WHY GOOD CORPORATE GOVERNANCE IS SO IMPORTANT

It is essential to running a successful business and protecting the interests of the club, its members and its directors.

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Strong corporate governance should be the foundation for all decisions in a registered club. It can assist board and management to make good decisions that are in the best interests of the club, its members and other stakeholders.

Good corporate governance systems, along with decisions made according to the business judgement rule, can also assist in protecting directors from personal liability arising from actions of the club.

WHAT IS CORPORATE GOVERNANCE?

Good corporate governance requires a balance of power among directors, managers and members. It should recognise and minimise risk, promote responsible decision-making, ensure effective communication to all stakeholders, respect the rights of members and help ensure the protection and good management of the assets entrusted to managers and directors by the members.

A critical part of good corporate governance is the training of directors so that they can adhere to good corporate governance practices.

So what are the foundations of a good system of corporate governance?

BOARD & MANAGEMENT RESPONSIBILITIES

Clubs should clearly set out the responsibilities of board and management. Generally the role of the board is to set strategy and policy. It is the role of management to implement those strategies and policies and control the day-to-day management of the club.

RESPONSIBLE DECISION-MAKING

Directors and managers need to ensure that in accordance with the Corporations Act, they exercise a duty of care, that is make decisions with the degree of care and diligence that a "reasonable person" would exercise in the circumstances.

The business judgement rule provides a defence for directors who may have breached their duty of care to the club if they made their decision in good faith, for a proper purpose, and without a material personal interest or benefit from the decision.

Directors also need to ensure that they appropriately informed themselves about the subject matter and rationally believed that the decision was in the best interests of the company.

REGULAR REPORTING TO MEMBERS AND STAKEHOLDERS

In addition to statutory requirements, well-governed clubs also keep their members informed about strategic plans and directions as well as their performance in achieving the club's core goals.

RECOGNISE AND MINIMISE RISK

Clubs should establish a system of risk oversight, management and internal control. Clubs should determine the material business risks faced by the club both in normal operation and in particular when considering major projects, amalgamations, diversification strategies and any other non-regular activity.

DIRECTOR TRAINING

Training enables directors to understand the elements of good corporate governance. This provides an understanding of their duties, their role in strategy rather than operations, and the elements of responsible decision-making, particularly in the context of the business judgement rule and the protection that it can provide to directors.

COURT DECISIONS

In the Centro shopping centres case, directors were held to have breached their duty of care because they did not adequately inform themselves of what they needed to know before making a decision. This demonstrated the importance of information that is presented to the board being digestible and usable.

So good corporate governance is important because it helps directors:

- to protect the club assets entrusted to them by members; and
- to protect themselves from potential liability for their actions as directors.

If you have any questions about this article or need assistance with seeing into your club's financial future, please call Greg Russell at Russell Corporate Advisory on 02 9957 6700. ♣