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Speaker Key:

- EL Emma Lancaster
PB Phil Butler
PC Patricia Carroll

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EL Hello, and welcome to the Community Colleges Australia podcast. I'm Emma Lancaster. You're listening to the first episode in a six-part series on governance and business management for not-for-profit community education providers. In this episode, we talk about the need for appropriate governance and what this governance looks like in a modern boardroom, how to recruit a diverse board and onboarding tips, as well as issues around staff members sitting on the board.

We hear from Patricia Carroll, the CEO of St George and Sutherland Community College, SGSCC, and we are joined by the Sector Leader for not-for-profits at the Australian Institute of Company Directors, Phil Butler, who walks us through some of the key not-for-profit governance principles that have been developed by the AICD as part of the organisation's commitment to promote good governance in the not-for-profit sector.

Phil Butler is based out at the Canberra office and took time out of his busy schedule to speak to CCA on the phone.

PB I'm the not-for-profit Sector Leader with the Institute of Company Directors. We're a membership-based organisation of about 45,000 members.

EL Phil, the not-for-profit sector has experienced significant regulatory reform and disruption, and I think in recent years, there's been a lot of attention paid to the governance of not-for-profits and role good corporate governance plays in maintaining the community's trust and in preventing misconduct. Do you think it's fair to say that good governance has never been more important?

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PB I think governance has never been more in the spotlight than it's been in the last couple of years. Certainly, the various Royal Commissions, starting with the Royal Commission into Child Sexual Abuse, the current Royal Commission into Aged Care, and the Financial Services Royal Commission has really heightened the public's awareness of corporate governance and the need for appropriate governance of organisations.

EL Given that, what do you think are the most important principles for good corporate governance in that not-for-profit sector?

PB We've recently put out the second version of the not-for-profit governance principles. It was a revision of the principles from 2013. We have ten principles again, and my firm belief is there's no single one most important principle. But I will start with principle number one, which is around purpose and strategy.

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It's ensuring that there's a really clear understanding of why the organisation exists, what it's trying to achieve, and then how it is going to achieve it through the strategies it puts in place. That continual focus on the purpose of the organisation, understanding what the purpose is, and indeed knowing when you may have achieved that purpose, and what's the next step once you have achieved that purpose.

EL Phil, when it comes to a new board, what do you suggest a new board should focus on? Are there any key principles that they should be locking in straightaway?

PB In terms of a new board for an organisation, it's getting the compliance elements right. These are the areas that aren't particularly enjoyable or exciting, but you do need to get it right. So, understanding what your legislative framework is, understanding who you're reporting to. As a charity, you'll be reporting to the ACNC, but you may also be reporting to a state-based regulator.

If you're in education, there may be a whole range of other regulators who are going to be interested in what you do, and you will need to be reporting to them.

EL Great. You mentioned, obviously, those not-for-profit governance principles, how they've been developed by the Australian Institute of Company Directors, the AICD, as part of its commitment to promote good governance in the not-for-profit sector. You mentioned just before that you released the second edition of the principles. I think it was in January of this year. I'm going to get your thoughts, Phil, on what the changes were and also why those changes came about.

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PB As pointed out, AICD's purpose is to strengthen society through world-class governance, and the not-for-profit sector sits fairly and squarely as part of the community. Without a well-governed not-for-profit sector, our society won't function properly. So, we've had a real desire to keep building on our work in the not-for-profit sector.

There's nothing wrong with the version of principles from 2013, but we believed that there had been quite a big move-on since they had first been introduced. We've seen the various Royal Commissions. We've seen an increased focus from the introduction of the Charities and Not-for-profits Commission. But I think we've also seen the change that's happening across the not-for-profit sector, the introduction of the NDIS, the introduction of Client Directed Care in aged care and other areas.

We've seen not-for-profit organisations continue to evolve and nothing stays the same. While much does change, there are some things that stick fundamentally as components of good governance. So, what we've tried to do with these principles is ensure that we've kept all of the important basics and background in there, but we have introduced some more guidance with regard to what appropriate governance [is]... Note that I haven't used the word good governance.

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There is such a diverse range of organisations across the not-for-profit sector. What is appropriate governance for one won't necessarily be appropriate for another. So, we're very mindful to use that word appropriate rather than good or

bad. In terms of what we've also included in there, it's that additional commentary, some guidelines about what might constitute appropriate governance.

We also introduced a couple of case studies, one for a smaller type of organisation with a single purpose and range of activities, and another case study which is of a larger organisation with a whole lot of different projects. For each of the principles, there's some illustrations we've brought out of those case studies about how those different types of organisations might approach culture, or stakeholder engagement, or risk management, or whatever the principle might be.

EL How then do you think community colleges and the adult education sector can ensure good corporate governance when it comes to having, perhaps, limited access to board members? Board members may not be as available as some CEOs would like, or some chairs would like. How do we get around this? What would you suggest?

