Why the new organisational structure is wrong for Recreational Aviation Australia

The model published on the RA-Aus website[1] will be ineffective in the type of organisation that RA-Aus is. The model is top heavy, confusing and breaches many best practices with respect to governance and board/organisational structures. It will do little to solve the myriad of issues we currently face and if it does not add considerable financial cost to the association it will certainly add to costs in terms of the time and effort required to achieve and ideal set of outcomes.

The proposed model works well in say a national political party where different geographical locations have different needs. Some rural parts of Australia may be more interested in water rights than the coastal areas. Big cities will be more heavily focussed on public transport systems versus smaller country towns. For this reason political parties are justified in their arguments for more widespread representation within their parties than can reflect the interests of differing constituents.

In a similar vein the model also works well in an organisation like the Experimental Aircraft Association (EAA). In this context the association consists of a number of chapters that organise local events, seminars, etc. When we consider the size of the EAA and the number of members, approximately 175,000, it becomes easy to understand why this model works. Add to that the complexity of differing rules and regulations in different countries and it becomes clear that the structure is not only desirable, it is also necessary.

RA-Aus is a different beast, however. The interests of pilots are aligned regardless of geographic location and thus more widespread representation is not justified, it simply adds a layer of bureaucracy and cost to our organisation with no real value. The laws, rules and regulations that govern our activities do not differ across our membership base, there is simply no reason to put this layer on top of our organisation when our shared values are one and the same.

Take the present day situation as an example. While not every member is fully aware of the current issues that RA-Aus faces I think nearly all of them would unite in the thinking that we need to address them and do so in an effective manner. What difference would it make whether we have the current number of reps representing these views versus twice the number of reps? It wouldn't, our views are aligned so we don't need to increase the number of people speaking the same message. Ask yourself a simple question – what privileges, rights, etc. do you desire now? Now imagine you move to a different state, how would this wish list change? If anything we need to reduce the number of representatives, not increase it.

The current model is one that was built around an environment that existed some 30 years ago where communication of issues was not as simple as it is in today's world. The primary means of getting concerns across was either traditional mail or face to face which would be impossible with a more centralised model. Geographic diversity was a necessity but that is no longer the case. Furthermore, this type of diversity is not working at the present time. Nearly everyone I have spoken in the last twelve months has told me they wouldn't even recognise their local rep let alone actually know them and even if they can recognise their rep the organisation is facing some of the most

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[1] Note: Members will need to log in to see these documents - http://www.raa.asn.au/2013/05/restructure/

disruptive challenges of its time. Clearly the present method of diversifying board membership by geographical location is failing us and has done for a considerable amount of time.

So what is an effective structure? Before answering this I would like to dive into a little bit research.

The ASX has a corporate governance council that offers guidance on matters such as this. While we are far from being a listed entity on the Australian stock exchange our obligations to our members is not too different from the obligations of a listed firm to its stock holders. For this reason the council guidelines offer us some valuable insight into what constitutes an effective board. Their Corporate Governance Principles and Recommendations guide outlines a set of useful principles (see http://www.asxgroup.com.au/media/PDFs/cg_principles_recommendations_with_2010_amendments.pdf).

These 8 simple and effective principles are:

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision-making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Remunerate fairly and responsibly

All of these principles are equally important, however, we are discussing organisational structures here (and more specifically, board structures) so we will limit the discussion to the first two principles.

Laying foundations for effective management and oversight is an easy statement to make but it's not so obvious how to do this. A few simple things can be implemented to do this though and the first is clarity around the boards function and the functions of management.

Embodying these principles into a simple governance document can help distinguish the role of the board and highlight those functions that should be reserved for the board. Conversely this clarity will assist in defining the role of management and the functions they must carry out. The document that outlines these is commonly called a 'Board charter' and will outline this division of responsibilities.

The second part of laying an effective foundation is to ensure there is accountability across all levels. The board should transparently communicate how and when senior management will be assessed. What measures they will be using to assess performance, what the timing and frequency of these performance measurements is, etc.

