

Lean, mean governance machine – how to get a board that works for you

Every company wants to have its board add value, and there are a number of rules and recommendations for doing this. But it seems no director ever feels that these rules suit their own board.

As a former Australian Institute of Company Directors councillor and board consultant, I've often been told that "the *Corporations Act* was not written for companies like mine". Depending on who you asked, it was made for bigger companies, smaller companies, for-profit companies, listed companies, family companies, private companies, and so on.

This is especially true for boards within the Australian dairy industry. Some industry participants are global companies with complex governance structures and multinational operations, others are small family businesses operating from modest premises close to the family home. Yet, at



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each end of the spectrum and at all the points in between, only one corporations law and one set of governance behaviours are considered to be best practice, regardless of the size and complexity of the organisation.

That's why it is only by understanding how boards work that your company can get the best from your board, regardless of your company's size.

What do directors do?

Directorship is a strange skill – part science, part discipline and part passion. Although there is only one *Corporations Act* that covers all the boards in Australia, governance is different in each and every company. Much depends on the mix of skills and characters in the boardroom. The key role of the board is to make decisions that will further the aims of the company and thus benefit the shareholders.

Different people will behave in different ways when they are in different groups. Add to that the unique competitive situation of the company and its strategy for meeting its stakeholders' needs, and you have a complex matrix of priorities and values that underpin decisions and subtly influence decision making. While you need to have enough diversity of thought to get some strong differences of opinion and engender wider consideration of issues before taking decisions, it is important that the diversity level is not so high that effective consensus cannot be reached.



A board needs to have enough diversity to create strong differences of opinion, but not so much diversity that effective consensus cannot be reached.

As a rule, the board is responsible for:

- Setting strategy – deciding what the company will do, when, where and how it will generate the required skills and relationships (note that the board members do not necessarily develop the strategy, but they should understand, test and endorse it)
- Acquiring resources – the board should ensure that the company has the resources it requires to meet its obligations as and when they fall due (boards should play a major role in deciding what is the appropriate capital structure for the company and sourcing funds accordingly)
- Ensuring risks are managed – the board must understand the business environment enough to be able to appreciate the risks and to appraise management's efforts to avoid, manage or mitigate their effects
- Providing accountability – 'it is impossible to put a company in jail' is the ultimate sanction for delinquent boards. Boards play an important role in understanding and representing the interests of the shareholders and in reporting to them
- Hiring and delegating to management – unless your company is very small, the board will not undertake all the tasks that need to be done. As companies increase in size, they employ qualified staff and delegate to them until, for the largest corporations, the board is involved only in oversight and support of management.

In addition, boards should manage their own affairs by establishing sound operating protocols and making sure that management does not have to manage the board as well as the company.

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About the author

Julie Garland McLellan is a professional company director and governance consultant. She was an AICD NSW Councillor from 2004 until 2010. Her latest books, *Dilemmas, Dilemmas: Practical Case Studies for Company Directors* and *Presenting to Boards* are available on Amazon.com. Full details are at www.mclellan.com.au

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For small companies, independence must be traded with expertise to provide an optimal governance outcome on a shoestring budget.

A board for every business

In **family businesses**, there are often tensions between the need for the company to attract and retain quality employees, produce quality products and provide quality of life for the family that owns the company. Sometimes these are small businesses, where the family meal becomes an impromptu board meeting. Other times family businesses are multinational enterprises with some of the equity listed on an exchange. At all times, there are paradoxes that must be solved, performance that must be pursued and relationships that must be nurtured. Family issues often become confused with business issues, and a key role of the board is clarifying what is to be considered as business and what is private or personal.

In **large listed corporations** there are decisions about allocation of scarce resources, supporting long-term sustainability or pursuing current performance. The scrutiny is intense (even more so if you happen to be regulated by the Australian Prudential Regulation Authority as well as listed), and the ability to lose touch with the individual customers and shareholders increases with every successful year of operation. Directors play an important role in keeping management aware of evolving issues in the community and shareholder base.

In the **small listed company**, the rules and regulations still apply, but the board is often small and relatively unsupported by a professional secretariat. Independence must be traded with expertise to provide an optimal governance outcome on a shoestring budget. These boards are often highly engaged in the day-to-day running of the business and need to ensure that both governance and management are provided.