PB Succession planning remains such a critical role for organisations, and indeed boards, to do. To get that succession planning right is just so important because this is a long-haul game. Most organisations are going to be around for many years to come, trying to achieve those really important things for our society. So, my observation is: make sure that your own current governance is as appropriate as it can be so that people will be attracted to the organisation.

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Then it's getting a sense of, what are the skill sets we require for the next phase of the organisation? And being realistic about what those skill sets are. Then think about, where can we draw those skill sets from? I think one of the traps that people often fall into is just going back to the same pool of potential directors each time, without thinking a little bit more outside of the square about where future directors may come from.

Important in that is to think about the diversity of the stakeholders and customers that are being looked after by the organisation. If it's in adult education, you've probably got a very diverse group of students. How do you think that that diversity can be reflected on the board? By that, I don't mean in a tokenistic way. Diversity in thinking is probably the most important part that has to be coming out, and one that boards will often struggle with, this little concept of diverse thinking. So that people are thinking in very, very different ways about particular issues.

EL What's your position regarding staff sitting on boards? How do you feel about that?

PB I've got to be really careful with this answer because what I think is that, where possible, to keep separate the board and executive roles is a better outcome. The reason I said I needed to be careful is because, of course, of AICD. At my organisation, our CEO does sit on the board. He's the managing director as well as being the CEO.

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Our organisation has done very well over the years using that model. But my preference is that, in fact, you have those as separate roles. You have the board who hires the CEO. The CEO probably attends most of the board meetings, apart from... There might be some very small sections that are done in camera. But the CEO does not sit on the board itself.

EL What are the reasons for this? What are some of the arguments as to why that's best practice?

PB My observation is that one of the great challenges that not-for-profits face is this delineation between governance and management. This, I think, is often more difficult than in for-profit organisations. It comes back a little bit to the passion that people bring to not-for-profits. Our observation is often that the not-for-profit sector is very fortunate that it has people with a great deal of passion that they bring to the organisation.

But that's also one of its downsides, that that passion can also lead to some decision-making that's not as good. So, it's for that reason that I think it's better that you have a board, and you've got an executive or a general manager who reports into that board. That way, the board can be very clear about the delegations that they give to management. They can also have conversations at a board table without management being around.

So, I think there is a real value there in that clear delineation between board and management. It makes it easier to manage at a board level.

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EL That was Phil Butler, the Sector Leader for not-for-profits at the Australian Institute of Company Directors. Now we're going to hear from Patricia Carroll, who has extensive experience in the adult education sector. As CEO of St George and Sutherland Community College, she's seen numerous changes in the industry. She shares her insights and practical tips on corporate governance with a busy and time-poor board, ideas on how to recruit a diverse board, and her own personal views regarding staff members sitting on the board.

PC My name is Patricia Carroll. I'm the CEO of St George and Sutherland Community College.

EL Patricia, how do you ensure good corporate governance when you have limited access to board members? By limited access, I mean that your board members are busy, and it's more about availability.

PC Yes, I understand that that's a big problem. My take on things is that, on the practical side, it's always better to have meetings at night. I know that a number of colleges do prefer to meet during the day, but I do find that busy people can come on their way home from work, and they can find time in their diary much more than people who are expected to come during the day.

Otherwise, you probably end up with a number of retirees that might want to come rather than people who are active currently in their profession. Apart from the actual timing, which is the most obvious, I think it's important to have quite a number of board-related policies and procedures. We tend to specialise, in most organisations, in the policies and procedures for the actual running or the management of the organisation.

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But, in our case, we have noticed that we need a number of good policies and procedures for the board. For example, even with evening meetings, sometimes we're struggling for a quorum. So, for example, we have a policy around our quorum that if we don't get at least three people attending the meeting, what we

do is we discuss the particular issue. We come up with a particular decision that sits well with the three.

We then release that by way of email. We insist that everybody has an email who is a board member. We get them to look at the decision that we've made, and if we don't hear back from them within a two-week period, to the contrary of the decision that we've tentatively made, we then codify, put in cement, the actual decision. Then we make sure it's minuted at the next formal meeting where we have a quorum. So, that means that you're making it a little bit easier.

Steve Bowman, who's one of the best governance lecturers that I've ever experienced, who does a lot of work for the Institute of Company Directors, says that the best thing you can do is to say to yourself, what if it's easy? If you're making things too hard for yourself, it becomes impossible. Governance, yes, it's got to be precise, but try and make it easy and make it practical. So, that's one very important way to have some solution for quorums, which can often really daunt us.

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The other thing is having, as I mentioned before, lots of processes and delegations around finance. For example, if there's a request to buy some new piece of equipment, which is over the delegations of the principle, then you need policies and procedures in place as to how that can be conducted. Again, if we don't have a quorum, we go through the same process, and the three people will agree to the expenditure.

