

PUBLIC SECTOR BOARDS – by Christine Hawkins

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Being a director of a company that has a government stakeholder presents challenges that are very different from those encountered in purely commercial enterprises. The government is a stakeholder with real power. The Commonwealth government determines its priorities as the custodian of the public purse and for directors of Commonwealth authorities, there is no discretion about this.

My journey on the boards of Commonwealth statutory authorities began in 1995 with my appointment to the board of Wool International, which was responsible for managing the vast stockpile of wool that was in store following the collapse of the Reserve Price Scheme. This was a politically charged environment with the Minister constantly being lobbied by various sectors of the industry all trying to get their way. It was a valuable experience, providing a rare insight into an extraordinarily difficult stakeholder management environment. Since then I've been a director of two other Commonwealth statutory corporations, and been appointed by Ministers to two industry Councils, one as its Chair, and recently as the Chair of two board selection committees for rural research and development corporations.

What distinguishes these businesses from running, say, the Commonwealth Bank or BHP, are the role of the Chair, the responsibility of the CEO and the freedom of their boards to make independent decisions.

The remarks in this article concern Commonwealth authorities and do not necessarily apply to all government business corporations. Public sector corporations often have special governing legislation such as the Primary Industries and Energy Research and Development Act that governs the rural research and development corporations, but there are many others. These Acts impose specific duties and responsibilities that set out the objectives of the organisation and are the basis for all strategic planning. The board's authority over the future direction of the company is limited by legislation and additional director responsibilities are imposed by the Commonwealth Authorities and Companies Act.

Qualities required of the Chair

The position of Chair is a challenge for even the most competent people. The Chair is usually appointed by the Minister, and this is not a competitive process. The fact that so many of the chairs of these companies have been capable and competent reflects favourably on the departmental staff who have the real job of identifying candidates.

The first challenge for the chair is the board, which is also appointed by the Minister following nomination by a selection committee formed independently of the corporation itself. The selection committee comprises people from the industry representative organisations and an independent chair, or Presiding Member, appointed separately by the Minister. Unlike many other non-executive director positions, these ones are widely advertised to attract the greatest potential pool of talent.

The chair, then, inherits a board over whose appointment he or she has had no control. He or she might not even approve of all of the director appointments, so the chair's skills at moulding a cohesive and effective board can be sorely tested in this environment. On the positive side, this creates some interesting boards and they are certainly diverse. I doubt that many of our larger listed corporations could handle this degree of diversity.

The second challenge is the CEO. Sometimes the CEO is appointed by the Minister, and has a direct line of responsibility and reporting to the Minister, which prohibits truly effective accountability of the CEO to the board. The CEO, for his or her part, risks ending up with a split personality and in some cases has to learn to be a very political creature to survive in anything other than a friendly universe.

The third challenge for the Chairman is stakeholder management. The government is a fairly conservative stakeholder and public displays of industry tension or disagreement on major issues is not desirable. This is often exacerbated by the involvement of industry representative organisations which often have fairly narrow views that do not readily accommodate innovation and structural reform. In the boardroom the risk is that this can inhibit innovation, especially structural reform, due to the difficulty of reconciling stakeholder views on major industry issues.

Then there is the time commitment. The Chairman is often required to be the public face of the organisation. Compare this with other companies where the CEO has the public profile and deals with the media. We became very used to seeing Mr Trujillo on the TV, but his chairman kept a very low profile indeed. Chairmen of government corporations do not share this luxury.

Ministers can require regular meetings with the Chair and CEO to keep them informed of developments in the industry sector and significant issues emerging and industry stakeholders demand his or her presence at consultative meetings and industry functions on a regular basis to keep an eye on what they are up to. All in all, the chairs of these corporations are very hard working and put in hours for which their remuneration is not always adequate. The Remuneration Tribunal dictates what chairmen and directors of Commonwealth corporations can be paid and whether they can fly economy or business class.

Interestingly, the Commonwealth has been at the forefront of good governance practice. The Australian National Audit Office issued principles of good governance as long ago as 1994 and they remain appropriate even in 2011. The ASX had to regulate to achieve any semblance of good governance across its listed company members and it didn't do that until 2003, after the largest and most spectacular corporate collapse in the entire history of our nation.

Managing the corporation's budget is a not-negotiable feature of life on these boards. The misclassified rolling short term credit that enlivened the careers of the directors of some formerly high profile public companies in recent years is not a feature of life on the boards of Commonwealth authorities. Financing arrangements are usually predictable, boring and comfortable. For a director, this is good, it's one less thing to worry about.