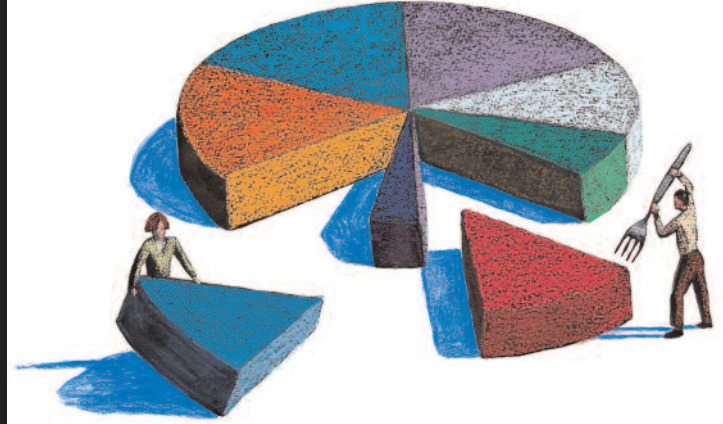


SPECIAL FEATURE

Guidance for Government-Sector Governance Practitioners

by Julie Garland McLellan



It is tough being a non-executive director in the private sector. But evidence suggests that it is no bed of roses in the government sector either. Some leading practitioners suggest that the government sector is more complicated and ambiguous, and therefore governance obligations are more difficult to fully understand, than those of commercial organisations. Failure to understand can have disastrous consequences, even where intentions are good: the board of the National Safety Council were unpaid volunteers, but they were still held responsible for the losses of the organisation and the chairman was found personally liable for debts exceeding \$97m.

In Australia many thousands of people, often unpaid, act as governors or non-executive directors for government-owned organisations including hospitals, schools, housing associations, social care organisations, museums, libraries, art galleries and the like. Those people who are paid usually receive much less than non-executive directors of similar sized organisations in the private sector.

Too many of them, according to practitioners interviewed in the course of writing *All Above Board: Great Governance for the Government Sector*, are not sure what their rights and obligations are, or how they should interact with other government institutions.

This is not their fault. They receive little training; have to balance public interest with accountability for taxpayers' money; often operate in areas where free-market mechanisms fail; and are exhorted to be "commercially efficient". As the regulatory environment becomes more complex with new forms of inspection and regulation, they are judged against private company practices, government-set standards, regulators' demands, customer's requirements and the views of the local community.

Passionate advocates

It is not an easy job. There is plenty of evidence that many directors in the government sector have difficulty fulfilling their responsibilities. A survey by the Australian National Audit Office in 1997 reported that even skilled private-sector directors joining the boards of government-owned organisations found the differences between the government sector and the private sector difficult to understand and to adapt to.

Most people, however, relish the challenges and are passionate about the mission and activities of the organisations they govern. *All Above Board: Great Governance for the Government Sector* sets out the key challenges and provides practical insights into how real boards are successfully meeting them.

Shareholder activism or political interference?

Unlike shareholders in the private sector, who are rarely blamed, the government shareholder is subject to intense scrutiny and considerable embarrassment if things go wrong, as they are deemed (and often rightly so) to have more influence over the composition and performance of boards. This leads government shareholders to take a direct and detailed interest in governance.

The Premier of Queensland was quoted as saying that he had "had a gutful" of the issues at Energex, a state government-owned electricity retailer, after scandals and governance failures were uncovered following allegations of fraud, misappropriation of funds, the resignation of the former chairman, difficulty in finding a permanent replacement, and the suicide of the chief executive officer. At one stage there was media speculation that the issue might cause the government to lose office at the next election.

It is a “no-win situation” as it would be very unpopular for a politician, even the premier, to become involved in the minutiae of day-to-day board tasks, such as approving expenses and providing guidance to the management team. Developing a good relationship with the relevant ministers and their departments without expecting them to take on the role (and liabilities) of shadow directors is possibly the toughest judgment call that government-sector boards ever have to make.

Where governance ends and management begins

The appropriate level of shareholder engagement is not the only area open to dispute. Another contentious area is the boundary between “governance” and “management”. This boundary is often treated in theoretical literature as if it was clear, sharp and understood. In real life there is a range of appropriate locations for this boundary depending upon the different skills among board members and executives, and on the circumstances of the organisation.

In the public sector, setting an appropriate boundary is complicated by the nature of the interactions between commerce and politics. The mandate of the organisation and the role of the board reflect a complex overlap of concerns, expressed in government policy, legislation, or directives and even “unofficial guidance” from the relevant department or ministerial staff. This boundary may be radically different from that set by general company law in the private sector. It needs careful attention by the board, to avoid gaps, where issues are not adequately addressed, and overlaps, where a “diligent” board is in danger of micro-managing competent senior management.

The most contentious areas are strategy formulation and risk management because the board must be aware of all the key issues and management actions to deal with them.

All Above Board: Great Governance for the Government Sector explains policy formulation, development of legislation and shareholder-driven processes in detail. These chapters are followed by an in-depth analysis of practical strategic processes with numerous examples of good practice to demonstrate how real boards add value to their organisations. After a similarly practical coverage of risk, the book focuses on ethics from legal and practical viewpoints before setting the scene for ongoing development of new governance practices in future.

Sound basis

All Above Board: Great Governance for the Government Sector presents two years research into issues and discussion of their implications with board members, government-sector executives, and elected representatives. It is comprehensive and will prepare directors of government-owned organisations for the rigours of their role. It is the first Australian book to evaluate the entire sector and produce a “basic governance framework” for those who grapple with this vital job.

The book provides a set of examples that pose questions directors should ask themselves and proposes practical measures that can be implemented to ensure good governance. Some of these examples bring home quite forcefully how neglecting to be informed on “legal or technical” matters can lead to very messy outcomes. Most of the examples are positive role models and highlight areas of best practice or innovative responses to the demands of the sector. These invite the reader to apply similar solutions to their own areas of dissatisfaction on their own boards.

The government-owned sector is a major part of Australia’s economy and good governance is critically important to ensuring that taxpayers’ money is well spent. This book is a good first step to achieving that aim.

All Above Board: Great Governance for the Government Sector see page 32.

About the author

Julie Garland McLellan is a professional non-executive director with experience on a range of boards in the government and other sectors. She has served on the boards of Melbourne Water Corporation, Victorian Energy Networks Corporation (VENCorp), City West Water, Victorian Minerals and Energy Council, Melbourne University Engineering Foundation and Hassall & Associates. Julie has an MBA, an Honours Degree in Engineering, a Diploma and an Advanced Diploma in Company Directorship, and a Post Graduate Diploma in Applied Finance.