If there's a major problem for anyone else, we need to hear about that. Otherwise, if it's an important, urgent purchase, we're held up. Again it's, what if it's easy? Keeping it easy.

EL Great. You've mentioned some already, but I'm keen to hear your thoughts on what you think are some innovative and practical ways to ensure best practice corporate governance for your organisation.

PC This is where I become a little controversial, probably too early in the podcast, but I have attended lots of corporate governance training over the years. The most sound, apart from Steve Bowman, was conducted by Sally Saunders from UTS. I'm not sure if she's still there. She actually supported my particular stance that we have here, that the CEO is a full, voting member of the board.

Equally responsible, from the point of view of the conduct of business and of the finances. Equally liable, should the wrong thing be done. I think that's probably the best insurance that board members can have. If my neck is on the chopping block, if I make the wrong decisions or don't do the right thing, then I'm as liable as they are.

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I think it's a very wrong thing to ask willing people to come in and take responsibility fiscally if the CEO is not also fiscally responsible. So, it's more of a corporate governance model than a not-for-profit model. But I do think, especially when we don't always have access to board members and their decisions, that this is the

best insurance that we can give to our board that things are being conducted correctly.

EL That's currently out-of-step with what most organisations are doing. So, what's the argument for the way they're doing it now?

PC I think the argument is that, we're only small organisations in many respects, and we wouldn't get people working in regions if they were going to be fiscally responsible. But I still think it's worthwhile holding out for that person who is confident enough that they can lead the organisation and be fiscally responsible as well.

Sooner or later, everybody could be sued for negligence, so you may as well have your CEO already taking part and making sure that the board is fully informed, and that the individual CEO is confident in what's happening when the board is not around to watch.

EL Speaking of who it is that actually sits on boards, and who you get to sit on your board, I'm keen to hear your thoughts on staff sitting on the board. Do you have examples of when it's worked, perhaps when it's not worked? Is there a conflict in them sitting on the board?

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PC It's a no-no from my point of view. Early in the days of the college, where we had to follow a model constitution, and I'm talking way back in the eighties, it was suggested that we have staff sitting on the board. We were lucky in those days. But my own feeling is that it just goes against the whole ease of reporting. In the situation that you have someone on the board, and if you're not an equal voting member of the board, you technically have someone working for you, who you're reporting to, on the board.

I just think that is a nonsense, and it's going to cause all sorts of conflicts with that person exercising, perhaps, too much power. These sorts of things are just going to create a level of trouble that isn't required.

EL How then do you ensure you're recruiting the best people for your board?

PC It's not anything other than a normal recruitment in the sense that... What I've found to be really helpful over the years, except if someone comes across my desk, or my experience if I'm on a board and I see someone who's wonderful, for example, from the council... We have, over the years, had some wonderful people because I've been on different advisory boards for the councils in the area.

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I've seen some very passionate people, and I thought they'd work really well on the board, and they've been kind enough to come on. Not forever, but come in and come out for very good quality time. But mostly, my recruiting has been conducted by my going around to the actual classes. If I'm really desperate, almost crying... That's worked for me over the time. We had desperate pleas. We need board members.

Also, appealing to women because there are not a lot of women, as we know, still, who have seats on boards. We have a high proportion of women who are our consumers, so why shouldn't they also be our board members? So, that's been a

real winner from the point of view of getting people, and really good people, on board.

We've had parents of our people with disabilities, who come for our courses and activities. They've made wonderful, passionate board members. We've given them a little bit of training on the financial side of things, and they've just been absolute winners on the board. I think it's one of the reasons why we've been a dynamic organisation because we have stakeholders as prominent board members.

EL You spoke about the great female representation that you have on your board. I'm keen to hear your thoughts on how you ensure you're attracting diversity to your board. Obviously, female representation is one aspect of that. What else are you doing?

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PC Especially on the northern end of our endeavours, we have a high migrant population. So, we try to make sure that we've got some people with diverse language backgrounds. We usually ask when people apply... We don't automatically take people because they put their hand up when I come round to the class. We ask them to submit a brief CV.

In the background, we've already established that we would like to have a diversity of age groups. We've actually had a couple of university students over the years, who've really relished the experience of being a board member before they've even finished their studies.

So, to have some young people, some older people, some retired people. We've had ex-company secretaries. We've had ex-CEOs. We've had mothers at home, who relish an opportunity to use any corporate experience they might have let lie for a while. So, we always try and make sure that we have got generational, gender and ethnic diversity.

EL That was Patricia Carroll from St George and Sutherland Community College. This series is produced for Community Colleges Australia by Heaps Good Media, engineered by Myles Martignoni, and produced and presented by me, Emma Lancaster.

This podcast has been produced with funding from the New South Wales Department of Industry to assist leadership capabilities of not-for-profit community education providers. On the next episode of this CCA podcast, we look at what it takes to build a successful mentoring programme. Thanks for listening. If you'd like to know more, visit cca.edu.au.

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