VTA State Conference 2011
Transcript: Deanne Weir

Thank you for the opportunity to come home, as a Victorian refugee. I expect that a few of you might be worried about the next 30 minutes, how interesting can a discussion about corporate governance be? I'm hoping it will be more interesting than first thought. Good governance should not be about processes and bureaucracy. For any organisation, an effective board provides accountable, transparent and strategic leadership. There is no one size fits all approach to leadership. It depends on the organisation. But there is a consistency to the principles at play.

I have been involved in many ventures, and while they are different entities, with different stakeholders and challenges, certainly different personalities, they are all at different stages of evolution. They are at their best when they apply these core principles. When that happens, it ensures a more innovative and successful organisation. That is what I wanted to talk to you about today, how we can use governments to help drive innovation. I wanted to talk a little bit about the core principles and give you some examples of how good governance can lead to positive outcomes.

To put that in context, I understand the discussion comes at quite a time of change for Victoria. Not only are you entering a more competitive environment but also at a time when the governance structures around organisations are changing, and I appreciate that there is a bit of concern being expressed about the combination of those two factors. Being expected to compete with more commercial organisations which don't have the same level of obligations which you do. I did have the benefit of some materials from David Williams today. I say this in perspective as an outsider and an eternal optimist, but I believe there is an opportunity for you to use your differences as a point of advantage. I believe that your accountability and transparency can be a marketing and competitive advantage.

To put that into a bit of a framework, how do we define corporate governance? According to the ASX, it is a framework of rules, relationships, systems and processes within and by which authorities exercise control in a corporation. It encompasses mechanisms which companies are held to account. Corporate governance defines how risk is monitored and accessed and how development is optimised. It creates value through entrepreneurialism, innovation, development and exploration. And it provides accountability and control systems.

In Australia, the ASX's principal for recommendations specifically apply to companies which are listed on the stock exchange. They also consider factors within Australia, and have been used as a model by a lot of different organisations. Regardless of what sorts of organisation we are looking at, every organisation has a basic legal framework and might be embedded in legislation or a commercial agreement or some sort of standard constitution. Regardless of what type of documentation, the aim of any corporate governance framework is to establish some common sense rules which set out how an organisation should act in a transparent manner. To put it another way, it is all about how the organisation uses somebody else's money. And how it operates in a broad community of stakeholders.

It is about promoting ethical decision-making. It will depend on the type of organisation but it can be helped by a specific code of conduct. It includes commitment to diversity.

Principle four is about the safety of integrity in financial reporting.

Principle five is about making timely and balanced disclosure. While market disclosure is specific to listed companies, the principle remains the same. Material information has to be shared in a timely fashion.

Principle six is to respect the rights of shareholders. They should facilitate the effective exercise of your rights. If you actually got to shoot stakeholder for shareholder, it is the same.

Principle seven is recognising and managing risk. Companies need to establish a sound system of risk oversight and management.

Printable eight is to remunerate responsibly.

This can be applied to any human or academic relationship. If you want to simplify these into some very simple terms that can apply to all of that, I have done that on the next slide. Number one is to work out who is responsible for what and how you measure if someone is doing their job properly.

Number two, ensure that the people with an ultimate responsibility have the right skills to discharge that responsibility for your organisation.

Number three is to set up a very clear code of conduct that shows how everyone is expected to behave.

Number four, you are spending someone else's money so make sure you know where the money is going, who is spending it, how and why.

Number five is to make sure your stakeholders know what they need to know, when they need to know it.

Number six is to respect your stakeholders. Everybody is entitled to be dealt with appropriately.

Number seven is to know that this is that you are in. Always ask me what is question.

Finally, your employees are your greatest asset. Be fair in how you treat them and they will be fair in return and hopefully deliver what you are asking of them.

There is no rocket science in any of that. Everyone probably agrees that they are pretty common sense principles. What I want to do is have a bit of a look at some specific examples of different organisations I have been involved in and how governance has helped or hindered us. As I was preparing for today it occurred to me that my involvement in corporate governance has gone back longer than I thought. When I was 15 I became the secretary of the netball club and not long after that my career continued as the treasurer of the Demons basketball club. I moved on through university and beyond.

Today my role exposes me to a number of different boards within different organisations. I attend board meetings in my executive and secretarial capacity but also sit on a number of joint-venture boards. They are all different organisations. For example, XYZnetworks is a joint-venture between AUSTAR and FOXTEL and we produce a number of the pay-TV channels that hopefully many of you know and love, including Lifestyle.

MCM is a joint-venture. It sells the advertising. It is an important income source for our channels. It has over $300 million a year in revenue.

Nickelodeon is a joint-venture between ourselves and VIACOM.

We have two other major board commitments, the first being Screen Australia, which is the key federal government industry which has the aim to create a commercially agreed viable production company. And also Ai-Media, a company who is live captioning today's conference. If you have not said hello yet, I would encourage you to say hello to the team. And see how the service can make a real difference to children with hearing disability. Shameless plug. I will speak about Ai-Media later on.

