

# **CORPORATE GOVERNANCE IN THE AUSTRALIAN FOOTBALL LEAGUE: A CRITICAL EVALUATION**

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## **ABSTRACT**

Corporate governance has received considerable attention from academics, regulators and the wider business community for several years. This attention intensified following significant corporate failures such as Enron and HIH Insurance. These failures, as well as general perceptions of lack of effective oversight, lead to increased regulation and a heightened awareness of the role of the board of directors and their responsibilities.

This study uses the Australian Football League (AFL) as a means of exploring several themes emerging from the nonprofit literature including the increasingly deliberate recruitment of volunteer boards and the desire for corporate expertise. This study examines the extent to which these themes are present in the AFL clubs and identifies any idiosyncratic governance processes of those clubs. It further investigates the impact these governance attributes and processes have on club performance.

The objectives of this study were to firstly, identify governance practices in AFL clubs, secondly, determine club performance, thirdly, examine potential links between governance and performance, and finally, to identify common governance features of successful clubs. The field work involved semi-structured interviews with randomly selected directors from each AFL club and a comprehensive document analysis. A grounded theory methodology was employed in the study and the results of the field work, together with the literature, were used to formulate a governance-performance framework to facilitate data analysis.

The results of the study were multi-faceted. The first set of results indicated a high level of awareness of governance by AFL club directors, and provided detailed insights into board processes at each AFL club. The identified governance practices were compared to the literature in an attempt to identify a best practice. The second set of results presented club performance over a range of measures utilising theoretically informed frameworks to determine effective or ineffective clubs.

Finally, governance attributes, common to effective and ineffective clubs, were identified.

This study contributed to the body of knowledge in several ways. It is the first major study to identify detailed governance processes of AFL clubs and significantly, it explored the link between governance practice and club performance. These outcomes will inform both future academic enquiry and provide guidance for practitioners. The study developed a robust framework for the evaluation of governance and presented and populated innovative measures of performance. Finally, the study provided significant scope for further examination of detailed aspects of governance.

## **STUDENT DECLARATION**

“I, Julie Foreman, declare that the PhD thesis entitled Corporate Governance in the Australian Football League: A critical evaluation is no more than 100,000 words in length exclusive of tables, figures, appendices, references and footnotes. This thesis contains no material that has been submitted previously in whole or part, for the award of any other academic degree or diploma. Except where otherwise indicated, this thesis is my own work.”

Signed:

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# CHAPTER 1

## INTRODUCTION

### Background

There has been significant research into corporate governance in the ‘for profit’ business sector since the early 1990s and is largely a factor of the ‘boom’ and ‘bust’ economic cycles. Issues of transparency and accountability provide a focus in ‘bust’ times while the necessity to earn superior financial returns is the focus in ‘boom’ times. The drive for superior returns necessitates risk, which needs careful management through accountability mechanisms, creating a dichotomous situation for corporate boards: the need for both compliance (accountability) and performance.

The recent governance focus has been on accountability, and has intensified following the high profile and costly corporate collapses of Enron, WorldCom, HIH Insurance, and OneTel, among others. The following examples illustrate the appropriateness for an ongoing focus on governance. Unrealistic growth objectives and poor governance of financial processes were key reasons for the demise of WorldCom (Zekany, Braun & Warder, 2004); while acting dishonestly in breach of directors’ legal obligations sent director of HIH Insurance, Rodney Adler, to jail for four years. Fellow HIH director Brad Cooper is awaiting sentence following conviction for bribery, and has declared bankruptcy owing five million dollars to creditors (Hill, 29<sup>th</sup> March 2006) and Steve Vizard, Melbourne television celebrity and director of the partly privatised Telstra corporation, was disqualified from serving as a director for ten years for insider trading (Bolt, 16<sup>th</sup> January 2006).

While the regulatory system, albeit reactively, pursues compliance failures, there is evidence that shareholders are directly pursuing directors for recompense of economic losses suffered as a result of unexpectedly poor organisational performance. Quinlivan (9<sup>th</sup> February, 2006; p. 14) identified an increase in shareholder class actions against company directors for economic losses occurring as

a result of misleading market information and subsequent downgrades in forecast financial performance. While the outcomes of these actions are unresolved, it is clear that company performance, as well as compliance with corporate regulations, is a desired consequence of effective governance.

This increased focus on governance begs the question as to how governance is defined and how governance impacts outcomes for organisations. While the benefits of good governance have been espoused in regulatory principles (Australian Stock Exchange, 2003; OECD, 1999), there is less evidence that links specific governance processes to heightened performance. The following definitions provide the context for the substantive literature review presented in chapters two and three.

### **Definitions of Governance**

The definitions have been variously defined as:

... a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD Ad Hoc Task Force on Corporate Governance 1999, p. 2).

In the Royal Commission into the failure of HIH Insurance in Australia, Justice Owen described corporate governance:

... At its broadest, the governance of corporate entities comprehends the framework of rules, relationships, systems and processes within and by which authority is exercised and controlled in corporations. It includes the practices by which that exercise and control of authority is in fact effected ... The systems and processes may be formal or informal and may deal with such matters as delegations of authority, performance measures, assurance mechanisms, reporting requirements and accountabilities (HIH Royal Commission 2003, pp. 101–2).

Most recently, the Australian Stock Exchange (ASX) Principles of Good Corporate Governance and Best Practice Recommendations (2003) defined corporate governance as

... the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is



monitored and assessed, and how performance is optimised. Good corporate governance structures encourage companies to create value (through entrepreneurship, innovation, development and exploration) and provide accountability and control systems commensurate with the risks involved. (p. 2)

The relationship of the parties involved in the governance process of national sporting organisations was further clarified by the Australian Sports Commission (ASC) (2002, p. 1):

Governance concerns three key issues, (1) how an organisation develops strategic goals and direction, (2) how the board of the organisation monitors the performance of the organisation to ensure it achieves these strategic goals, and (3) ensuring that the board acts in the interests of the members. The ASC recognises that effective sports' governance requires leadership, integrity and good judgement...with the organisation demonstrating transparency, accountability and responsibility in the activities undertaken and resources expended.

These definitions go to the heart of the role of the board versus the role of management and have implications for organisations governed by a board of directors. They highlight the system nature of governance and place an emphasis on governance processes. They also highlight the key issues of accountability and the need to drive organisational performance through governance.

## **Governance and Performance**

### **Business Sector**

Incorporation demands that directors ensure compliance with corporate regulations, however the need for boards of directors to focus on the performance of the organisation cannot be understated. The corporate excesses of the late 1980s, lead to the development of the codified principles of governance and the following codes have influenced the Australian corporate environment. They include a dual focus on accountability and performance:

- Organisation for Economic Cooperation and Development (OECD) Ad Hoc Task Force on Corporate Governance, OECD Principles of Corporate Governance, OECD Paris, 1999.
- Committee on Corporate Governance, The Combined Code, London, Gee Publishing Limited, 1998;

- Australian Stock Exchange (ASX), Principles of Good Corporate Governance and Best Practices Recommendations, ASX Corporate Governance Council, 2003.

The Combined Code on Corporate Governance, which was instructive in the development of the ASX Principles, stated “Every company should be headed by an effective board, which is collectively responsible for the success of the company” (2003, p. 23). The ASX (2003) indicated that in addition to discharging accountability, the role of the board was to enhance value and optimise performance. The need for the board to focus on performance was further argued by the President of the Business Council of Australia, Hugh Morgan (Australian Financial Review, 6<sup>th</sup> November, 2004).

The role of the board, which is explored in further detail in chapter two, is generally held to be fourfold: firstly, providing strategic input; secondly, identifying performance objectives; thirdly, making key appointments; and finally, exercising oversight of management. Implicit in these roles is the quality of decision making and thus attention is focussed on board structures, composition and processes. Much of the business orientated research (Daily, Dalton & Cannella, 2003; Denis, 2001; Shliefer and Vishny, 1997; Walsh and Seward, 1990;) has examined these aspects while there are several studies that attempted to assess the impact of governance on organisational performance (Barnhart & Rosenstein, 1998; Tapsell, 1999).

While the above discussion highlights the need for directors to be proactive in seeking enhanced organisational performance, attention to compliance can prevent diminution of financial returns. Substantial corporate fines for collusion in the paperboard industry reduced the overall amount available to shareholders, while the AWB Ltd. scandal has wiped 25 percent off the market capitalisation for that organisation (Bolt 16<sup>th</sup> January 2006).

### **Nonprofit and Sport Sectors**

The majority of sporting organisations in Australia are formed for the purpose of participating in a sport or competition and generally do not have an overriding profit

motive, thus showing similarities with nonprofit organisations. Consideration of the literature related to governance therefore provides a useful context for this study.

### *Nonprofit Governance*

The academic interest in corporate governance has mirrored the regulatory interest and has been matched by increased research into governance of not for profit (nonprofits) organisations. While it is clear that for profit business organisations have the mission to ensure enhanced financial returns for shareholders, the mission for the nonprofit organisation is to deliver its particular services while maintaining financial viability and this potentially becomes a significant challenge for boards. Performance for the nonprofit organisation is likely to include both financial measures of efficiency and measures of the effectiveness of service delivery.

A focus on a service mission still requires the nonprofit director to focus on a dual responsibility. Firstly, there is a focus on performance, both non-financial and financial; and secondly there is a focus on accountability to the financial contributors - often government agencies and/or private donors. The accountability – performance link can be illustrated by concerns over the money collected by Australian charities for the Tsunami Disaster which occurred in late December 2004. In some instances funds were spent inappropriately on administration despite promises that this would go directly to victims (Ryle, 2005). The implications of the redistribution of funds are reduced service performance outcomes.

The nonprofit governance literature falls into two categories: normative (Carver, 1997; Herman and Heimovics, 1994; Houle, 1997); and empirical (Bradshaw, Murray and Wolpin, 1992; Herman and Renz, 1998; Holland and Jackson, 1998). The former category formulates prescriptive models of board composition and operation, while the latter presents and evaluates practice. There is no one agreed model for governance of a nonprofit organisation.

The substantial literature which illustrates the differences between ‘for profit’ and nonprofit organisation is considered at length in the next chapter, but McFarlan (1999) provides five points of differentiation: mission, leadership, measure, board composition and board membership. However, the trend to the corporatisation and

commercialisation of nonprofits, as evidenced by the legal classification of AFL clubs as Australian Public Companies subjected to business reporting requirement, is reducing those differences.

### *Sport Governance*

The governance focus in the business sector is explicitly aimed at protecting shareholders' economic interests. However, the high profile nature of sport and the increased corporatisation of sport organisations as demonstrated above, demands similar scrutiny in an effort to protect stakeholders' emotional and financial interests. A focus on sports governance was fuelled by a need to improve governance of sports organisations in line with government sports funding policy (Amis, Slack, & Hinings, 2004; Australian Sports Commission, 1999; Hoye, 2002); and has extended into the realm of professional sports such as English Association Football (Michie & Oughton, 2005) and Australian Football (Foreman, 2005; Linnell, 1995). Poor financial performance of the clubs in both of these codes has led to a change of ownership in several clubs; placed significant pressure on club boards to remain solvent; and resulted in some clubs ultimately folding. It has also brought into question the quality of the clubs' governance processes.

The corporatisation of sport in general, and issues affecting the governance of sports organisations, has therefore received increasing attention in both popular and academic literature over the last ten years. The sport related literature is diverse in terms of sport organisations studied: National Sporting Organisations (NSOs) and State Sporting Organisations (SSOs) (Auld & Godbey, 1998; Cuskelly, MacIntyre and Boag, 1998; Hoye, 2002; Kikulis, 2000); Association football (Bourke, 1999; Dobson and Gerrard, 1999; Hamil, 2000; Michie and Oughton, 2005); and baseball (Cousens, 1997); among others. Further sport related research with some implications for governance includes: fans and community (Hill and Green, 2000; Mallory, 2005; Nash, 2000); professionalisation of sport (Cousens, 1997; Dawson, 1993; Gerrard, 2005; Skinner, Stewart and Edwards, 1999; Slack, 1998) and sport organisation effectiveness (Haas, 2003; Papdimitriou & Taylor, 2000; Smart and Wolfe, 2000). As illustrated later in this chapter, the need for a focus on governance by sport organisations has, at times, been critical.

## **Governance in the AFL**

The Australian Football League (AFL) is the pre-eminent football code in the country. Originally formed as the Victorian Football League (VFL), the league has changed composition over its 100 plus years of existence, and expanded from its regional origins to include clubs from five Australian States. The AFL is now comprised of sixteen clubs and is governed by an independent Commission, with Commission members elected by the clubs. The AFL Commission is primarily responsible for the long-term development of the game and the successful operation of the national competition. It negotiates issues such as merchandise licences, broadcast rights, stadium development, and player collective bargaining agreements on behalf of the clubs. The AFL Commission has specific policies to ensure equalisation within the competition such as equal distribution of dividends; a national draft with priority picks for lower placed teams; a salary cap and limited player transfer fees. In 2003, the AFL Commission established a Competitive Balance Fund to provide financial assistance to clubs who were struggling financially through a historically low membership base or were experiencing temporary financial distress. While there is a specific policy to share AFL revenue equally, the AFL Commission notes that it is not a banker and the clubs themselves have the responsibility to generate much of their operating revenues. Specifically the AFL (2005) states its Mission as:

1. Manage the national competition to ensure it is the most successful national elite sports competition for the benefits for our stakeholders – our AFL clubs, players and the public
2. Promote high levels of player participation in well-managed programs down to the grass roots level.
3. Promote public interest in the game by building the strongest consumer brand position in Australian sport.
4. Attract and develop the most talented athletes and sports administrators.
5. Foster good citizenship, both on and off the paying field.

Acknowledged as a well governed organisation, particularly in comparison to National Rugby League (McGuire, 1999), the AFL continues to improve performance results with percentage increases across all key indicators. The performance results for the 2004 year are presented below.