Following on from this the board structure should be such that it adds value to RA-Aus. The guidelines for achieving this revolve largely around directors being independent. While our current legal structure prevents this from happening elements of independence can be established.

Larger firms establish independent boards by appointing non-executive directors that are largely unaffected by the decisions of the board. By establishing this independence a firm can be assured

that decisions are made in the best interests of the business rather than the individuals selected as directors. Given that board members are currently selected from the membership complete independence is difficult to achieve but by selecting board members appropriately some of the issues can be overcome.

Limiting the number of a particular interest group that are represented will prevent decisions being made that are skewed in the best interests of these businesses rather than the membership as a whole for example. Furthermore, ensuring these board members are prevented from voting on issues that directly affect them will enhance independence of the board.

In addition, selecting board members on merit rather than mateship will advance the value to be gained from the board. The Australian Institute of Company Directors (AICD) notes that "*caution is needed, however, to ensure that the board is not filled with mates*" and advises the following core qualities should be actively sought for board members:

- Strategic expertise,
- Financial literacy,
- Relevant legal knowledge,
- Managing risk,
- Managing people and achieving change;
- Experience with financial markets;
- Industry knowledge relevant to this organisation.

These qualities accurately reflect the attributes that RA-Aus should be seeking when looking to structure a board.

Each of these principles is not based on personal preference but rather a set of established and proven guidelines from authorities that are well versed in these matters. To pretend that we, RA-Aus, knows better is simply hiding from reality and preventing us from growing into the organisation that all members deserve. With this in mind I propose the following model.

The proposed model advocates for a smaller management board overseen by a larger set or representatives from different geographic areas. This will add another layer of responsibility, bureaucracy and complexity to our organisation that is unwarranted and unnecessary. I would like to put forward a couple of simple variations on this idea – remove the additional layer of the advisory committee and reduce the number of people on the board to a more manageable 5 or 7. Put simply, let's just have a management committee.

This removes the ambiguity of the roles of board 1, board 2 and management. As it stands the proposed model states for example that the management committee is charged with "ordinary operation of the organisation". It is difficult to see how such a board could do this when one of the responsibilities of the consultative board is "senior employee employment". How can a board of any type effectively manage an organisation when it can't even appoint people that it can work with? Furthermore, this clouds the roles of the boards in a more traditional sense and does nothing to promote the clarity of roles and responsibilities that the above principles seek to achieve.

In addition to this the structure outlines that the CEO will be "the permanent chairman" of the management board. This strikes me as one of the strangest things I have ever come across in the professional world. The AICD suggests that one of the chairs primary roles is to act "as an important link between the board and the CEO/company". If the CEO and the chair are one and the same then this link cannot hope to be independent making it ineffective. The ASX Corporate Governance Council states quite clearly that the chair should be an independent director and I struggle to find a reason for this simple principle to be violated in our organisation.

I also submit that by removing the geographic constraints from the board we can achieve a more optimal mix of skills and expertise on the board. Rather than nominating and having elections I propose that we move to a more professional appointment system that is reflected elsewhere, both in the not for profit sector as well as the for profit sector.

This model could be based on a simple calling for expressions of interest from suitably qualified candidates and an interview style process to get the right people. This process would be conducted by a nominations committee responsible for selecting suitable people, another practice advocated by both the ASX guidelines and the AICD. The final appointments may still be voted on by members as in the corporate world.

I am not against the idea of limited tenure as put forward by the proposed model, used properly it can be an effective means of preventing stagnation of directors. While the model doesn't explicitly state a time limit a figure of around three successive terms may achieve the optimal result. Problems do arise with this as an effective board member may be ousted due to having simply served his/her time rather than because they weren't performing. Having said this, an article in 'Directors & Boards' has noted that it is questionable whether "long stretches of service are always in a company's best interests" due to a range of factors such as changing legal requirements, evolving financial obligations and a changing environment in which organisations operate. For these reasons a limit of three, two or three year terms is suggested.

In addition to this all organisations should robustly assess the performance of the board on a regular basis. The Australian Prudential Regulation Authority (APRA) produces a series of standards papers and one of these covers governance (CPS 510 Governance). While we are not regulated by APRA the standard sets out some solid principles that should not be ignored.