AUSTAR has been listed on the ASX since 1999. It gives access to the market and to other people's money. With that privilege comes some significant obligations. We also have significant personal liabilities. That is as it should be. We are dealing with other people's money. As a listed company we are governed by the Corporations Law. We also have our own constitution, charters and policies and we are subject to the rules and obligations of the ASX. Our governance policy is to ensure safety for the shareholders and to look after accountability and responsibility. We review our policies and procedures and update them to make sure they are current. We look at the best practice which is good for our business and our environment. The question of what is appropriate is a debate with governments. What is the requirement between risk and benefit? There is a cost benefit analysis to be taken. Is the access to stock market where the cost of regulation and compliance lies? Particularly if you have a large majority of shareholders and a small free float, there is a question about whether it justifies the cost involved. When interest rates are low it might be better to tap into debt markets. That balance can vary over time.

In AUSTAR's case we have had two points along the way which have impacted governance issues. One was in 2003 when we had a private equity fund join in with our shareholders. We have always had two independent local directors and then with the addition of a private equity fund we gained further local directors that are in the offshore directors of the parent company. While our board is always focused on governance issues there is nothing like proximity to bring forward those issues. It was their first experience with a media company. It did not mean their involvement made any new governance obligations, what was new to us with their mode of working at award level. Their expectations, and the level of oversight they wanted to have. At the time we were coming out of the tech wreck of 2001. We had to make tough decisions about where we were going as a business. We had already started that process but having that private equity fund at the table brought a hands-on questioning of the business. Nothing was out of bounds.

What resulted were some basic questions about what business we were in, how we did what we did and why and whether we could do it better. It was a very good reminder to all of us that you cannot manage what you cannot measure.

There is no doubt that on more than one occasion we grumbled about the reports we were asked to prepare and the assumptions that we were required to challenge, but to be frank it was totally invigorating going through that process.

I think when you are passionate about something there is a risk that you so believe what you are doing that you don't stop and question whether you could do it better. Given that we live in a world of rapid change there should be no sacred cows, everybody should be willing to question. That is the role of a strategic board. It should be impressed by management. At AUSTAR we actually achieved some real improvements. That's one of my favourite slides. It shows how our earnings per subscriber has gone up. That has got to do with the scale in the business but also to do with the laser-like process we have on improvement and development.

We have a stronger business because of their involvement. At the same time as that group left, we became subject to a new regulatory requirements. The SOX Act is US legislation. There are reporting standards on US public companies including their subsidiaries around the world. This is an Act in 2002 in response to corporate scandals and collapses such as Enron. The Public Company Accounting Reform and Protection Act. Section 4 of that Act requires that companies assess and assert as to the effectiveness of the organisational controls and procedures it has for recording. It requires your external auditor to report on the effectiveness of the control. There is the cost of doing this review yourself, and the cost of having auditors check what you have done.

There were a lot of arguments coming out of the Dot Com era, that more controls were needed. Also in regard to conduct of accounting firms - that we were meant to be auditing them. Given the globalised nature of business, when the US sneezes the rest of the world gets a cold. Detractors of that level of regulation would say that Australian companies and shareholders were bearing the cost of US inadequacies. Advocates would argue that these companies were getting benefits of better governance. There are many that argue that the extent of the obligations were too onerous, bureaucratic and expensive. From AUSTAR's perspective we spent a lot of money to comply with the regulation. Since then we have probably spent an extra $6000 per annum in accounting just to comply with the SOX rules. If we were a private company we would probably save about $1 million per annum. That might not seem outrageous when you look at our operating expenses budget of about $150 million a year, but it is still a large amount of money. Whilst we would love to save money where we can, I think we view this expenditure is having a positive side to it. Certainly, with my investor relations, when I speak to potential shareholders they take comfort that we apply that level of scrutiny to our business. From their perspective they value as most highly.

We do think that the governance environment is a positive one. Despite a cost and convenience, it is now be part of the business fabric. It has been a very good way to improve internal controls and awareness amongst managers and directors.

AUSTAR is at one end of the scale. We will now talk about a newer, smaller business but one with a very exciting vision and how we are actually using governance as a tool to help us grow to the next stage for evolution.

Ai-Media was founded in 2003 as a social enterprise dedicated to ending the experience of social exclusion faced by people with a disability. The company has been making quite a difference for people who are deaf and have a hearing impairment. They provide pre-recorded and live captioning services to over 35 of AUSTAR and FOXTEL channels. I met Tony Abrahams and Alex Jones back in 2002 when they were consulting to the pay-TV industry about the best way for us to meet our future obligations in regard to captioning. Their passion led them to set up a company that has grown to over 70 employees.

Ai-Media has a more broad vision than television. They have developed this Ai-Live™ service which you are seeing here today. What Ai-Live™ does is deliver real-time, word-accurate captions to any mobile device. Using a trained respeaker rather than a stenographer, the solution is much more affordable. The company has been embarking on a commercialisation process.