**Table 1.1 AFL performance results**

<b>Result</b>	<b>2004</b>	<b>% increase from 2003</b>
Total Revenue	\$186.9m	9
Expenditure	\$58m	11
Surplus before distribution	\$124m	8
Distributions to clubs	\$91.2m	13
Attendance	5.91m	0.6
Average TV audience	4m	2.8
Community level participation	.516m	7

**Source:** AFL 2004 Annual Report

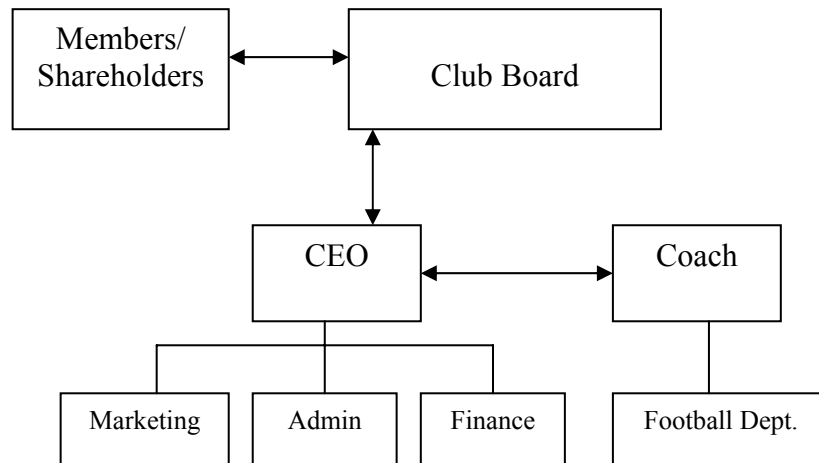
The individual clubs are incorporated entities limited by guarantee and/or shares. The clubs are subject to Australian corporate regulations and are considered Reporting Entities for the purposes of public disclosure. The clubs, in their current corporate form, were formed for the purposes of fielding teams in the VFL/AFL. Traditionally formed as amateur organisations and managed by volunteer office bearers, they are now multimillion dollar enterprises managed by professional sports administrators and governed by a board of directors who are in turn accountable to members or shareholders in line with their corporate constitutions. The legal framework governing the clubs is explored in some detail later in this study. They are high profile organisations for both their ‘on field’ matters and increasingly, for ‘off field’ management issues. There is a vast disparity in both aspects of performance between the clubs, with what appears to be an endemic lack of on field success by some clubs (Richmond, Western Bulldogs, St. Kilda) and possible links between on field performance and off field success as demonstrated by the financial predicament of clubs such as the Kangaroos. This thesis examines governance structures and processes of the clubs as potential reasons for this disparity. The need for a governance focus in the AFL clubs is also addressed later in this chapter.

### *AFL Club Governance*

Increasingly, sporting club management has been separated from the board or private owner, and in the stock exchange listed franchises in the United Kingdom and United States, is remote from the professional investors seeking attractive returns. In the AFL clubs, a similar separation occurs between management and the usually

voluntary and independent board. The ownership of the club is generally vested in the hands of members who renew their membership annually through the payment of a membership fee. This gives them certain entitlements including, entry to games; access to, but no guarantee of tickets, should their club make the competition finals; and in most circumstances, the right to elect the board (Foreman, 2005). The annualised nature of the membership structure has allowed the governance of clubs to proceed relatively free of the type of shareholder activism occurring in the business arena. Shareholder activism is discussed in chapter two as a prime driver of performance for businesses and refers to active participation by shareholders in the governance process. The AFL reported that the average churn (defined as members who have not renewed in a particular year) of club members in 2004 was 15.9%, 11.9% for non-Victorian clubs and 18.6% for Victorian based clubs (AFL, 2005).

Foreman (2005) noted that the ordinary member of a football club cannot be compared to the corporate shareholder. The motivations of the member and supporter are not linked to financial rewards and are complex and evolving. They range from the need for inclusion, the need for ritual or the need for catharsis (Stewart, 1983). In some cases, the motivation for the supporter to make a financial commitment to a team or a game is for nothing more than the desire for quality entertainment (Stewart and Smith, 1997). In some ways, the supporters are customers but although generally apathetic as to the composition of the board or management of the football club, they have exercised their democratic rights in times of perceived non-performance (The West Australian, 8/12/1997, p. 2). The tendency of members to exit to other clubs is remote. While there has been no empirical research on why supporters become members of clubs, those who do become members rarely choose to support another team (Stewart, 1983). They may exit from their membership for a variety of reasons such as their individual financial circumstances or lack of team success but this is usually temporary. When the clubs experience a financial crisis, it is the latent supporters who once again become members, thereby committing financial resources to their clubs (Geelong Football Club Financial Statements, 2000; The Age, 5/9/1996). A representation of the governance structure of AFL clubs is depicted in Figure 1.1.



**Figure 1.1 Representative Governance and Organisational Structure of an AFL Club**

### **Governance as a problem for AFL Clubs**

The corporatisation of sport and the AFL in particular has resulted in an increasing use of corporate management processes. These processes have been studied in previous research (Dawson, 1993; Quick, 1996; Shilbury, 1994) and the time seems appropriate to introduce a focus on governance. The excesses of corporate Australia in the 1980s were paralleled in the VFL/AFL with hyperinflation in the costs for football clubs to the extent that the viability of several clubs was threatened (Linnell, 1995). The reaction from the corporate regulator (Victorian Corporate Affairs Commission (VCAC)) and the governing body was to restructure the competition by replacing the board consisting of club delegates with an independent Commission. Part of the re-structure was the introduction of financial criteria for continued participation in the competition. This was agreed by the clubs to prevent the VCAC taking action to wind up five insolvent clubs (Linnell, 1995).

There were numerous instances of non-compliance with corporate regulators and the VFL/AFL with regard to breaches of the player salary cap, which has resulted in severe financial and player draft penalties for clubs. Other financial penalties have been incurred through the necessity to terminate the contract of under-performing staff such as the senior coach, a staffing decision that rests with the board. Any deficit must be recovered through either membership subscriptions, merchandising or



corporate sponsorship. The increase in sponsorship if achievable at all, however, comes at a cost. The increased focus towards corporate sponsorship, has to some extent, marginalised the ordinary member for whom the club exists in the first instance (Slack, 1998).

Financial solvency is an ongoing requirement for the holding of an AFL licence and, in addition to a mandatory external audit of their financial reports; the clubs have been regularly evaluated by the Institute of Chartered Accountants in Australia (ICAA) Annual Survey of AFL Clubs Financial Reporting. The report highlights the associated corporate governance issues such as declaring directors' indemnities and reporting on members' financial liabilities. The lack of financial solvency threatened the existence of several clubs in the 1980s, with some clubs entering schemes of arrangement with creditors and others "rattling tins" (Linnell, 1995).

There were attempts to solve the financial problems of some clubs by offering them for private sale. The resulting financial distress was such that, the clubs would have been wound up by creditors, without a re-purchase of the licences by the AFL. One of the conditions of the re-purchase was that the clubs reverted to membership organisations (Linnell, 1995).

The fortunes of the clubs and interests of the members were not necessarily better-served in the decade between 1995 and 2004 inclusive. The following list highlights the proliferation of sub optimal governance outcomes incurred by clubs in that time. This begs the question as to whether these poor outcomes were the result of ineffective governance.

### **Carlton:**

In September, 2002 the Carlton board chaired by John Elliott was delivered an overwhelming vote of no confidence. As a result, the board called an extraordinary general meeting at which the five surviving members offered themselves for election against a ticket formed by former CEO Ian Collins. The issues surrounding the no confidence vote were the allegations of salary cap breaches and the poor on field performance for the year. Elliott stated “We comply totally with the salary cap requirements of the AFL. It is disappointing therefore to be regularly confronted with inaccurate, mischievous and often malicious media speculation about the management of the club” The incumbents were resoundly defeated at the election although the new board was immediately confronted with a fine of \$930,000 and the loss of draft picks for breaches of the salary cap. (The Australian, 23<sup>rd</sup> October, 2002; The Australian, 28<sup>th</sup> November, 2002)

### **Hawthorn:**

In September 1996, a proposed merger with Melbourne was thwarted by member vote, after the anti-merger group Operation Payback succeeded in its bid to keep the club in the AFL in its own right. In a bitter campaign, the former President and CEO were threatened with legal action when the extent of the financial distress of the club was finally revealed. Throughout the fund raising campaign, the current club administration denigrated the fund raising efforts as “unrealistic”. The vote resulted in the formation of a new board and severed relationships with the previous directors, some of whom are legends of the club (The Age, 5<sup>th</sup> September, 1996, p. 1).

Further unrest for the Hawthorn Board occurred in December 2004, when the incumbents lead by President Ian Dicker was challenged by a former anti-merger campaigner, Don Scott as part of a ticket headed by former great, Graham Arthur. The rival group, Operation Recovery, alleged that the board was divided, that Dicker unilaterally ruled overruled a compromise proposal, and that club management had been hijacked by a wealthy fan. After early counting of proxy votes favoured the incumbent board, the rival ticket withdrew its challenge. The board was re-elected although not unopposed by an independent member. Ian Dicker announced an end date to his presidency. (The Sunday Herald Sun, 5<sup>th</sup> December, 2004)

### **Melbourne:**

In 1996 significant financial problems lead the board to vote in favour of a proposed merger with Hawthorn to enable the club to access the \$6 million incentive the AFL was offering to clubs who agreed to merge. As directors, their responsibility was to attest to the solvency of the club and in light of this, recommended the merger to members. Again, a bitter campaign titled the Demon Fightback was waged to derail the merger. Promised \$3 million by millionaire businessman, Joseph Gutnick, the merger was narrowly supported by member vote. However, it failed to progress because the Hawthorn vote was not carried (The Age, 5<sup>th</sup> September, 1996, p.1).

In August 1999, the club voluntarily disclosed systematic breaches of the player salary cap imposed by the AFL, totalling \$1 million. It received fines totalling \$600,000 with a substantial discount for its voluntary disclosure. It also received exclusion from the pre season player draft but this suspended in view of the club's honesty. This was one of reportedly several issues which lead to the acrimonious departure of the CEO. In November 1999, the club reported a loss of \$1.5 million which was the worst in the AFL. However, the administration maintained that this now meant "that the club was very, very clean" and well placed for the future (The Age, 6<sup>th</sup> August, 1999, p. 1; Herald Sun, 25<sup>th</sup> November, 1999, p. 110).

#### **Essendon:**

Although still profitable, in November 1999, the club released its financial results which included a reduction in profits of \$820,000 as a result of fines for breaches of the salary cap and non payment of fringe benefits tax. The breaches of the salary cap had lead to the demise of the previous board. The former President, then AFL Commissioner was forced to resign from the Commission as a result of the breaches (AAP Sports News, 1999).

#### **Geelong:**

In October 1999, the club announced a fundraising campaign (Stand Up and Fight) aimed at reducing \$7.5 million of debt. The President was reported as being "up front to members and the public about the club's financial position" (Herald Sun, 30<sup>th</sup> June, 1999, p. 84).

#### **West Coast Eagles:**

In 1998, the corporate structure of the club was such that it was subject to company tax of approximately \$400,000 per annum. This was a situation not faced by other clubs with their nonprofit objective of participating in a sport competition earning them company tax exempt status. This drove attempts by the WAFC to buy out the minority shareholders, attempts that were strongly resisted.

In March 1999, following poor relations between the CEO and Football department, the CEO was sacked with a reported golden handshake of \$200,000 (Armstrong, 1998; Eakins, 1999).

#### **Fitzroy:**

In 1996, following the announcement of a \$6 million incentive for clubs to merge, Fitzroy which had been technically insolvent for years, pursued a merger with North Melbourne. This proposal was derailed by other Victorian clubs who feared the strong competition the combined club could become. The result was a merger with the under performing Brisbane Bears. Although there were some concessions to the Fitzroy members, effectively the club ceased to exist (Mangan and Nauright, 2000).

#### **Richmond:**

In August 1997, the club was the first to have a player found guilty of using performance enhance drugs (Davis, 1997).

There were several board challenges between 1996 and 1999. In May 1999, there was a reported movement to unseat the board which was ferociously denied. In September 1999, leaders of a disaffected coterie met with the board to avoid a destabilising spill of board positions. This resulted in a compromise board which satisfied the opponents by successfully unseating the President (Palmer, 1999).

In December 1999, the club President paid a fine imposed by the AFL for a breach of player rules (The Age, 1999).

#### **All clubs:**

In August 1998, all clubs received a back tax bill totalling \$2 million and fines of \$400,000. This resulted in a clarification of the fringe benefits tax requirements and an increased financial oversight. This was an item of interest to press commentators who noted that the boards of several of these clubs contained some of Australian business' key figures (Mayne, 1998).

The viability of several clubs was still not secure in 2004. Eight of the sixteen clubs reported negative members' funds in 2004 and several clubs have significant debt. In the ICAA 2003 report, six clubs had received audit qualifications regarding their 'going concern' status (ICAA, 2003).

### **Objectives of the thesis**

In general terms, this thesis explores the relationship between governance and performance in AFL clubs. While the governance literature implies that effective or sound governance enables improved performance, there is no evidence from the AFL that supports that claim. Consequently, the aim of this thesis is to critically examine the governance processes of AFL clubs, and to investigate any link between effective governance and club performance. Specifically, the thesis will:

1. Identify the governance attributes and processes of all AFL clubs.
2. Evaluate two theoretical models of nonprofit governance to develop a benchmark model for data analysis.
3. Present the data on governance characteristics, processes and roles in line with the benchmark governance-performance model.

4. Define and measure each club's organisational effectiveness in line with measures suggested by organisational theory and the club's own definitions of performance.
5. Rank clubs in terms of performance and investigate any commonalities between well performing or poor performing clubs and club governance attributes or processes.

The results will be used to identify desirable governance attributes that will produce more effective club boards. The results will also be used to explain how governance practices might improve performance and deliver better club outcomes.

### **Research method**

This study adopts a grounded theory approach whereby theory is constructed in an iterative process involving research design, data collection, data classification, data analysis and literature comparison. Strauss and Corbin (1990) stated that data collection, analysis, and theory stand in a reciprocal relationship with each other. A theory emerges from the area of study. Qualitative data on board characteristics and processes were collected through interviews with the President or Chair of each club and with each of three randomly selected directors. Club performance data and some board characteristics were obtained through document reviews. A model illustrating potential links between club governance and club performance was developed after analysis of governance frameworks within the nonprofit literature. Elements of organisational theory informed the resulting analytical framework. The adapted model serves as a framework by which the club data was presented and analysed. Finally, some conclusions were drawn regarding any potential links between club performance and governance attributes and processes.