In the **not-for-profit sector**, board members are often motivated by the need to deliver the mission, to serve the intended beneficiaries of the organisation's activities. Operations can become the major focus of the board's discussion, and strategic or financial issues can be hard to get on to the agenda or to have seriously evaluated by all board members. The mix of professional directors and well-intentioned amateurs can produce the best possible outcome or it can result in disaster. Much depends on the founders (if they are still around), the constitution (if the board keeps it current and uses it to guide activities) and the executives. Still more depends on the ability of the directors to set the right priorities for the organisation and to establish operational excellence, a caring culture and financial foundations for strategic success.



Co-operatives can feel a lot like not-for-profit boards, but they have a very different legal basis and must be governed carefully to ensure compliance with the complex rules that they are subject to.

In the **Government sector**, boards are often asked to deal with issues where central government control will be inefficient, but where free market outcomes will be unacceptable to part or all of the population. The legal regime may be very similar to the *Corporations Act* or completely different from it. Boards have the comfort of a single shareholder with whom they can converse to ascertain preferences for different courses of action, but find the relationship is often complicated. There are policy imperatives, value for money considerations and stakeholders who are engaged and often vociferous. Add to that an environment where programs may outlive the life of the government that sponsored them, funding may be annually reviewed for projects that have multiple year life spans, and confidentiality must be balanced with transparency, and you have a recipe for exciting board meetings. Spice it up with the need for commercially efficient operations, environmentally sustainable outcomes and socially acceptable impacts, and this becomes the most complex board environment available. (I really love working with Government sector boards.) Government boards in the food sector often have apparently conflicting objectives (such as driving growth in the industry and managing food safety), which require mature judgement from the board members.

What would serve us better?

So is the appropriate reaction a move to more and more specific types of legislation to cover each individual circumstance?

I would suggest that, instead of adding to the morass of legislation, what we really need are better directors with the behavioural flexibility to address each situation in a manner that is culturally, as well as legally, appropriate.

We also need diverse boards that can bring a wide range of experiences and perspectives to bear on the issues that arise and on the strategies that are developed and implemented.

Boards must ensure that, in increasing diversity, they do not sacrifice the ability to create a workable consensus and that the diverse viewpoints are held by individuals with the ability to empathise with other points of view and synthesise a shared and supported strategy from the combination of perspectives. ■

Supporting your board's directors

Many directors feel isolated with the demands of compliance and the need to ensure balanced, profitable growth of the companies they govern. In spite of working in teams, they often find that board confidentiality precludes them from seeking advice and support. It is important for boards to make sure that individual directors feel able to reach out to their professional association and to have independent advice when contentious issues arise.

Good boards take care to measure their performance against their own set of indicators. This can be a formal exercise or a relatively informal one and may be done by a board member or by an external consultant. The important thing is for the board to decide what they wish to improve and then to discuss and implement ways of achieving the desired improvement. Some boards review individual director performance, while others choose to

review the board as a whole. That is a matter for each board to decide based upon its own circumstances.

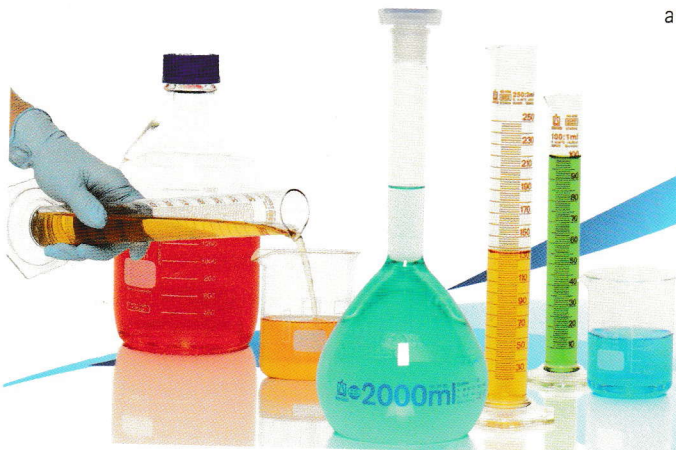
New directors must be provided with proper training in board governance, so that they can be effective from the moment they sign their consent to act forms. There is a difference between the skills and knowledge of a good board member and those of a good manager or professional advisor.


The Australian corporate governance rules provide companies and their boards with a great deal of flexibility in how they arrange their governance. Knowing the rules is a good foundation for adapting them to suit the individual circumstances of the organisation. Thinking about your board and how its governance adds value is a necessary first step in achieving great governance and is practicable at any size company in any stage of its development.



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