similar document?</p>							

EXAMPLE ONLY

Board of Directors' Remuneration Checklist

Item	Remuneration Checklist	Unknown	Yes	No	Agreed Actions or Ideas	Who	Time	Status
5.	Vision Conflict Will the remuneration of directors be consistent with the organisation's vision?							
6.	Mission Conflict Will the remuneration of directors be consistent with the organisation's mission?	EXAMPLE ONLY						
7.	Values Conflict Will the remuneration of directors be consistent with the organisation's values?							
8.	Philosophy/Ethos Conflict Will the remuneration of directors be consistent with the organisation's ethics, philosophy, ethos or aims?							

Board of Directors' Remuneration Checklist

Item	Remuneration Checklist	Unknown	Yes	No	Agreed Actions or Ideas	Who	Time	Status
9.	Board Annual Budget Will the remuneration of directors form part of the Board's Annual Budget?							
10.	Board Annual Budget Does the Board's Annual Budget form part of the organisation's three year Strategic Financial Management Plan?	EXAMPLE ONLY						
11.	Reporting of Remuneration Will the remuneration of directors be documented in the Annual Report and reported to the members at the AGM?							
12.	Remuneration Criteria Will the remuneration of directors need to be reported to ASIC, ATO or similar State or Commonwealth Government departments or authorities?							

Board of Directors' Remuneration Checklist

Item	Remuneration Checklist	Unknown	Yes	No	Agreed Actions or Ideas	Who	Time	Status
13.	<p>Schedule of Remuneration</p> <p>Has the board determined or documented on what basis/criteria the directors will be remunerated?</p>							
14.	<p>Remuneration Determination</p> <p>Has the board developed/obtained and documented a Directors' Schedule of Remuneration or similar tool that will be part of the boards governance system?</p>	EXAMPLE ONLY						
15.	<p>Affordability</p> <p>Have directors discussed and agreed on how to structure the remuneration eg:</p> <ul style="list-style-type: none"> • per hour of sitting • per annum (an honorarium) • per board, committee or taskforce meeting • a package based on time sitting, conferences/workshops and reimbursements 							

ASSPL Consultant's Observations

Having worked with over 4,500 Boards, Chief Executive Officers and Senior Management Teams from a wide variety of community business throughout Australia the following observations are put forward:

1. The majority of community business Boards are transitioning from managing the organisation to governing the organisation.
2. The transition process tends to be spread over a one–two year timeframe, usually with the assistance of an external governance facilitator or consultant.

ASSPL Consultant's Observations

3. Typically Boards discuss and agree on their governance model, governance structure, Board skills mix, governance system (principles, policies, procedures, indicators, tools and resources) Board budget, Board annual program of work, Chief Executive Officer delegation schedule and other related matters. Somewhere in that mix the Board remuneration debate may occur.
4. Boards which do decide to remunerate directors develop a governance policy on Board remuneration and/or customise and use a standard governance policy from TAGS™, The Australian Governance System and associated tools.

ASSPL Consultant's Observations

5. The remuneration of Directors tends to happen in medium to large community businesses, which have worked through several philosophical debates, eg: Are we a business, are we a service? What is our core business? Does our Board behaviour match our agreed values?
6. Research articles indicate that somewhere between 12%–15% of Not For Profit Directors are remunerated, most of whom are Directors of Companies Limited by Guarantee.
7. All Directors/Boards which are either clients of ASSPL or known to ASSPL which are remunerated
 - * remunerate the Chair, other officials and all Directors.
 - * do not pay the Chairperson additional remuneration.

ASSPL Consultant's Observations

8. Directors who are remunerated, have an agreed Schedule of Fees, Remuneration Criteria and/or similar tools, governance policies and accountability mechanisms.
9. Boards which are remunerated usually have a package consisting of sitting fees, tours, conferences and visits, professional development and the reimbursement of travel, telephone etc.
10. When Boards do not have all the various governance components in place and operating, self interest can quickly lead to fraud, misappropriation and related illegal activities. The danger is a Board culture of 'self help' develops.

ASSPL Consultant's Observations

11. With the increasing number of private and public businesses competing for tenders and contracts, State and Commonwealth Governments are moving away from being prescriptive about Directors not receiving remuneration eg: Commonwealth Department of Health and Ageing.
12. Seek legal and/or accounting advice, there are potential taxation implications.
13. Most importantly, a robust discussion and decision process should underpin a remuneration vote.