### **Organisation of the Study**

This study is structured as follows:

Chapter one presents an introduction to the concept of governance, its applicability to sport organisations and its relevance to the AFL and its constituent clubs. It

discusses the current focus on corporate governance and argues the case for an examination of AFL club governance. It concludes by identifying the objectives of the study, the methods used and limitations.

Chapter two provides a brief review of the literature on governance in the corporate world and conducts a more in depth discussion of governance in nonprofits. Both normative and empirical studies are reviewed with emphasis on various aspects of governance including board composition, board behaviours, and the role of the board versus the role of management.

Chapter three contains a review of the literature on sport management with emphasis on governance. The significant body of literature is discussed in three broad themes: governance in National Sporting Organisations/Voluntary Sporting Organisations (NSO/VSO); governance in professional sporting leagues; and finally, management and governance issues in the AFL.

Chapter four reviews the literature on organisational performance and organisational effectiveness. Effectiveness and performance are defined and various studies on firstly board performance and secondly organisational performance are discussed with regard to nonprofits and sport. Performance measures will be evaluated and used where appropriate, for measurement of performance in AFL clubs.

Chapter five describes the research methods, the respondent sample, the research instrument, the data collected, the theoretical frameworks analysed, and presents an adapted model of governance which is then used as a basis for data analysis. The objective data was collected for a five year time frame.

Chapter six presents the first set of results. Initially, the respondents' data on the board attributes, behaviours and tasks will be presented and compared. The results will discuss board recruitment processes, director expertise, board size and constitutional framework. The next discussion focussed on the role of the board versus the role of management and specific activities that the board undertakes. Common aspects of governance should emerge. Data was presented in line with the adapted model and any gaps or deficiencies in the model were highlighted.

Chapter seven presents results on club performance, drawing on the respondents' definitions of performance, together with accepted measures of performance from organisational effectiveness literature. Performance trends were identified and clubs were compared and determined to be effective or not effective.

Chapter eight conducts an analysis of governance features of highly effective or ineffective clubs with a view to identifying any common governance features of effective clubs. The chapter reviewed the objectives of the study to demonstrate that these have been satisfied and discusses any implications for AFL clubs. It further evaluated the results in line with the theoretical constructs and models discussed in the literature review. Finally, the chapter identified areas for further research.

## **CHAPTER TWO**

### **LITERATURE REVIEW PART ONE: BUSINESS AND NONPROFIT GOVERNANCE**

This chapter is the first of three chapters devoted to a review of the literature on governance, its applicability to sport in general and the AFL in particular, and its potential impact on organisational performance. In this chapter, the focus is on corporate governance with a view of providing a theoretical framework for the evaluation of the governance of AFL clubs. The literature is categorised into themes, commencing with a brief discussion of key theories underlying governance, a consideration of business governance, and then a more detailed discussion on specific governance issues of relevance to nonprofit organisations. Chapter three reviews the increasingly significant body of work on governance in sporting organisations, including discussion of the management and governance of AFL clubs. Finally, chapter four concludes the literature review with a discussion on research into links between governance and organisation performance.

#### **Theoretical Perspectives of Corporate Governance**

There are several theories which have been promulgated as underpinning various aspects of governance. Many of these are featured in the literature reviewed in this chapter and it is therefore appropriate to provide a brief understanding of these theories as an introduction to the more detailed discussion of governance per se. However, to better appreciate the theoretical context within which governance exists, it is useful to re-examine the definitions of corporate governance presented in Chapter one. These definitions indicated that governance encompasses the relationships between those governed (management), the governing body (the board) and those for whom the board acts (the owners). While the bounds of this relationship are clear in listed companies with diverse ownership and well accepted governance conventions, it is less clear in nonprofits where the appointment of professional management is a relatively recent initiative and the identity of the owners is not at all clear.



It is therefore useful to reinforce the concept that the governance process directly impacts on the management function. Management issues consequently become relevant to any discussion on governance to the extent that the board articulates the desirable skills and competencies that managers should possess, and the way managers are monitored, evaluated and remunerated, all of which are at the heart of the governance process. The following theories illustrate different emphases of the governance relationship. A summary of these theories is presented in Table 2.1, and a brief description is provided.

### *Agency Theory*

Agency Theory is a commonly cited theoretical concept underlying governance in for profit corporate organizations. It is based on the separation of ownership and control, in that shareholders (principals) through their representatives (the board of directors) appoint agents (managers), and delegate authority to them, to run the business on their behalf (Jensen and Meckling, 1976). The theory has two underlying assumptions. Firstly, that individuals are self serving, and have tendencies to act in their own interests. Secondly, agents control the information flows to the principals, thus enabling opportunistic behaviour. This potential conflict of interest can result in a wealth transfer from the principal to the agent, and agency theory essentially articulates the need to align management actions with owners' interests. This alignment becomes the focus of governance processes. Agency theory suggests that the board should focus on the role of the organisation (for whom does the organisation exist and why) and the monitoring of management actions in line with that role. Specifically, the board's oversight role and remuneration strategy can facilitate the alignment of interests but the extent to which nonprofits subscribe to a corporate form and employ professional management will determine the extent to which agency theory underlies governance in the nonprofit.

### *Stewardship Theory*

This theory provides an alternate explanation for organisational (management) behaviours, thus necessitating a different governance focus. Based on an assumption that management are generally motivated to perform well in the organisation's

interests, the term Stewardship Theory was coined to represent the fact that managers actively protect the organisation's assets [be a good steward] (Donaldson, 1990a; 1990b). Donaldson and Davis (1991) suggested that managers' motivations include the need for recognition and intrinsic job satisfaction, which leads to the individual manager identifying so significantly with the organisation, that the manager's self esteem merges with organisational prestige and reputation. Stewardship theory, in contrast to Agency Theory, suggests that there is no misalignment of management and owner interests and management will achieve the desired organisation performance, if provided with the structural and procedural freedom to do so. Donaldson and Davis (1991) further suggested that deviations from desired performance occur through structural limitations of the organisation including limitations on the roles, responsibilities and the level of control the CEO. The governance focus under Stewardship Theory therefore, is on providing appropriate processes and delegations to facilitate management endeavour and achievement of organisational performance.

### *Stakeholder Theory*

Stakeholder theory recognises that organisations have relationships with many constituents other than shareholders and depending on the significance of each relationship, stakeholders can and do influence decision making and performance of the organisation. The OECD Principles of Corporate Governance and the ASX Principles of Good Corporate Governance and Best Practice Recommendations both recognise the importance of considering stakeholder interests in the governance processes of listed corporations. While not within the jurisdiction of these initiatives, nonprofits have a greater need to focus and protect stakeholder interests. In the absence of defined owners, it could be argued that the board of a nonprofit actually acts on behalf of its various stakeholders and it is to them they owe accountability.

Stakeholders have been defined by Freeman (1984, p25) as "any group or individual who can affect or is affected by the achievement of the firm's objectives". The term therefore included customers, owners, governments, competitors, employees, suppliers and media among others. Foreman (2005) presented a summary of Freeman's contribution. This was significant in developing a stakeholder framework

which could facilitate strategic management. The key aspects of Freeman's stakeholder management model were fivefold:

1. Identification of key stakeholders
2. Determining the "stakes" of selected stakeholders
3. Using an understanding of stakeholders to assess the relative importance of each to organisation success
4. Formulation of strategies for stakeholders
5. Implementation and monitoring of stakeholder strategies.

These aspects drive the governance focus under Stakeholder theory and are operationalised in the governance process through the development of the strategic plan and the performance measurement system.

### *Resource Dependency Theory*

Brown (2005) provided an excellent summary of the features of resource dependency theory. The theory suggests that the main functions of the board are to provide resources for an organisation (Pfeffer and Salancik, 1978). Hillman and Dalziel (2003) argued that "boards function as resource catalysts for organisations by providing linkages to necessary resources, for instance providing legitimacy, advice and counsel, links to other organisations, and assistance in acquiring resources". Hillman and Dalziel (2003) suggested that boards bring board capital to an organisation by providing technical expertise, connections to sources of funds and business acumen which provides strategic direction. The research suggested that the ability of a board to source funds is a critical function for most nonprofit organisations and further suggested that this ability is enhanced by a prestigious board (Green and Griesinger, 1996; Herman and Renz, 2000; Provan, 1980).

### *Institutional Theory*

This theory states that organisational behaviour is driven by the institutional framework within which it operates (DiMaggio and Powell, 1983). Essentially, this framework assumes a desire for organisational conformance either with like organisations or with regulations and mandates. Based on the premise that organisations adopt similar behaviours over time (Isomorphism), there are three ways this is achieved. The first is coercive pressure to conform driven by fear of sanctions from regulators (coercive isomorphism). The second is a desire to be like other

organisations, therefore using a similar organisation as a model or benchmark (mimetic isomorphism). The third is a tendency to professionalise the organisation based on credible advice from normative theorists and practitioners (normative isomorphism). The governance focus under institutional theory is adherence to legal and ethical obligations, including meeting attendance, formal reporting compliance, avoidance of conflicts of interest, and insistence of financial rigour. Mimetic isomorphism suggested that governance tends towards accepted best practice, an example of which is the adoption of board committees, as a common feature of board structure. Normative isomorphism influences board processes as a result of commercialisation and will introduce sophisticated processes such as board self evaluation.

A summary of the theoretical underpinning of governance is presented in Table 2.1.

**Table 2.1****Organisational Theory Perspectives**

Theory	Authority	Features	Governance Focus
Agency Theory	Jensen & Meckling (1976)	Tendency for managers to act in own interests rather than in interests of principal.  Superior access to Information allows them to indulge in opportunistic behaviour  Need to align interests	Monitor /oversight  Performance based compensation
Stewardship Theory	Donaldson (1990a)	Managers motivated by intrinsic rewards  Managers identify strongly with organisation and seek to achieve desired performance  Ability to succeed-a function of structure and level of control.	Delineation of roles  Structure and policies  Delegation of control
Stakeholder Theory	Freeman (1984) Donaldson & Preston (1995)	Need to recognise influence of key stakeholders  Identify those stakeholders  Formulate strategies to manage stakeholder outcomes	Establish mission  Strategic Planning  Performance measurement
Resource Dependency Theory	Provan (1980) Hillman & Dalziel (2003)	Boards act as a resource  Emphasis on technical expertise and ability to use connections	Strategic planning  Fundraising
Institutional Theory	Di Maggio & Powell (1983)	Organisations need to conform (isomorphism)  Coercive isomorphism requires conformance with regulations  Mimetic isomorphism is the desire to conform with peers	Legal structure Constitution  Compliance  Performance measurement- benchmarking

## Summary

The above discussion provided a theoretical context within which to explain or prescribe governance practice. Each organisational theory presented a different perspective of both the organisation and the way governance should be enacted. Agency theory suggested a requirement to align management and shareholder interests through effective monitoring; while stewardship theory countered the negative perception of management actions and focussed governance activity on the provision of effective structures and policies within which management can be effective.

Stakeholder theory provided a framework for a wider strategic focus for the board; while resource dependency theory is particularly relevant to the nonprofit environment, and recognises that the board can be a resource for the organisation with a focus on strategic planning and fundraising. Finally, institutional theory attempted to explain why organisations adopt certain practices, suggesting that regulatory, peer and expert influences shape governance behaviour.

There are inherent conflicts between these theories which have the potential to impact the governance focus. While Agency Theory places a premium on aligning owner-manager interests, often through performance based compensation, the focus is on oversight and constraint of management activity. Stewardship Theory, however, suggested that this approach was too constraining and that management need and require structural freedom to optimise outcomes for the organisation.

The strength of stakeholder theory as a context for this study cannot be overstated, due to the role of the club member in the football club. However, Stakeholder theory provides little insight into resolving tensions and conflicts between key stakeholders such as members and players in the AFL club context. This focus on stakeholders emphasises the need for the oversight role underpinning Agency Theory. However, this oversight needs to be grounded in a firm understanding of to whom management is accountable. This is not always obvious in a nonprofit. This is exacerbated through the adoption of a Resource Dependency focus to governance. Resource

Dependency in the AFL context suggests that directors should use their networks to increase revenue through fundraising. This may well be at odds with the member stakeholders who may feel marginalised in importance at the club.

While there is no one preferred governance focus, resolution of these tensions are at the heart of the board process.

## **Governance in the Business Sector**

The concepts of corporate governance emanate from the desire to protect and enhance shareholders' interests in the business sector. It has been a fertile area of research for decades and has largely focussed on the roles, responsibilities and relationship between the board of directors, management and shareholders. Shleifer and Vishny (1997) observed that research into corporate governance was an area of practical importance and also noted that corporate governance mechanisms provided shareholders with some assurance that managers strive to achieve outcomes that are in shareholders' best interests.

This proposition emanates from an agency theory perspective (Dalton, Daily, Ellstrand & Johnson, 1998; Dalton, Daily, Certo & Roengpitya, 2003; Shleifer and Vishny, 1997). Walsh & Seward (1990) suggested that shareholders have both internal and external governance mechanisms to help achieve this alignment. Daily, Dalton & Cannella (2003) note that the internal mechanisms include effective board structure, shareholder oriented management compensation and concentration of ownership, all of which have been the subject of research (Barnhart & Rosenstein, 1998; Core, Guay, & Larcker, 2001; Hermalin & Weisbach, 2000; and Murphy 1999). Denis (2001) raised the issue of whether these mechanisms serve to narrow the gap between managers' and shareholders' interests and whether the mechanism in question had a significant impact on firm performance. No firm conclusion was reached. Governance issues became prominent in Australia as a response to the entrepreneurial excesses of the 1980s or "bust" period which inevitably follows a "boom", and the Asian economic collapse of the 1990s. In each case, some of the problematic outcomes were related to poor governance (Dunlop, 1999). There appeared to be an evolution in governance focus. Traditionally, governance was

seen to mean conformance to regulators' rules aimed at improving the quality of reporting and tightening directors' accountability. More recently, corporate governance has focused on improving performance (in terms of financial returns) for the corporation's shareholders, and this performance improvement has been driven by three key factors.

