

BUILDING BETTER BOARDS

Has corporate governance compliance spun out of control? And how can credit unions deliver on their promise of getting stronger boards?

Jim McKerlie, the CEO of business consulting firm RAN ONE, believes that some organisations risk overstepping the mark “to the point of putting compliance unnecessarily ahead of creating shareholder value”.

“Then at the other end there is just complete ignorance as to what [corporate governance] means.”

Mr McKerlie says while many credit unions continue to operate successfully, some of their governance processes may not follow strict, best-practice standards.

“The trouble is that if you don’t have a strong governance process when something does go wrong, there’s no warning bells built into the system.”

He advises three steps:

- > directors’ attendance at courses that raise awareness levels;
- > getting more experienced directors on to a board to pass on skills; and
- > bringing in independent outsiders to conduct a review of a board’s procedures and processes.

Some firms are developing diagnostic software tools to help organisations assess the standard of their boards and directors.

RAN ONE is promoting Governance Diagnostic, a software program that can give financial institutions a “heads up” on potential problem areas. And Len Norman, a director at InTech

Credit Union, is the developer of a software program called Skillspeak, a “talent management forensics” tool that applies science to assessing the performance of directors.

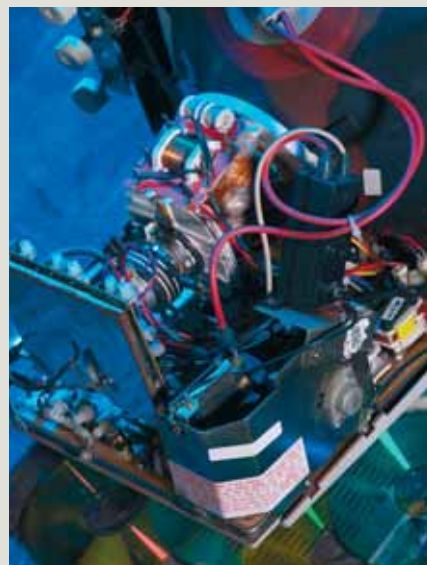
With Skillspeak, secret ballots of board members are used to gather performance data on directors. That data is then run through a computer program that generates a measurement scale of directorial performance.

The key benefit for boards, according to Mr Norman, is that the system highlights areas of non-performance of directors where that opinion had a high level of consensus.

Mr Norman claims many board members, having grown a credit union over decades from scratch, resent intervention from the watchdog. However, he recognises that APRA has a duty to maintain standards and says it is up to credit unions to complement an exemplary regulatory compliance record with an advanced application of skills around governance, leadership, strategic planning and risk management.

“In terms of those advanced skills, they are not being applied as well.”

The Credit Union Industry Association (CUIA) is working towards assisting directors through a corporate governance manual. The CUIA Compliance team is developing a manual for use by the boards of ADIs in relation to the fit and proper, and governance prudential standards. This document aims to provide a practical guide to directors regarding regulatory requirements.



With the introduction of new governance standards, directors are looking for systems, software and tools to help them consistently exceed minimum requirements.

The CUIA manual addresses:

- > duties and obligations of directors;
- > rights and powers;
- > assessment of eligibility;
- > functions of the board;
- > significant policies;
- > risk management structure;
- > management of board composition;
- > establishment of board committees; and,
- > internal and external audit systems.

The manual is being designed as a resource to allow ADI directors and senior managers to stay ahead of the game in a complex regulatory environment. ■