To the credit of Tony and Alex, in early 2010 they realised that just developing the product wasn't enough. If they were going to achieve the sort of scale needed, the company also needed to be transformed. The company had moved beyond start-up phase and has a solid base of established clients. Its shareholder base is essentially employees, family and friends. There was no non-employee involvement at the board level.

The development required more investment capital. This would be to come from outside sources. Outside investors obviously want to see more than just a family and friends organisation. Having had a number of dealings with them over the years, Tony Abrahams and I began to discuss plans for the business. I eventually signed up as a director to a newly-formed board which consists of Tony, myself and an independent chairman. Since that time the three of us have worked with the rest of the team to realign the structure of the business, introduce greater governance and procedures to bring on new staff and importantly to raise new capital.

In our approach to capital raising, we have worked on the assumption that one day in the future we may well wish to list the company. The best approach to take is to act as if we are already there. Some investors that we have been working with have actually commented on the quality of the Information Memorandum that we produced and suggested that it is on par with what they have seen from some listed companies. We know for a fact that the quality of presentation is what actually opens doors to us.

I am not suggesting that we are actually going to be able to raise money just because we have gone to the depth of effort. In a very competitive market for capital raising, just being able to get through someone's door is a definite advantage. The drafting of the Information Memorandum has also been an invaluable experience for everybody in the management team and the board. It has required us to focus on and really articulate and agree on just what business we are in, what we do, how we do it and what we are going to do in the future.

Employers and the board have all been put in a position where they are signing up to financial and non-financial statement. Nothing focuses the mind like being asked to sign a piece of paper saying that you agree with the numbers and the forecast in a document like that. As new investors are coming to the business in response to the Information Memorandum, there is a very strong sense that we are indeed dealing with other people’s money. That responsibility is very keenly felt. We apply the ASX visible to the development of the documents and the capital raising process and I really believe that the document and the company are much better for it.

Also in our approach to governance and the reform of the company, I have tried to learn from the experience and to make sure that everything is open to question. That is easy for everybody. Particularly when you have been a part of building a business to a certain stage. That is where stakeholder management is absolutely critical. Employees, clients, suppliers… Everybody needs to be brought along as you seek to transform your business. We believe that strengthening our approach to governance has really helped drive some positive change in the company for the chance to disrupt habitual behaviour by long-term employees who are very committed but need to change as we continue to evolve. It gives people a new focus and clear direction for the challenges that we face for the next phase of growth.

What may all that mean for TAFE as you sit here thinking about your own organisations? I am not going to presume to speak to individual organisations. I do agree that your association should do all it can to ensure that you end up with a regime that matches a regulation to risk of teaching rather than bureaucracy.

Once you have a base level you need to think you can use a governance to drive improvements in your organisations and then make a virtue of that to your stakeholders. I would suggest that you take full advantage of your transitional period to ensure good communication and interaction between your existing board and the new ones that come in.

I would encourage you to use the opportunity you have just made in the transition from one region to another. I would encourage you to embrace the opportunity to prepare your strategic plan and your annual statement of corporate intent. Between those documents and the Minister's statement of expectations you can create an environment of key buy-ins. Everybody should be signing up to that strategic plan and the statement of corporate content, that is the document where you were agreeing what you are going to do. That opportunity to step back and articulate what you intend to do, how you intend to do it, and how you intend to measure success is a great opportunity to give all of your stakeholders clarity and focus that a lot of organisations simply lack.

We live in a competitive world, and our consumers are better informed than ever and they are more demanding. Within that world having great products and services is not enough to guarantee future success. Your organisation has to be transparent, well-run, and you must understand your environment and not to continually innovate and improve. Organisations like that are more fun to be involved with, anyway. I would like to wish you all lots of success for the future and thank you for the opportunity for chatting with you today.

(Applause)

SPEAKER:
Thank you for the insight and some poignant messages. There is time for a few questions. Are there any question from the floor? No. Deanne, thank you... I'm sorry, my apologies.

QUESTION FROM THE FLOOR:
Thanks for the great presentation. I was interested in the difficulty between the directors' responsibilities to act in the best interest of the company versus acting in the best interest of the shareholders? Did you ever have them acting more in the interests of themselves and the shareholders versus the interests of the company?

DEANNE WEIR:
That is a great question. It is an interesting environment where you have a majority shareholder and then you have... Clearly all directors are obliged to act in the interest of shareholders. Frankly, I don't think we ever felt any of that conflict because whilst their aim would have an eventual exit plan, they were fully committed to helping us turn the business around and create value for everybody. You would see it a little more in joint venture organisations that we are involved with, when you are at a listed company level everybody's takes those obligations very seriously. But partnerships and joint ventures have more interesting clashes which are difficult to navigate, at the end of the day it is a communications exercise and everybody understanding where everyone else is coming from.