Foreman (2005, p. 90) highlighted

The first factor is the globalisation of business, which transcends national laws and regulations. The second is the ageing western population, which is placing pressure on pension and superannuation plans [major equity investors in the United States, UK and Australia] to achieve superior returns. A third driver is the growth in shareholder activism, which recognises the proactive stance many shareholders and stakeholders are taking with regard to corporate performance and corporate social responsibility.

These factors have led to efforts to codify principles and policies on governance (OECD, 1999; Committee on Corporate Governance, 1998, 2003; ASX, 2003).

In the post Enron environment, the pendulum has again swung to a focus on compliance and accountability. Governments, globally, have had to step in to promote corporate governance. In Australia, the Ramsay Report (Ramsay, 2001), has recommended that there should be a greater disclosure of corporate governance mechanisms. In the United States (US), the Sarbanes-Oxley Act 2002 addressed corporate responsibility and the ethics of senior financial officers. Barut, Foreman and Richardson (2003) presented other international initiatives: in Britain, the Department of Trade and Industry is coordinating a Company Law Review. Across Europe, individual countries are working for reform: Germany has just recently introduced a Transparency & Control Law, whilst Italy, France and Spain have Corporate Governance Commissions. In Australia, the Government's Corporate Law Economic Reform Program, CLERP 9 (2002) which includes increased levels of disclosure on corporate governance, has begun to have an impact on corporate reporting (Barut, Foreman, and Richardson, 2003).

The various principles of good governance differ in some specific respects, but are in general agreement in defining the role of the board of a corporation and the rights of shareholders. Hilmer (1993) concluded that the key role of the board was to ensure



that management was continually striving to achieve above-average performance while taking account of acceptable risk. The responsibilities of the board were concisely identified by Ian Dunlop, Chief Executive Officer of the Australian Institute of Company Directors in a speech to Institutional Investor Relations Corporate Governance 2000 Conference. He found that boards' responsibilities could be categorised on the basis of four functions as follows: Strategy, Performance, Conformance and Accountability to shareholders (Dunlop, 2000).

The rights of shareholders have been identified in the codified principles on corporate governance as the primary concern of company directors, but the principles also recognised and encouraged a focus on the rights of other stakeholders. This discussion on shareholder versus stakeholder is particularly relevant for sporting corporations, which typically have non-shareholder-voting constituents. Much of the discussion has centred on the debate as to whether the board or senior management should focus exclusively on enhancing value for the shareholders (shareholder value approach) or should extend their focus to the rights, stakes and influences of all stakeholders (stakeholder management approach). This debate underlies stakeholder theory which was discussed earlier in this chapter.

As highlighted earlier, the OECD (1999) and the ASX Principles of Corporate Governance and Best Practice Recommendations (2003) acknowledged the rights of stakeholders other than shareholders and would appear to encourage stakeholder participation in governance.

Dunlop (1999) neatly categorised these approaches as “outsider” or “insider” models of governance. The outsider model recognises the key focus of the corporation as the shareholder and is prevalent in the Anglo-American approach to governance while the insider model is focussed on employees and other stakeholders. This model is a feature of both the European and Asian approaches to governance (Donaldson and Preston, 1995).

## **Effective Governance**

Numerous studies have attempted to link various aspects of board structures and processes to board performance, and to enhanced firm performance or shareholder value. Barnhart and Rosenstein (1998) investigated the combined effects of ownership structure and board composition on corporate performance. They found support for the proposition that management ownership was related to corporate performance. Their results also suggested that strong firm performance might allow incumbents to retain control of the board. Tapsell (1999) reinforced the need for boards to continually monitor their own performance and focus on their nomination and retirement processes.

Forbes & Milliken (1999) developed a framework for assessing board demography and linking it to board effectiveness. He found that the key demographics of board composition were job-related diversity, proportion of outsiders, board size and board tenure. He also determined that the two key criteria of board effectiveness were 'board task performance' (relating to the presence of knowledge and skills and participation) and 'board cohesiveness' (the willingness of the board to continue to work together). These characteristics are relevant to the evaluation of AFL club boards, and the Forbes-Milliken model is discussed at length in the ensuing discussion on governance in nonprofits.

## **Governance in Nonprofit Organisations**

The increasing research interest in the governance of not for profit organisations has in many ways mirrored the research into the governance of the for profit business. Whereas there are many differences between the two types of entities, there are also many similarities and indeed, many of the governance processes of the for profit organisation have been adopted by or adapted to the nonprofit environment.

### **Governance of Business versus Nonprofit Organisations**

The starting point for analysis into nonprofit governance is to differentiate the unique characteristics of the nonprofit board from the corporate board. McFarlan (1999) highlighted the key differences and these are summarised in Table 2.2.

Drucker (1989) used the experiences of corporate executives who serve on both types of boards to identify some key differences between the two. He suggested that a fundamental difference is the focus of the planning process. The corporate organisation would typically commence their planning with desirable financial objectives whereas the nonprofit would start with objectives aimed at fulfilment of their mission.

**Table 2.2**

**Differences between Corporates and Nonprofits**

<b>Aspect</b>	<b>Corporate</b>	<b>Nonprofit</b>
Mission	Shareholder value through market capitalisation	Effective delivery of services to key constituents
Measure	Financial Performance	Financial and non-financial measures
Leadership	CEO	CEO/non-executive Chair
Board Composition	8-14 members, limited executive and nominations committee	Larger boards catering for multiple constituencies. Active executive committee, with focus on qualitative aspect of mission
Board Members	Predictable profile -senior business professionals	Diverse profile, diverse roles, anti-social hours, high turnover, voluntary, often contribute financially.

**Source:** McFarlan, F. Warren, (1999), Working on Nonprofit Boards: Don't Assume the Shoe Fits, Harvard Business Review, November-December.

A further difference identified by Drucker is that the nonprofit organisation tended to have a more highly functioning board. He suggested that the reason for this is that nonprofits have a CEO who is accountable to the board; that they have a board that is reviewed annually against pre-set targets and the board is not generally regarded as a rubber stamp. He recognised that non-profit directors are unpaid volunteers and have a personal commitment to the organisations they serve.

Jansen and Kilpatrick (2004) extended the differences by highlighting that nonprofit boards deal with a wide range of stakeholders who can have differing objectives, and are critical to the performance of the nonprofit.

## **Nonprofit Governance**

The plethora of research into nonprofit governance in recent times falls into clear categories. There are those that present various models of nonprofit governance (Block, 1998; Carver, 1997; Heimovics, Herman and Jurkewicz, 1993; Houle, 1997). These models are normative in approach, and while presenting theoretical concepts of governance, have also formulated guidance for practitioners. The next category of research focuses on various governance orientations ( Brown, 2002; Carver, 2003; Herzlinger, 1994; Miller, 2002; Young, 2001) all with an emphasis on the role and purpose of the board. Finally, there is research on board composition, structure, roles, responsibilities, processes and comprehensive governance frameworks linking governance to board and organisational performance (Brown, 2005; Forbes and Milliken, 1999; Friedman and Phillips, 2004;).

Much of this literature is the basis for the academic analysis of sport organisations which is considered in chapter three.

## **Models of Nonprofit Governance**

In the for profit business environment, there is little ambiguity as to the role of the board or the goal or objective for the organisation. There are usually well defined responsibilities for the executive and the board and a recognition that directors should be compensated not only for their time but also for the liability they assume.

This section presents a review of the substantive body of literature discussing the nature of the nonprofit board and analysing the various approaches to governance in this type of organisation. Six distinctive approaches to nonprofit governance are discussed. They are first, the traditional model of governance; second, the policy governance model; third, executive-centred governance; fourth, stakeholder models of governance; fifth, stewardship approach to governance; and sixth, an agency approach to governance.

### *Traditional Model of Governance*

Houle (1997) is a significant contributor to nonprofit governance. He initially addressed the deficiencies of the nonprofit 'management committee' and produced a comprehensive prescription for good governance of a nonprofit organisation. His

contributions focussed on the need for a clear delineation between the role of the board and the role of management and staff, and thereby established the concept of a board of governance rather than a board of management. The role of the board was to set policy within which the management would manage and the staff would carry out the operational activities.

He addressed board composition, director expertise and diversity, training for board members and board evaluation, providing significant assistance to practitioners. He promoted the virtues of diversity of board members on demographic lines as well as functional expertise and suggested that expertise was “often required in personnel policy, financial management, investment, public relations, fundraising, legal matters, and political contacts” (Houle, 1997, p. 35). He suggested that effective boards would use their diversity for the organisation’s benefit. The one factor that should exist is a unanimous commitment by the board members to the mission of the organisation. Houle (1997) further recognised the need to recruit members through consideration of their personal characteristics.

Houle’s model was not without criticism. As Hoye (2002) identified, although the model has been widely adopted by nonprofit organisations, some critics rejected Houle’s position that the board had sole responsibility for the organisation (Heimovics & Herman, 1990; Middleton, 1987). This criticism however, was to a degree unfounded. Fletcher (1999) acknowledged that Houle was not rigid in terms of board/management demarcation and that he recognised that collaboration should and would exist.

### *Policy Governance Model*

Carver (1997) took a different view of the nonprofit board. His first key point of difference is aimed at the concept of board members as volunteers. He suggest that governing boards should think of themselves ‘as a special kind of management’ (p.15). He suggested that the general management skills needed in business are pertinent to boards, particularly the ‘overview’ function rather than the undertaking of specific tasks. He stated that “management is management even when it is governance” (p.16). He identified several features unique to the governing body:

- Boards are the end point of accountability.
- Boards act as agents of a diverse, largely unseen principal
- Boards operate collectively but are formed on an individual basis.
- The group (board) is likely to have less discipline than the individual
- Boards are more remote than management from the organisation because they are both part time and physically removed.

Carver (1997) defined his expectations of a governance model as having a focus on vision and values; being proactive and strategic; and focussing on outcomes and constituent relationships. This necessitated a delineation of board roles and board discipline; facilitation of diversity and unity; use of the board time efficiently through appropriate prioritisation of issues; and the determination of required information.

He further argued that the board should focus on policy rather than structure and that the policies should address: the ends that are to be achieved by the organisation; the limitations placed on staff and management to achieve those ends; the power sharing between the board and management; and the way in which the board represents its constituents and provides strategic direction.

### *Executive Centred Governance*

The above models promoted the overall authority of the board in achieving organisational outcomes and while Carver accepted management's subservience to the board, Houle proposed that the board was the key decision making authority but the roles would be negotiated. An alternate view is that the central leadership role is undertaken by the Executive (CEO) and outcomes are achieved through the effective utilisation of the board by the executive. Termed 'Reality Models' by Hoye (2002, p. 27), this approach to governance reflected the actual working relationship between management and boards.

Herman and Heimovics (1990b) found that the CEO was the central figure in the leadership of the nonprofit organization. Their findings indicated that it was the

CEO who bore the primary responsibility for the success of the organization and that effective CEOs were those who exercised “board-centred leadership”. Essentially this meant that those executives carried out their duties with and through their boards rather than the board exercising leadership over the CEO.

Herman and Heimovics (1994) established through an empirical study, that both executives and board members accepted that the executive held the prime responsibility for organisation outcomes. Herman and Heimovics (1994, p. 140, stated

We are not advocating that chief executives dominate or ‘demote’ their boards. Boards, in addition to their legal and moral duties, can contribute a great deal to achieving their organisation’s mission. What our results and experience demonstrate is that chief executives can seldom expect boards to do their best unless chief executives, recognizing their centrality, accept the responsibility to develop, promote, and enable their boards’ effective functioning

Block (1998) presented a model for governance which is executive centred and is based on the organisation having an executive director. This director is the focal point of the organisation through their operational role and superior information access. He defined the role of the CEO as crucial not only to organisational performance but also to board performance. The CEO should assume responsibility for obtaining personal knowledge of each board member and use this knowledge to encourage them to contribute appropriately. Fletcher (1999) suggested that while this approach to driving board performance is desirable, it is not necessarily practical through the time constraints within which CEOs work. Her review of Block’s model of governance for the nonprofit, expressed regret that the three propositions presented were not developed further. These were the premises on which his model is based. The first of these is that it is unrealistic for board members to expect that the concept of board effectiveness to be easily operationalised. Secondly, that an effective board emanates from the capability of the executive director and lastly, there is a need to develop tools to improve board participation and commitment.

Heimovics, Herman and Jurkiewicz (1993) extended their previous research through the better definition of the CEO's role. Based on the reality that government funding had reduced as a percentage of overall funding of nonprofit organizations, the ability for the organization to achieve its mission was based on resource dependence. The authors speculated that effective CEOs were those who could reduce the impact of environmental constraints on resources, through effective stimulation of their boards to mediate that environment.

Their research tested the extent to which effective CEOs used their political orientation. They based their study on the multiple frame orientation (Bolman and Deal, 1991a). The essence of a multiple frame orientation is the recognition of four organizational perspectives that could assist organization leaders in their day to day roles. The four frames were: structural, human resource, political and symbolic.

The structural frame referred to the organisation's competency in clarifying and setting goals, mission and organisation direction. Aligning staff and board performance standards to individual and organisational performance was another feature of this frame.

The human resource frame recognized the importance of people in the organisation. The focus of this frame was on interpersonal relations, delegation to foster staff development, and to achieve a balance between the organisation's goals and the aspirations of the staff. It was characterized by open communication, team building and collaboration. There is an assumption that conflicts over resource allocation among other differences is a fundamental feature of organisations and that effective leaders use this frame to negotiate resolution and exercise influence over the inevitable coalitions and interest groups that feature in nonprofit business environment.

The symbolic frame was particularly relevant to the nonprofit in general and a sport organisation specifically. This frame recognised that organisations are socially constructed, "cultural and historical systems of shared meaning where group membership determines individual interpretations of organisational



phenomena....Leaders evoke ceremonies, rituals, or artifacts to create a unifying system of beliefs.” (Heimovics, Herman, & Jurkiewicz, 1993, p.421-422).

The authors formulated three propositions that distilled the relationship of nonprofit executives and the management of resource dependencies.