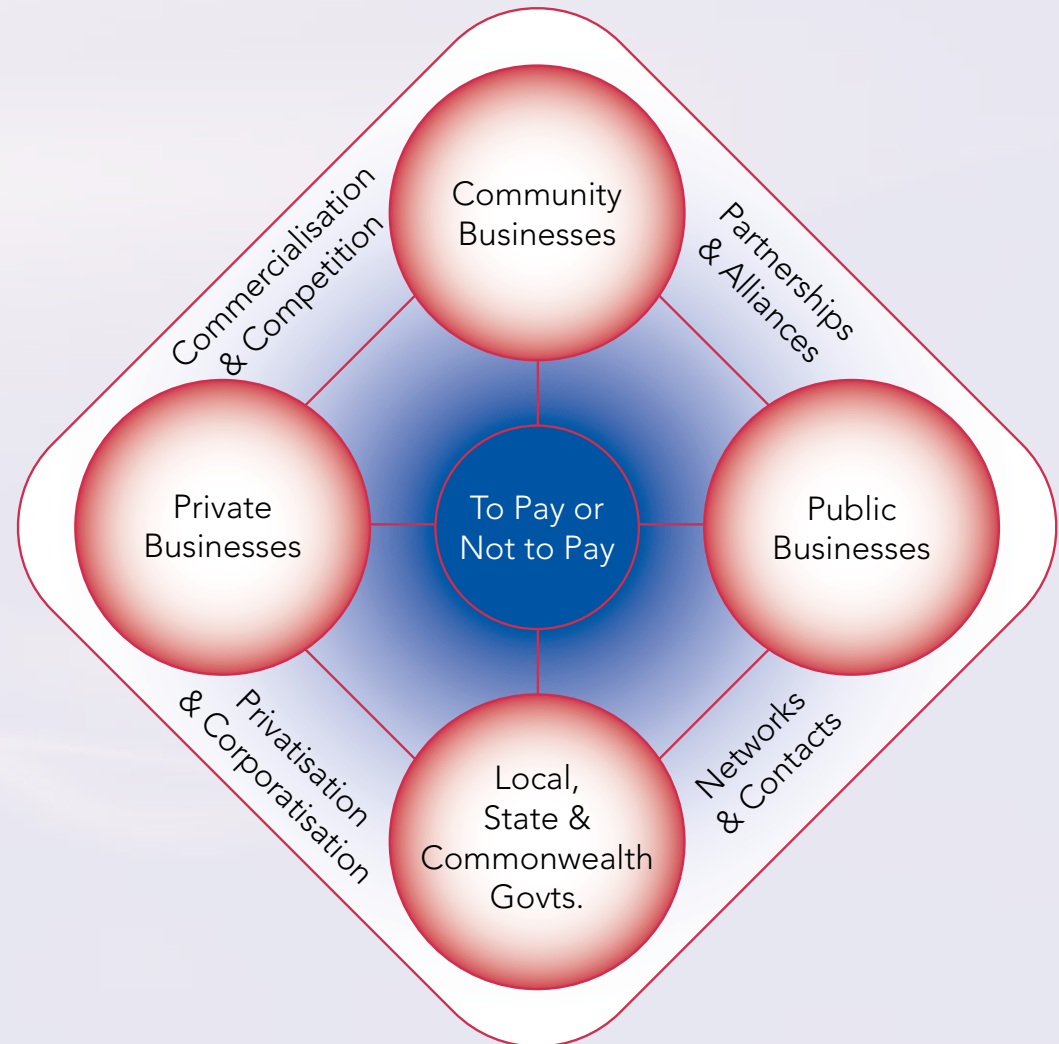
The New World...

The Rise of Some, The Demise of Others

In a world of:

- * intense competition between private, public and community businesses
- * consolidating industries and sectors
- * a wide range of key drivers in/on Boards

Directors of Boards will need to determine their position on the remuneration of Directors.



My Next Actions

My Next Actions	Who	Time	Status (To Do, Underway, Done)

"SS Community Business" Service Excellence, Business Excellence

"Boards Govern,
Managers Manage"

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

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