The governance standard states "The Board of a locally incorporated regulated institution must have procedures for assessing, at least annually, the Board's performance relative to its objectives. It must also have in place a procedure for assessing, at least annually, the performance of individual directors". Regardless of whether limited terms are employed or not this principle should be adhered to. Moreover, if done correctly it could be used as a tool to remove ineffective board members and alleviate the need for fixed terms if the desire for longer terms exists.

To ensure an independent assessment of board performance is conducted RA-Aus may wish to use an external evaluation service. One such appraisal service is 'Better Boards' which is offered by the New Zealand Institute of Directors (https://www.iod.org.nz/Servicesforboards/BetterBoards.aspx). These services are accessible by RA-Aus and should not be overlooked in an effort to promote good governance and performance of the association.

These ideas are a marked departure from the current model and structure of RA-Aus so it is worth looking at the performance of other similar organisations. Here in Australia there are no comparable organisations in terms of size, complexity and activities in the aviation sector so we shall cast the net a little wider and consider other non-profit organisations.

The Starlight Foundation is one of Australia's most recognisable brands both in the charitable sector as well as in general. They have a simple statement on their website which encompasses the above principles. In summary form they state:

- The board shall consist of no less than 6 and no more than 12 members,
- New board members shall be nominated by the existing board and endorsed by a nominations committee,
- The majority of board members must be independent and non-executive directors.

To support this they have published a board charter which can be viewed at http://www.starlight.org.au/AboutStarlight/Pages/Corporate-Goverance.aspx

The AICD also embodies similar ideas in their structure with board members being limited to 6 years service (excluding the CEO who may serve for longer) and a detailed Board Charter document outlines the responsibilities and powers of the board.

Finally, Opportunity Australia International also supports these principles. Their charter document states that "*Directors should bring specific skills and experience that add value to the Company*", outlines the minimum and maximum number of board members and stipulates that at least half of the board must be independent. It even details the role of an 'Appointments and Compensation Committee' in the selection and appointment of directors to review board composition and diversity and "*to ensure an appropriate balance is maintained to increase the Board's effectiveness*". The full charter document can be read at http://www.opportunity.org.au/Resources-Files/Downloads/Other/Opportunity-Board-Charter.aspx.

But how have each of these organisations performed?

In its 2011/12 annual report the AICD notes that its membership base increased by 7.7% to 31,856 but even more noteworthy is the increase in its revenue by 13% from 2010/11 figures to $47.6 million.

Opportunity Australia International is currently planning to serve 2.6 million people in 2013 compared with 2 million in 2012. Operating surplus was increased from $3.672 million in 2011 to $4.217 million in 2012 while revenues dropped by around 5% despite a 15% decline in donations. The full report can be seen at http://www.opportunity.org.au/Resources-Files/Downloads/Annual-Review/Opportunity-Annual-Review-2012-web.aspx

Finally, the Starlight Foundation has performed quite well during what has arguably been the largest economic decline in our lifetime, the global financial crisis. Despite the tough times and families tightening their belts the Starlight Foundation managed to increase revenues from workplace giving programs from $305,000 in 2009/10 to $569,000 in 2010/11 and a few years on is planning to increase the number of wishes granted to over 500 in 2013 from more than 400 in 2012. For more info see

http://www.australiancharitiesfund.org.au/images/stories/130123%20Starlight_Charity%20Profile.pdf

While it would be foolish to say that the structure and corporate governance alone are responsible for the successes of these organisations it is more foolish to say that these factors have played no role in their success. What I have outlined here is not rocket science and nor is it some recently discovered bright idea. It is knowledge that has been used to help other organisations grow and succeed. RA-Aus has not utilised this knowledge and is struggling to manage its affairs effectively. Ask yourself this, by ignoring best practices and proven ideas, methodologies and principles we now find ourselves in the most troubling times of our history, do you want to ignore the advice of some of the leading authorities out there and risk it all again? We don't need to reinvent the wheel, we simply need to take some lessons from other successful organisations and employ best practices in our own.