1. Due to the central position in information flows, their increasingly professional expertise and career position, they are regarded by all organisational participants including themselves as centrally responsible for the outcomes of the organisation.
2. Boards of directors have the potential to mediate environmental dependencies.
3. Effective CEOs have learned to think and act politically. This includes mobilizing constituencies, forming coalitions, negotiating and bargaining.

Two aspects of governance are demonstrated by the above research. Firstly, support for the position of the centrality of the CEO and secondly, the use of the board as a resource to the organisation in line with resource dependency theory.

### *Stakeholder Models*

Brown (2002) examined the concept of inclusive governance in nonprofit organisations. Emanating from Stakeholder Theory, this approach required that boards should be aware of and sensitive to the interest of their constituents. Without this awareness, they may misinterpret those requirements and consequently drive sub-optimal policies. It was perceived as critical to ensure the participation of key stakeholders. These stakeholders may be diverse and may have conflicting requirements and interests (Freeman, 1984; Herman and Renz, 1998) and this complexity may lead boards to ignore their responsibility to stakeholders. It is therefore essential that some general systems are in place to monitor constituents’ requirements and to communicate decisions affecting them. This, in Brown’s view, was at the heart of what constitutes an inclusive board.

Based on an assumption that stakeholder participation on a board would enhance stakeholder outcomes, the study examined firstly, the prevalence of inclusive

governance practices and secondly, the extent to which inclusive governance is driven by heterogeneous board membership, attitudes to diversity and recruitment strategies.

Following a rigorous and extensive self administered survey on board member perceptions of inclusive practices and the above factors, Brown profiled an inclusive board through the illustration of two case studies.

The first case demonstrated that it was not necessary for stakeholders (service recipients) to be present on a board in order to achieve desired outcomes. The board's objectives were: to exercise the appropriate financial oversight; but as importantly, to contribute funds. This requirement tended to preclude key stakeholders from active board participation. The stakeholders (service recipients) communicated their requirements to the board with a formal presentation at each board meeting.

The second case study examined a board which included representatives from all key constituents. While this composition was useful for targeting appropriate programs, it did not facilitate fund raising. This limitation was overcome through the establishment of two advisory boards which provided access to funds.

Although the respondents overall rated their boards as inclusive, the findings indicated that a significant number of board members perceived that their boards were not aware of their impact on stakeholders; the boards did not seek input from diverse constituents; and non-board members were excluded from decision making.

In terms of the extent to which composition, diversity and recruitment strategies correlated with inclusiveness, the findings indicated that there was a positive relationship between systematic recruitment and attitudes to diversity. However, there was little evidence of a relationship between a heterogeneous board and inclusiveness.

Taylor, Chait and Holland (1996) reflected a move away from the Houle model of governance by presenting a discussion of the 'new work' of the board. Both boards and the CEO should know the key constituents and understand their issues. This

involves communication and accessibility. They suggested that the management and board form a partnership to jointly determine issues of importance and to jointly participate in both policy development and implementation. The authors addressed the need for expertise by suggesting that rather than work with unwieldy boards, an alternative would be to consult with experts on an issue when it arises. The board with management should identify ten to twelve key measures of performance.

In terms of board organisation, the authors suggested that a focus should be on strategic priorities rather than functional expertise, and committees should be formed on that basis with multi disciplinary members. Functional committees too closely resembled operational units and can lead to a focus on operational decisions rather than strategic issues.

### *Stewardship Focus*

Herzlinger (1994) presented a normative and practitioner based approach to what the role of the board should be and extended that discussion to include appropriate measures of performance for the nonprofit organisation. While her performance indicators are discussed later in this study when the links between governance and performance are examined, it is appropriate to include here, her thoughts on the role of the board.

She restated the reality that nonprofits suffer from the lack of a financial market mechanism to regulate behaviour. She suggested that there may well be dichotomous factors at work on a nonprofit board. Some directors may feel that they lack the technical expertise to effectively oversee the key management and staff of the organisation. Other directors may feel that their amateur involvement or interest in the organisation may qualify them to assume a greater role in the organisation which could be construed by management as interference.

She suggested that both of these behaviours are inappropriate and that boards should act like owners and the market in business. She defined the role of the board to “ensure that the nonprofit’s mission is appropriate to its ...orientation and that it accomplishes the mission effectively” (Herzlinger, 1994, p. 53).

She proposed three questions that nonprofit boards should consider and measure. First, the board should ensure that there is consistency between goals and financial resources; second there is intergenerational equity (not sacrificing the long term for the short term and vice versa); and finally sources and uses of funds should be matched to ensure sustainability.

Axelrod (1994) stated that Herzlinger's questions and performance indicators strengthened the stewardship role of the board. However, Axelrod suggested that the ability to assess this information was dependent on the ability and resources of paid staff to collect and report the information. Further, she suggested that the ability to deliver the required information to the board was reliant on the relationship between the board and CEO. This relationship was characterized by the recognition that the board's role is more than fundraising and founded on an understanding that an engaged board is of benefit to the organisation.

She suggested that the relationship should indicate a preference for a board that is overzealous rather than a rubber stamp and that there was provision of enough information to prevent board interference in the day to day. There should also be a willingness to invest time in educating the board, commitment to the provision of information sufficient to provide effective oversight and the ability to be involved in policy at an early stage. Finally, the relationship should recognise that the role of the CEO is to assist the board with strategic issues, and bear responsibility for the performance of the organisation.

### *An Agency Theory Approach – Owner Accountability*

A key issue in nonprofit governance is the purpose of the organization, and to whom the board is primarily accountable. While becoming increasingly commercialized and corporatised, focusing on marketing, fundraising and cost containment, the actual reason or purpose of the organization can be confused or subordinated to the

need to be financially responsible. This risk may be increased when professional business management is recruited. It is therefore crucial that the nonprofit has a clear understanding of the organisation's identity or purpose and, as Carver (1997) suggested, a determination of who are the owners.

This is problematic for the nonprofit and it may not be possible to identify any definitive group of owners other than those responsible for board appointments. The term is confusing in the nonprofit sense and could be seen to be synonymous with the organisation itself. However, this protection of owners' interests underlies the principles of Agency theory, which suggests that there is a need to align management actions with those interests. The theory further suggests that owners' interests can be protected through effective monitoring, pre-employment contracts, and performance based compensation among other initiatives.

Miller (2002) expressed the view that it was the board's role to control decisions (ratification and monitoring) and management's role to manage decisions (initiation and implementation) and that Agency theory was only valid for the nonprofit to the extent that management is able to engage in opportunism to the detriment of owners' interests. This again requires the identification of owners, and the determination of unambiguous performance measures. The ensuing discussion presents views on 'ownership' which for the nonprofit may be indistinguishable from the organisation itself.

Carver (2003, p. 4) determined that "a governing board exists so that the governed organisation will be owner-accountable." He suggested that boards are a social construct formed for "absent owners or present owners who exercise group authority" (p. 4). He then defined ownership-accountable as having several subsets. The following identifies and describes these principles:

*Ownership Identity* - The ownership must be known or capable of estimation. This is important to prevent "counterfeit owners" such as staff acting as de facto owners.

Carver (2003, p. 5) suggested that it is important to define owners even when difficult "as is the case for the ownership of a membership association". He does not however make any suggestions as to who these owners may in fact be.

*Ownership linkage* - There must be some connection between the board and ownership. This connection might be tenuous, merely an awareness of the ownership and their responsibilities to that ownership or may be more formal in terms of direct contact.

*Linkage content* - Communication to the ownership must contain content able to discharge accountability.

*Synthesis* - The board must be capable of managing divergence in views of a conflicting ownership into a common organisational intent.

*Agent latitude* - There must be some agreement on the latitude the board will use to govern on their behalf. There is an expectation that the board should be better informed than the ownership and appropriately use that knowledge.

*Effecting/Correcting* - The board must have a system of translating the organisation values into performance.

While the concept of ownership-accountable is worthy and fundamental to governance, Carver's discussion does not facilitate the operationalisation of this concept. Within the discussion of the ownership of a nonprofit, it could be useful to consider ownership to be related to organisational identity.

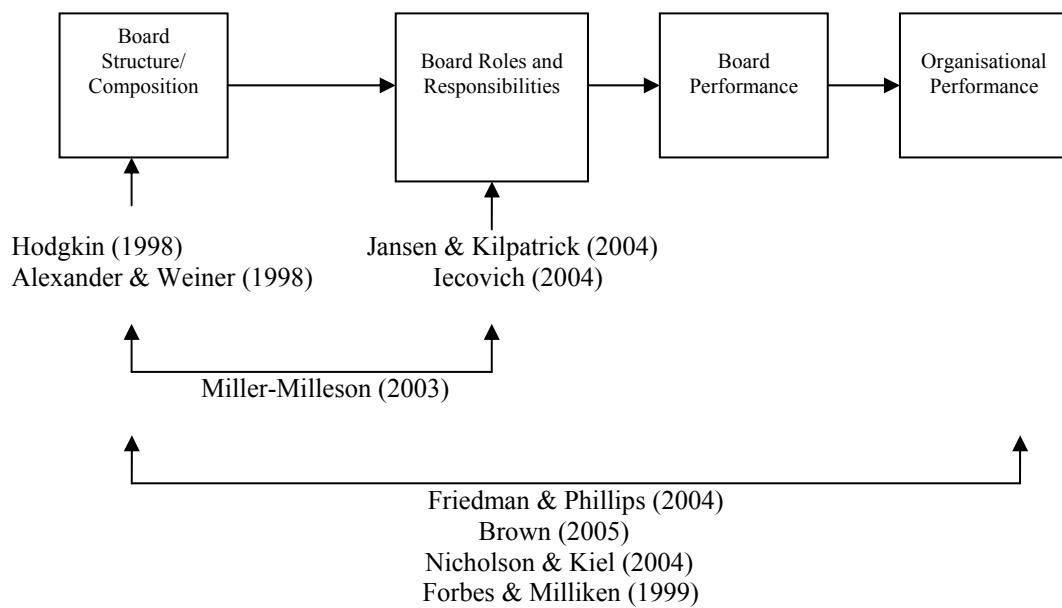
Young (2001) stated that identity is fundamental to formulating strategy and implementing structure. Albert and Whetten, (1985, cited in Young, 2001), defined organizational identity "as what is central, distinctive, and enduring about an organization.....When discussion of goals and values becomes heated, when there is deep and enduring disagreement or confusion, someone will ask an identity question: 'Who are we?' 'What kind of business are we in?' or 'What do we want to be?'" (p.265). The answers to these questions must be considered in the light of for whom the organisation exists and to whom its management is accountable and therefore goes to the heart of governance.

Young (2001, p.143) further stated that identity is related to the role of the organization, "identity is a distinct yet holistic notion that integrates, supports, and indeed drives a number of operative concepts guiding the long term direction and character of an organization". Identity, or the social purpose of a nonprofit, drives the staffing in terms of skills and numbers and the financial resources they require.

The purpose or role of the organization fundamentally drives the governance processes and form. Young again stated “Its governing board must reflect the social interests associated with the mission as well as the skills to accomplish it. Staff must include those with expertise and sensitivity to the social problems being addressed as well as the business issues facing the organization.” (Young, 2001, p.153).

### **Structural-Process Models of Governance**

The discussion on ownership and organisation identity provides an introduction to an examination of the key roles and responsibilities of the board of directors. However this examination often fails to address the structures and processes of governance. This section focuses on board structure and composition; board roles and responsibilities; and finally, an analysis of integrated/holistic governance models. Figure 2.1 represents the focus and breadth of content of the literature covered in this section.



**Figure 2.1: Breadth of Nonprofit Governance Models**

### *Nonprofit Board Structure and Composition*

Hodgkin (1998) addressed the issue of board composition by questioning the suitability of business executives as candidates for nonprofit boards. While acknowledging that many of the business skills and management experience is transferable from the corporate arena, he cautioned the business executive on the differences between the two organisations. The points of difference are outlined below.

- *Focus on financial performance:* He suggested that a focus solely on financial performance could be problematic. While in a business environment the executive would be seeking positive financial returns, the focus on service delivery in a nonprofit may mean that poor financial returns are incurred. Where there is a substantial surplus, it could be argued that the resources are not being reinvested appropriately to extend services.
- *Accountability* was a further point of difference. The business executive has a clear understanding of the owner of the organisation. A nonprofit as discussed earlier in this chapter can have multiple owners all with differing



degrees of interest. Hodgkin (1998) argued that directors of nonprofits are not owners but trustees and consultation with stakeholders is essential to understand that relationship.

- *Legal requirements* can be considerably different. There is often tax exempt status which can curtail certain commercial activities, and compromise the tax deductibility of donations if not handled appropriately.
- *Directors' dealings* with the nonprofit organisation are held to higher levels of scrutiny.
- *More extensive communication* with constituents may be uncomfortable for a corporate executive and therefore things tend to move at a slower pace in nonprofits as the focus on stakeholders due to the more extensive consultation.
- *Decision making* may be quite different where the board has much greater say over the expenditure than in a normal business environment. The business executive may assume that the fundamental task of fundraising is their province, whereas, it may well be joint board-executive responsibilities.

Alexander and Weiner (1998) in a study of nonprofit hospitals stated that traditionally nonprofit boards have been driven by philanthropy, volunteerism and independence. There has, however been a shift to corporatisation because the nonprofit has entered a competitive environment. Their research initially defined models of governance as the Philanthropic model and the Corporate Model.

According to Alexander and Weiner (1998, p.225) “The philanthropic model stresses the values of community participation, due process, and stewardship. The corporate model stresses the values of strategy development, risk taking, and competitive positioning.”

These differing values lead to different board structures and attributes. The larger number, more diverse and unlimited tenure of the nonprofit board members was consistent with the values of including broader perspectives and the unlimited tenure fosters continuity and the maintenance of the organisation's traditions.

The corporate model was represented by a smaller size board, less diversity and limited tenure. This approach better supported a streamlined, focused strategic decision making process.

They suggested that the majority of nonprofit hospitals would not adopt a corporate approach to governance because firstly, extensive change to their structure would require significant resources. Secondly, they tended to be inherently conservative and would tend to change their traditional form only if mandated. Thirdly, even if willing to change their governance form, they may face resistance emanating from deeply rooted cultural norms.

They tested several hypotheses on what would drive the adoption of the corporate model of governance for the sampled nonprofits. Their first hypothesis stated that better performed hospitals (in terms of activity) would be more inclined to adopt the corporate model because the greater resources enable that change to occur. They considered the proposition by advocates of the corporate governance model that increased competition would drive nonprofits to adopt this model due to the increased focus on strategy development and streamlined decision making processes. However, they hypothesized that competitive pressure was more likely to result in reinforcing the focus on short term initiatives and therefore would not need to adopt the model that considers the longer term perspective.

Their findings provided some support for the hypothesis that better performed hospitals were more inclined to adopt a corporate model of governance. With regard to the response to competitive pressure, there was a negative correlation as predicted between competition and the adoption of the corporate model, however the results were insignificant.

## *Nonprofit Board Roles and Responsibilities*

Jansen and Kilpatrick (2004) took a normative, practitioner focussed approach in developing a model for nonprofit boards. The focus was on boards “getting their hands dirty” (p.1), while avoiding the micro-managing that staff would resent. The model was focussed on functions that the board should perform and these are discussed below.

### *Clarity of purpose*

The clarity of purpose was tied to the need for the board to develop the organisation’s mission and a vision of the organization in five years time. The mission should be the focus of continual reflection and should provide the key focus for action. This required the board to invest enough time into that development without the distraction of day to day activities. This would, ideally in Jansen and Kilpatrick’s view, be part of a strategic planning exercise.

### *Appropriate expertise*

The need for appropriate expertise changes as the environment changes. The authors suggested that this does not necessarily mean that directors should be replaced with those possessing relevant skills. They highlighted that providing training for current board members in order to increase their skills was an alternative to replacement and was often overlooked. A further consideration would be the formation of a two tier board which consists of an advisory board of individuals who have the requisite expertise. These advisors may or may not have a representative on the main board.

### *Procedural efficiency*

Procedural efficiency was aimed at improving the board decision making processes. Crucial to this element was effective time management, information in a timely manner and detailed preparation and adherence to the board agenda. Jansen and Kilpatrick (2004) suggested that board members should regularly verify the relevance of board committees. Taylor, Chait and Holland (1996) argued that board meetings were generally sub-optimal. They suggested that the focus should be on key issues, particularly if time is short or they meet infrequently. They further suggested that the board should engage in debate and review alternatives rather than

try to win arguments or shore up positions. On occasion, there should be freedom to discuss sensitive issues without management present. The authors suggested that boards should experiment with meeting formats to achieve their needs.

#### *Oversight of management*

Oversight of management occurs through the performance measurement system. Jansen and Kilpatrick (2004) suggested that often boards can avoid micro-managing, through pushing management to concentrate on measures other than the usual financial or activity measures. One suggestion was that they formulate measures on impact. Another highlighted issue in performance measurement was the need for information that has not been filtered through management and the desirability of motivating management through performance based incentives.

#### *Board evaluation*

The authors stated that boards should be dynamic and suggested that this could occur through a process of self assessment, whether it be through workshops, one on one interviews, or completion of questionnaires. Scrutiny of board and individual directors' performance identifies educational opportunities, identify new skills required and address elements of frustration to existing members.

Iecovich (2004) undertook a study on voluntary nonprofits in Israel, to examine several aspects of governance. The study's primary aims were to determine relationships between board characteristics, organisational characteristics, the roles and responsibilities of boards, the involvement of boards in decision making and lastly, how if at all the Chair and CEO may differ in their perception of the actual level of board involvement.

Iecovich surveyed 161 organisations and determined that the majority of boards had a decision making role in the following tasks:

- Annual budget allocations
- Fund raising
- Change in top management
- Hiring decision on paid senior staff
- Change in general administrative procedures
- Job descriptions for senior staff
- Changes in specific programs or services
- Connections with local and national agencies
- Advocacy and lobbying

Her findings indicated that generally the boards did fulfill their roles and responsibilities identified by previous studies (Axelrod, 1994; Carver, 1997; Duca, 1996; Houle, 1989). An international comparison showed that there was consistency across countries and therefore suggested that there were common behaviours on nonprofit boards. Boards were found to be most closely involved in decisions on budget allocation, changes in top management, changes in programs and services, and maintaining connections with local and national organisations. They were found to be less closely involved in decisions on fund raising, advocacy and lobbying and hiring of senior staff. She suggested that the boards may have defined their roles and responsibilities in accordance with Company Law. She found that board responsibilities varied with different organisation types, membership, and budgets. It was interesting to note that where boards were more actively involved in fundraising the better the organisation's financial performance. There was little difference in the perceptions between the Chair and CEO on the roles of the board.

## **Integrated Models of Nonprofit Governance**

These models of nonprofit governance reflect the evolution of thinking in this area and provide several frameworks that can and have influenced practice. However there is no one perfect model for corporate governance of nonprofits, as the following studies demonstrate.

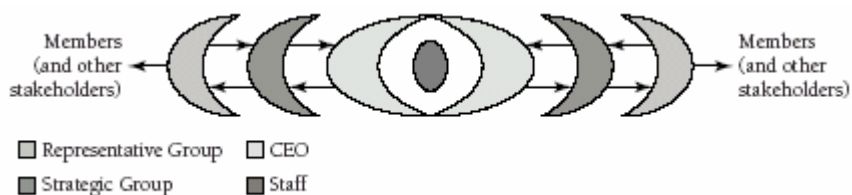
### *Cupped Hands Model*

Friedman and Phillips (2004) considered the largely prescriptive models discussed above (Carver, 1997; Herzlinger, 1994; Houle, 1997) but criticized them to the extent that they were attempting a “one size fits all” approach to governance.

They suggested that Carver ignored recommendations as to governance structure and focused only on what boards should do. The authors explained that leaving the structure to history and circumstance as Carver recommended, could impede the processes of governance and prevent it delivering the desired outcomes.

Their examination of the governance of professional associations provided further insight into governance structure and resulted in the development of a “cupped hands” model which was specific to that industry sector. This model was characterized by four key actors: the representative group (representing members’ interests); the strategic group (board); CEO; and staff. The model was so named because of the concept that the CEO and Staff are central to the organisation, bounded by the representative group and strategic group to the left of centre, with their roles to direct the CEO and Staff in the first instance; and then to the right of centre, to monitor and evaluate management and staff activity. (See Figure 2.2).

Friedman and Phillips (2004) discussed whether it was appropriate for the governing bodies to be fully elected, but determined that there were two problems with this approach. Firstly, elected members may not have the time or flexibility (because of their employment or self-employment status) to participate and secondly, the organizations may not have the required relevant expertise among their eligible members. They noted that both a range of skills and personalities is desirable for effective team performance (Handy, 1999). This may be compromised in a group of electees and could therefore focus the governing body into the achievable with a tendency to micromanage. Their model is represented below:



**Figure 2.2 ‘Cupped Hands’ Model**

**Source:** Friedman, A., and Phillips, M., (2004), Balancing Strategy and Accountability: A Model for the Governance of Professional Associations, *Nonprofit Management & Leadership*, vol. 15, no. 2, Winter pp. 187-204..

The authors provided details and clarification of the relative roles and responsibilities for each of the actors in their model. They extended this clarification to the communication flows between the participants. They suggested that only useful information should be communicated from management and staff to the governing groups, and they contended that this was currently a flaw in the organisations studied, inhibiting effective decision making. They referred to the financial accounting standards to determine how information was deemed to be useful and suggested that it should be relevant, reliable, material, able to be compared, understandable, and timely.

The detail is instructive and is shown in Table 2.3.

**Table 2.3**

**Roles and Responsibilities in ‘Cupped Hands’ Model**

**Role 1: Direct CEO and staff:**

<b>Responsible Party</b>	<b>Inputs</b>	<b>Outputs</b>	<b>Upstream flows</b>	<b>Downstream flows</b>
Representative Group	Constituents views	Mission statement Broad direction Critical tuning points	Elections, communication with constituents, elections	Communicate mission to strategic group, guide skills of strategic group
Strategic Group (Board)	Environment trends, specific skills, specific attributes	Strategies, management of risk, decisions, succession planning	Election or appointment, monitors environment	Communicate strategy to CEO, Appoints CEO and other key staff

**Role 2: Manage and Implement Strategies:**

<b>Responsible Party</b>	<b>Inputs</b>	<b>Outputs</b>	<b>Upstream flows</b>	<b>Downstream flows</b>
CEO	Ability to understand strategy, manage implementation	Translates strategy to tactics Implementation	Input to strategy, communicates with strategic group, benchmarking	Produces measurable outcomes, provides information
Staff	Job specific skills, teamwork	Implementation actions	Understanding of implications of strategy on practice	Task performance

**Role 3: Monitor and Evaluate:**

<b>Responsible Party</b>	<b>Inputs</b>	<b>Outputs</b>	<b>Upstream flows</b>	<b>Downstream flows</b>
Strategic Group	Ability to set measurable outcomes and evaluation of outcomes	Reports on progress	Aware of strengths and weaknesses of executive team, monitors strategy and implementation	Communicates results to facilitate evaluation
Representative Group	Evaluation of progress	Reports to members/stakeholders on progress	Monitors mission, direction	Ability to communicate with members

**Source:** Friedman, A., and Phillips, M., Balancing Strategy and Accountability: A Model for the Governance of Professional Associations, *Nonprofit Management & Leadership*, vol. 15, no. 2, Winter.



### *Multi-Driver Models*

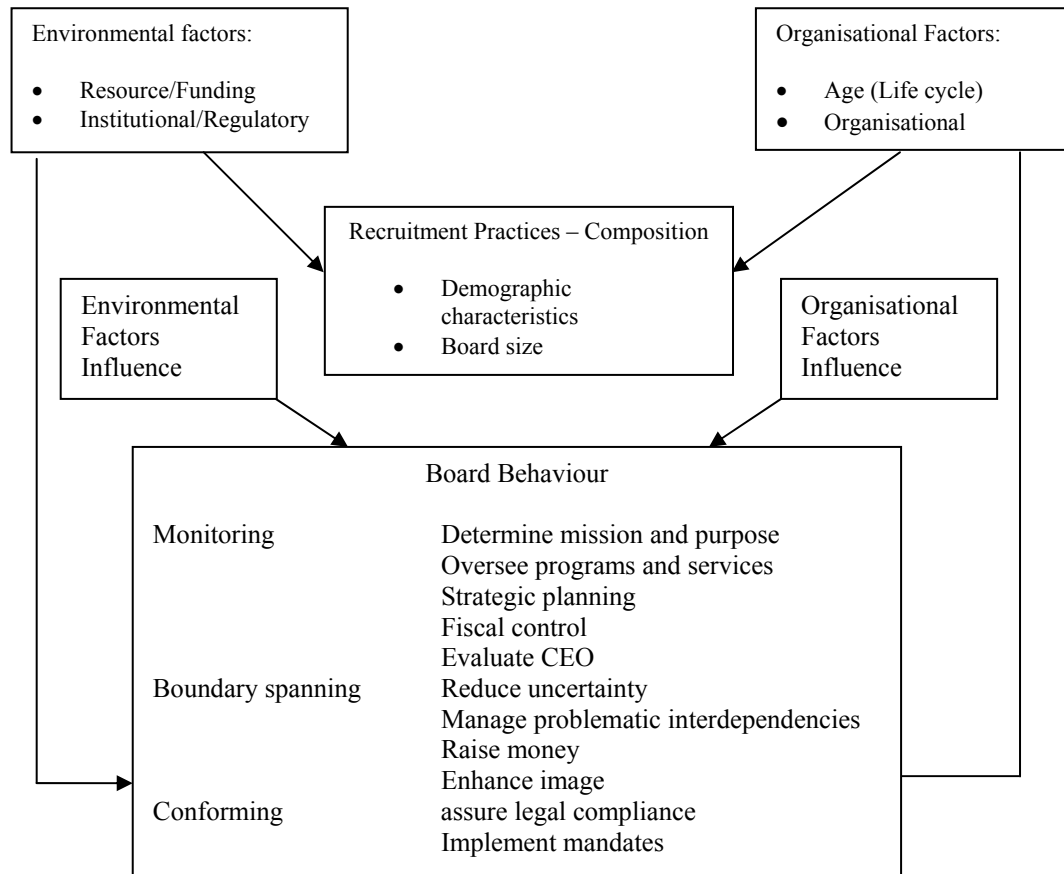
Miller-Milleson (2003) presented a theoretical basis to her model through linking board behaviours to three organisational theories. The monitoring role was underpinned by Agency Theory. Miller-Milleson (2003, p.531) suggested that the board was the “ultimate form of corporate control” in that the role of the board in a nonprofit organisation was to remunerate the CEO, to monitor management actions and protect stakeholders’ interests. It is reasonable to assume that in order to protect those interests, consideration of the mission or role of the organisation is undertaken by the board. Establishment, recognition and safeguarding of the mission can legitimately be linked to an agency approach. In this way, she neatly provided a theoretical basis for the monitoring role of the board.

However, the author recognised that the role of the board was broader than monitoring and control. There was a requirement to establish mission, drive strategy and ensure that performance goals are achieved. Miller-Milleson (2003) again provided a theoretical perspective for these roles through a discussion of Resource Dependency Theory. She cited several authorities (Harlan and Saidel, 1994; Middleton, 1987; Pfeffer, 1973; Provan, 1980) which suggested that this theory was the dominant approach for consideration of boards of nonprofit organisations. Her description of the usefulness of resource dependency theory to the investigation of nonprofit boards focused on the “boundary spanning” role which assumes that the board makes use of links to the external environment to reduce uncertainty.

Her third theoretical discussion focused on Institutional Theory, particularly coercive processes in an attempt to justify the role of the board in ensuring compliance with the legal requirements of a corporation. Her model is depicted in Figure 2.3.

Miller-Milleson (2003) included discussion on organisational theory to demonstrate that each of these perspectives influenced board composition, structure and processes. An understanding of these theoretical approaches can assist in predicting how boards of nonprofits are configured and operated. She linked board behaviours (board tasks) with each of the three theories: agency theory responsible for the board

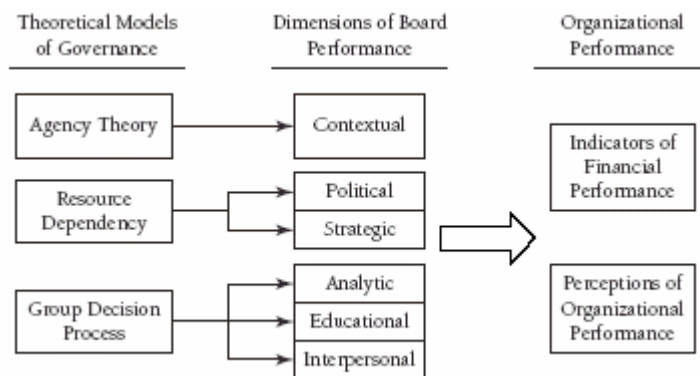
monitoring role; resource dependency theory with building external linkages and raising funds and institutional theory with ensuring compliance.



**Figure 2.3 Miller-Milleson Governance Model**

**Source:** Miller-Milleson, Judith L., (2003), Understanding the Behaviour of Nonprofit Boards of Directors: A Theory-Based Approach, *Nonprofit and Voluntary Sector Quarterly*, vol. 32, no. 4, December pp. 521-531.

Brown (2005) used an empirical approach to building his model. He conducted a study of 202 nonprofit organisations which were engaged in the provision of human services. This study examined links between firstly, board attributes and board and organisational performance; and secondly, dimensions of board performance as defined by Chait, Holland and Taylor (1991), and organisational performance. Brown further examined which dimensions of board performance were most likely to account for organisational performance. Similar to Miller-Milleson (2003), this analysis used three organisational theories (agency, resource dependency and group decision process) as a framework. The resultant model is shown in Figure 2.4.



**Figure 2.4 Relationship between models of Governance, Board Performance and Organisational Performance**

**Source:** Brown, William A., (2005), Exploring the Association Between Board and Organisational Performance in Nonprofit Organisations, *Nonprofit Management & Leadership*, vol. 15, no. 3, Spring pp. 317-339.

His governance model suggested that although agency theory was often promulgated as underlying the monitoring function of the board, there was mixed evidence as to its correlation with organisational performance (Dalton, Daily, Ellstrand, and Johnson, 1998; Dalton, Daily, Certo and Roengpitya, 2003). He therefore supplemented his model with two other concepts underlying governance, resource dependency theory and group/decision process theory.

Brown's comprehensive explanation of resource dependency theory was given at the beginning of this chapter and is not re-stated here. Brown suggested that Group/decision process theories related to the diversity of board members with an emphasis on the ability to provide different insights. Brown cited two studies (Siciliano, 1996; Erhardt, Werbel, and Shrader, 2003) which supported links between board diversity and organisational performance. Brown's model focused on board performance (board roles) as distilled by Chait, Holland and Taylor (1991) and a brief explanation of the factors impacting on governance processes is provided below.

Contextual – the board understands the history and mission of the organisation

Educational – board members understand the organisation and the roles and responsibilities of the board

Interpersonal – the board undertakes self development and engenders a spirit of cohesiveness

Analytical –the board brings different perspectives to its analysis and decision making

Political –the board is responsible for two way communication and relationship building with key constituents

Strategic – the board participates in the setting of the vision and direction for the organisation.

The final component of his model was organisational performance. This was defined and measured in two ways, respondents own ratings of organisational success and objective measures of financial performance suggested by Ritchie and Kolodinsky (2003): fundraising efficiency; public support; and fiscal performance.

Specifically, board performance was measured by the results of the Board Self Analysis Questionnaire (BSAQ) (Jackson and Holland, 1998) which comprised ratings on a series of tasks underlying the six dimensions of board performance described above. The BSAQ was completed by both board members and executives and both ratings were used as a measure of performance. The detail of the objective performance measures is presented in chapter four as part of the discussion on organisational effectiveness.

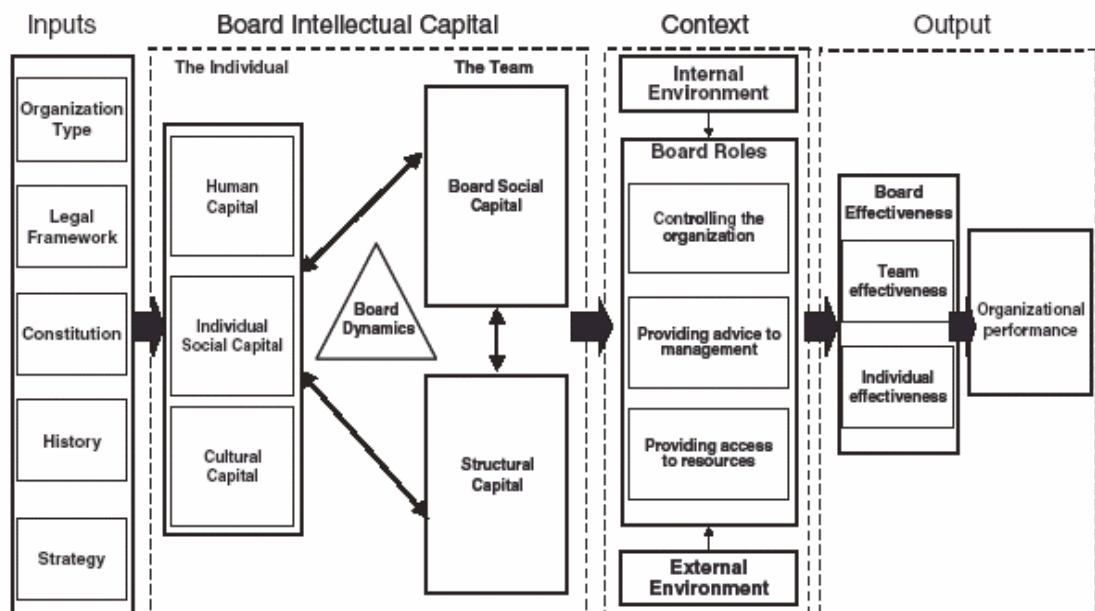
The findings indicated that there was little or no relationship between boards' attributes such as structure and size and board performance but there was an overall positive correlation between board performance and organisational performance. Although, board size was not correlated with board performance, it was found that larger boards were more contextual and strategic. The author suggested that an explanation for the contextual dimension finding was that larger boards were more effective in the monitoring role. However, it could be argued that larger boards had a greater representation of stakeholders thus facilitating a focus on mission. Clearly larger boards were also more adept at obtaining resources which explained the result on the strategic dimension. A summary of the findings is provided below:

1. The contextual dimension (representing the agency perspective) was positively correlated with respondents' perceptions of organisational performance.
2. The strategic dimension (representing resource dependency theory) was positively correlated with better financial performance and respondent's perception of performance.
3. The analytical dimension (underpinned by group/decision process theory) was positively correlated with net revenue.
4. The interpersonal dimension (as above) was positively correlated with a net financial surplus.

### *Intellectual Capital Model*

A paper by Nicholson and Kiel (2004) in the for-profit area provided an insightful and interesting model of governance. As a conceptual model it encapsulates the intellectual contribution of the board as such is pertinent to any organisation governed by a board.

The model is presented in Figure 2.5



**Figure 2.5 Board Intellectual Capital Framework**

**Source:** Nicholson, Gavin J., and Kiel, Geoffrey C., (2004), A Framework for Diagnosing Board Effectiveness, Corporate Governance, Volume 12, Number 4, October pp. 442.460.

The inputs to the board are articulated in the diagram. The board uses certain factors to transform those inputs into board and corporate performance (outputs). These factors are classified by the authors as board intellectual capital and board roles. Outputs were presented on three levels: the organisational level, the board level and individual board member level. Organisational outputs were described as basically financial performance measures for business and the most relevant performance measures for nonprofits. There was little discussion of the actual outputs that should or could be used. The authors' key insight was to recognise that the board's role was intellectual in nature and they provided useful definitions of the processes undertaken by the board.

Board intellectual capital was defined in four dimensions:

- *Human capital* is present in individual directors and involves their functional skills and industry and organisational knowledge.
- *Social capital* is present in both the board as a whole and in individual directors. This dimension pertains to the external and internal relationships, including the relationship within the board.
- *Structural capital* refers to the board administrative process and includes the board culture, formal and informal board procedures. This dimension relates to the board as a whole.
- *Cultural capital* represents the values that individual directors bring to the board and include their work ethic and personal motivation.

In terms of board roles, the authors identified factors which could potentially impede the ability of the board to perform and deliver organisational, board or individual performance.

Finally, the authors showed considerable insight by identifying that there were potential trade-offs between board and management performance, whereby a failure of management may be compensated by enhanced effort of the board and vice versa, in recognition of the difficulty of evaluating board performance.

### *A Process Driven Model*

Forbes and Milliken (1999) developed a model linking board demography to board behaviours or processes and extended the resultant board performance to organisational performance. They presented an underlying theoretical perspective to how boards operate rather than what they do. Their summary of the literature distilled a definition of boards of directors as “large, elite and episodic decision-making groups that face complex tasks pertaining to strategic-issue processing” (p.492). They suggested that board outputs are “cognitive” in nature and that board effectiveness relies on “social-psychological processes, particularly those pertaining to group participation and interaction, the exchange of information and critical discussion” (p. 492).

They defined board effectiveness in terms of the effectiveness of the board to perform its control and service tasks (defined below) and the effectiveness of the board in its ability to work together. They identified three processes that influence board effectiveness: effort norms; cognitive conflict; and use of knowledge and skills. Effort norms are defined as “ensuring preparation, participation and analysis” (p. 493). While recognising that time spent on board activity and meeting attendance can be used as a measure of effort, they argued that attendance alone was insufficient to ensure effective participation and contribution.

Cognitive conflict was defined as “Leveraging differences of perspective” (p.494). This aspect referred to the fact that directors hold different views on issues and the ability to engage in “disagreement and critical investigation” will result in a more rigorous examination of management performance and reinforce the board’s role in governance. The authors presented literature to suggest that cognitive conflict can result in considerations of multiple strategies and a more careful examination of those. However, although presented as a desirable process, the authors also stated that cognitive conflict can have negative effects, with evidence presented indicating high levels of conflict can reduce director satisfaction with the group and lead to resignation.

The third process was the use of knowledge and skills. The authors contended that the presence of skills on the board was an essential ingredient in board demography

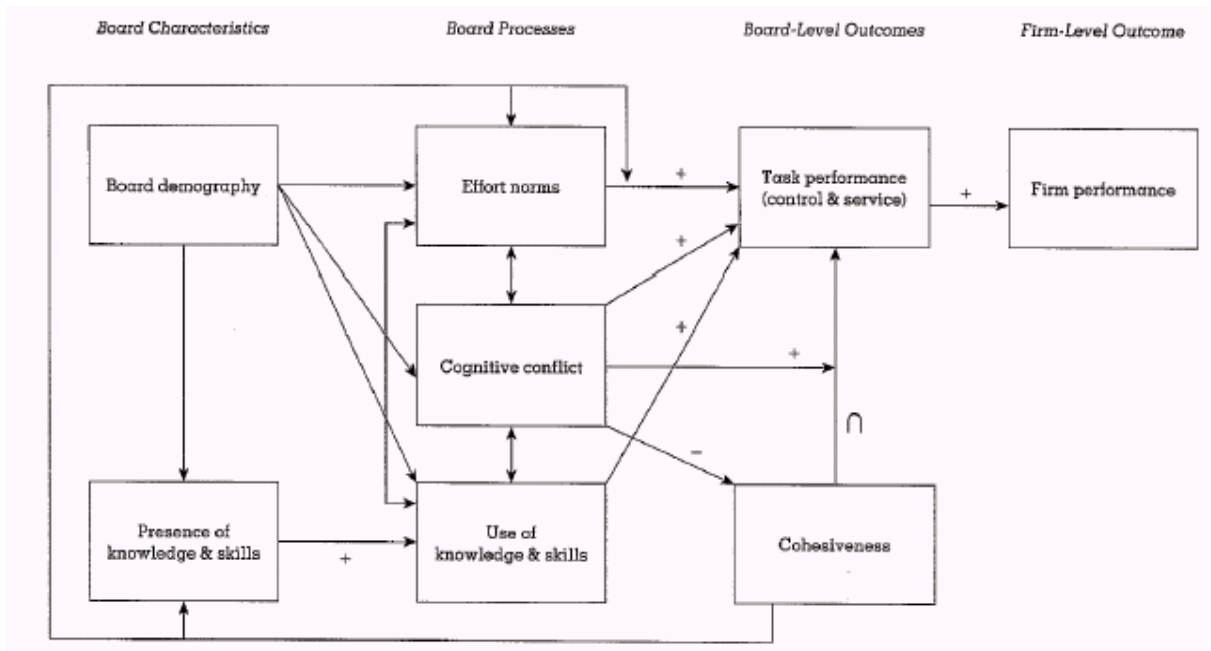
but the presence of skills does not necessarily lead to effective contributions from directors. This process could be seen as the board being “able to combine their knowledge of various functional areas and apply that knowledge to firm specific issues” (p.496).

As stated above, board performance was a function of task performance, which the authors defined as the ability to perform its control and service tasks. The control tasks related to decisions regarding the hiring, firing and compensating the most senior managers; and approval of major initiatives. The service tasks were defined as providing expert and detailed insight during major events; and generating and analysing strategic alternatives during board meetings.

Forbes and Milliken (1999) further identified cohesiveness as a key feature in determining an effective or ineffective board. They suggested that to adequately undertake the tasks required of a board, directors need to communicate and deliberate and a certain level of interpersonal attraction is necessary. This attraction also promotes trust in each director’s judgement and expertise. While cohesiveness has the positive aspects identified, high levels of cohesiveness can lead to a focus on interpersonal exchanges rather than organisational issues and the dysfunctional outcome of a lack of critical enquiry. The authors did state however, that cohesiveness alone will not reduce critical enquiry. It only reduced this critical board role if there was also an “absence of cognitive conflict” (Forbes and Milliken, 1999, p. 496).

They further considered issues of board demography, only three of which are relevant to nonprofit boards: job related diversity; board size and board tenure. Their model is shown in Figure 2.6.





**Figure 2.6 A Model of Board Processes and their Impacts on Board Effectiveness**

**Source:** Forbes, Daniel P. and Milliken, Frances J., (1999), Cognition And Corporate Governance: Understanding Boards of Directors As Strategic Decision-Making Groups, Academy of Management Review, Vol. 24, No. 3 pp. 489-506.

They hypothesised certain relationships between these board characteristics and board processes. Table 2.4 shows their conclusions regarding hypothesised effects of board process on board task performance and demography on board processes. It should be noted that no empirical evidence of these relationships was presented.

**Table 2.4**

**Hypothesised Relationships**

<b>Effects of Board Processes on Board Performance</b>	<b>Effects of Board Demography on Board Processes</b>
Board effort norms, cognitive conflict, and use of skills will be positively related to board task performance Cognitive conflict will be negatively related to board cohesiveness	Effort norms: A negative relationship with board size and no relationship between job related diversity and board tenure. Cognitive conflict: A positive relationship between job related diversity and board size. A negative relationship with board tenure.
Board cohesiveness will be related in a curvilinear manner to board task performance	Use of skills and knowledge: A negative relationship with job related diversity and board size. A positive relationship with board tenure.
The relationship between cohesiveness and board task performance will be moderated by cognitive conflict.	Cohesiveness: A negative relationship with job related diversity and board size but a positive relationship with board tenure.

**Source:** Forbes, Daniel P. and Milliken, Frances J., (1999), Cognition And Corporate Governance: Understanding Boards of Directors As Strategic Decision-Making Groups, Academy of Management Review, Vol. 24, No. 3 pp. 489-506

## Summary

This chapter presented a review of some of the key studies of corporate governance, particularly in the nonprofit area. There has been a significant emphasis on the organisational theories underpinning much of the thinking on nonprofit governance. The key themes underpinning the various governance models are reviewed below.

### **Theoretical Influences on Governance**

Agency theory was the predominant construct in much of the literature on for profit governance and there is debate as to its relevance in the nonprofit arena. However, due to its emphasis on mission and monitoring, particularly where professional management is employed, its relevance was demonstrated through its discussion in the Miller-Milleson (2003) and Brown (2005) models. Stewardship theory presented an alternative view of management actions and the resultant necessary focus for governance. Institutional and Resource Dependency theory underpinned studies on critical board tasks while Stakeholder theory broadened the governance sphere of accountability.

### **Board Structure/Composition**

Houle (1997) prescribed that boards should include both functional and demographic diversity and suggested several areas of expertise such as financial management, fundraising and political contacts as desirable. Carver (1997) also supported diversity on boards and supported general management skills (the capability of taking an 'overview') as an essential ingredient on a board. Several related studies (Heimovics, Herman & Jurkiewicz, 1993; Herman & Heimovics, 1990b; Herman & Heimovics, 1994) suggested that as the role of the board was to provide links to the external environment, useful networks facilitating fundraising, was desirable. Brown (2002) addressed the appropriateness of stakeholder representation on the board through case study analysis. His conclusion suggested that stakeholder representation on a board did not necessarily result in increased awareness of stakeholder issue.

Hodgkin (1998) examined the suitability of business sector executives on the nonprofit board and warned that there were several points of difference of which they should be aware. Alexander and Weiner (1998) described nonprofit board structure as either philanthropic or corporate and suggested the differences were size, tenure, and diversity. Forbes and Milliken (1999) in a study aimed at the business sector suggested that key board demographics were job-related diversity; proportion of outsiders; board size and tenure. They then extended their model to a nonprofit organisation.

### **Board Roles and Responsibilities**

The majority of the studies reviewed in this chapter considered the roles and responsibilities of the board. In the for profit business sector, Hilmer (1993) and Dunlop (2000) identified board roles as striving for performance through a focus on strategy, conformance and accountability.

Both Houle (1997) and Carver (1997) suggested that the key board role was to set policy within which managers would manage. Houle proposed a clear delineation of roles and responsibilities between the board and management, and while this was supported by Carver, the roles were not as clearly defined. Carver (1997) promoted the roles of the board as providing strategic focus, focussing on outcomes and constituent relationships, and engaging in an efficient use of board time.

Heimovics, Herman & Jurkiewicz (1993) is representative of the literature which suggested that boards were heavily dependent on the CEO and served as mediators of the external environment rather than the central governing force within the organisation. On a similar theme, Taylor, Chait & Holland (1996) suggested that the 'new work' of the board was to build relationships with key constituents in an effort to better understand their issues.

Herzlinger (1994) considered that there was a tendency for directors to refrain from active participation through a perceived lack of technical expertise or to become too involved through an interest in the organisation. Her analysis suggested a delineation of roles and responsibilities but focussed on the board's role of ensuring that there was consistency between goals and resources; providing intergenerational equity;

and ensuring sustainability. Axelrod (1994) extended this analysis to suggest that there was a preference for boards to be over zealous in their oversight role and that the relationship with the CEO facilitated this. She further recognised the role of the board was to assist with strategic issues and bear ultimate responsibility for performance.

Miller (2002) saw the role of the board to monitor and ratify management actions within an agency theory context. Jansen & Kilpatrick (2004) suggested that boards should focus on mission as part of strategic planning, while ensuring procedural efficiency. Oversight of management was a board role and the authors expressed concern about the usual performance measurement systems and suggested that effective oversight may be gained by focussing on measures of impact, which were determined outside the management provided indicators. They also saw a requirement for boards to continually engage in self assessment.

Iecovich (2004) empirically identified several board practices which were consistent with the normative literature. She determined however, that many of the boards were 'hands on' in that they focussed on issues such as annual budget allocations and changes in programs and services rather than on fundraising or advocacy and lobbying, although these findings varied with type, size and membership of the organisation.

Several integrated models were reviewed with detailed roles and responsibilities. Common roles were: setting direction or participating in strategy formulation (Brown, 2005; Forbes and Milliken, 1999; Friedman and Phillips, 2004; and Miller-Milleson, 2003); and monitoring and oversight (Forbes and Milliken, 1999; Friedman and Phillips, 2004; Miller-Milleson, 2003; and Nicholson & Kiel, 2004). Other identified roles were: fundraising and external relationships (Brown, 2005; Miller-Milleson, 2003; and Nicholson & Kiel, 2004); appointment of key staff (Forbes and Milliken, 1999; Friedman & Phillips, 2004; and Miller-Milleson, 2003); and finally, compliance (Miller-Milleson, 2003).

## **Board Processes**

Some studies peripherally addressed board processes. These processes included prioritisation of issues (Carver, 1997; Taylor, Chait & Holland, 1996); and self evaluation and board dynamics (Brown, 2005; Jansen & Kilpatrick, 2004).

However, two key studies focussed significantly on board processes as well as structure and links to performance. Nicholson & Kiel (2004) presented the board as a provider of intellectual capital and identified components of individual capital as human, social and cultural and linked these to the functioning of the board through individual-board dynamics. They concentrated on board interaction and process resulting in the performance of board roles (consistent with those identified above). They then formed a link from their model to two levels of output: firstly, board effectiveness and secondly, organisational performance.

Forbes & Milliken (1999) also devoted significant analysis to board processes, defined as effort norms, cognitive conflict and use of knowledge and skills. They recognised the potential trade-off between cohesion (often stated as a desirable board feature) and cognitive conflict or the ability to challenge. This study identified key structural requirements identified earlier, and linked both those and board interaction to common board roles. Again, they provided a further link to firm performance as an outcome of the governance model.

These models demonstrated the complex nature of the board and governance as an integral organisational process. The literature has also illustrated the significant evolution in governance research over merely eight years, both in terms of quantity of output and sophistication of concepts. It is also apparent however, that the models are heavily board centred. With the exception of Heimovics, Herman and Jurkiewicz (1993) and other executive centred theorists, the literature suggested that the board is the central focus of governance. Many of the studies were normative and as such may not represent reality. As Fletcher (1991) argued, this may be due to limitations on the executive's time, however, empirical studies (Heimovics, Herman and Jurkiewicz, 1993 and Herman and Heimovics, 1994) suggested that the executive played a much greater role in the key strategic and decision making processes.

The structural-process models were diverse in the aspects they included and while two models (Forbes and Milliken, 1999 and Nicholson and Kiel, 2003) extended the

governance analysis to organisational performance, a major limitation was the failure to discuss this aspect.

The next chapter undertakes a comprehensive examination of literature on governance in sport. The discussion locates sport organisations within a nonprofit organisation context, and examines their systems of governance within a nonprofit framework.

## **CHAPTER THREE**

### **LITERATURE REVIEW PART TWO: SPORT GOVERNANCE**

Chapter one provided some background to the governance problem and its relevance to the effective operation of the AFL and its constituent clubs. It also provided a brief discussion of governance in the corporate, nonprofit and sports sectors. Chapter two presented a review of contemporary governance research with a concentration on the governance of nonprofits. The discussion now focuses on general and specific governance issues in what could be described as “the sport industry”. This chapter firstly presents a general discussion of the literature relating to current issues in sports management, and secondly, investigates research into management and governance issues in national and state voluntary sporting organisations. Thirdly, it considers studies of professional sporting bodies and finally, presents a review of the emerging body of governance literature concentrated on football in general and the AFL in particular.

#### **Corporatisation of Sport**

Challenges abound for most industries in the increasingly globalised, technologically advanced world, thus placing increased pressure on organisation decision makers. The price of failure in the business sector has increased and this is also true for sport. This begs the question as to where sport fits into the usual definition of an industry, is it part of the nonprofit, social enterprise area, is it part of the wider entertainment industry, or is it in fact an industry in its own right? The extent, to which sport organisations, particularly professional sporting bodies, conform to the nonprofit, social enterprise model, is the extent to which the discussion in chapter two is relevant for this thesis. The challenges in the ‘sport industry’, wherever that may lie, go to the heart of sports governance as the ensuing literature illustrates. These challenges are clarified in the following review.

Cousens (1997) explored the evolutionary changes occurring in professional sport with a focus on baseball. The key issues underlying her analysis was whether the

minor league baseball franchises which formed her sample, were in fact sports organisations competing in the sport industry, or whether they were in fact part of a sport business which competes within the wider entertainment industry.

After identifying changes to the professional sports environment, many of which will be the subject of much of this chapter, she distilled the organisational theory literature into two archetypes: the sport-centred archetype (participating in the sport industry); and the business-centred archetype (participating in the entertainment industry). She cited McKinney (1966, p.321) to present a definition of archetype. “Archetypes, a form of constructed type that represents generalisations, are developed by selecting and accentuating a combination of elements and attributes that form a particular configuration.”. Building on research conducted by Kikulis, Slack, and Hinings (1992), the author designed two templates for a professional sport franchise. These are presented in Table 3.1.

**Table 3.1 Professional Sport Franchises**

<b>Feature</b>	<b>Definition</b>	<b>Sport-Centred Archetype</b>	<b>Business-Centred Archetype</b>
Institutional Values:			
• Orientation	Source of legitimisation	Focus is on the sport operations	Focus is on revenue generation
• Domain	Values regarding product, services, customers	Narrow-Franchise is considered part of the sport specific industry	Broad-Franchise is considered part of the entertainment industry
• Principles of organising	Values pertaining to the use of roles, rules and reporting relationships	Informal planning	Formal strategic planning
• Criteria of Effectiveness	On what basis organisation will be evaluated	Team performance and player development	Profit maximisation
Organisational Structure			
• Specialisation	Task and role differentiation	Employees perform multiple tasks. Hiring based on knowledge of the sport	Professional hired to perform specialised functions. No sport experience necessary
• Standardisation	Presence of rules, policies and procedures	Informal operations	Formal operations
• Centralisation	Level of final decision making	Centralised decision making	Decentralised decision making

Source: Cousens, L., (1997), From Diamonds to Dollars: the Dynamics of Change in AAA Baseball Franchises, Journal of Sport Management, 11.



The author presented the sport-centred archetype as the traditional model of a professional sports organisation and suggested that the contemporary model of a professional sports organisation was represented by the business-centred archetype. Cousens suggested that this framework was helpful in determining the impact of strategic change through the assessment of the franchises' adoption or otherwise of the business-centred archetype.

Her results showed that one franchise appeared to conform to the sport-centred archetype; three franchises resided within the configuration described as the business-centred archetype, while the remaining franchise demonstrated elements of both archetypes and was classed as "indeterminate" exhibiting features of each. As this situation of indeterminacy, could be hypothesised about AFL clubs, it is interesting to examine the elements for this franchise. This is summarised below:

**Table 3.2 Indeterminate Sport Franchise Characteristics**

<b>Feature</b>	<b>Result</b>	<b>Archetype</b>
Domain	Sport market	Sport-centred
Orientation	Focus on the business element	Business-centred
Criteria of Effectiveness	Revenue generation/Profitability	Business-centred
Principles of Organising	Valued roles, rules and reporting relationships	Business-centred
Specialisation	Professional staff hired for their knowledge of business	Business-centred
Centralisation	Decision making centralised	Sport-centred

Source: Cousens, L., (1997), From Diamonds to Dollars: the Dynamics of Change in AAA Baseball Franchises, *Journal of Sport Management*, 11.

The corporatisation of sports organisations could also be considered as a multi-faceted construct. This corporatisation has been demonstrated in the following ways: first, the inclusion of new corporate actors into the sports industry (Amis, Slack and Hinings, 2004; Hamil, 1999; Morgan, 2002); second, the adoption of corporate practices by sports organisations (Auld and Godbey, 1998; Doherty, Patterson and Van Bussell, 2004; Shilbury, 1994; Slack, 1997); third, compliance with corporate codes (ASC, 2002; Deloitte and Touche LLP, 2000, 2001, 2002, 2003, 2004; ICAA,

2000, 2001, 2002, 2003, 2004; Michie and Oughton, 2005) and fourth, the extent to which sports organisations are subject to global challenges similar to the for profit arena (Brown, 2002; Mahony and Howard, 2001; Shilbury, 2001). These studies are discussed throughout this chapter.

## **Challenges for Sport Governance**

In line with Cousens' recognition of evolutionary change in baseball, several studies have examined the increased complexity and demands of the contemporary sport industry environment. It is appropriate to consider that the issues raised pose challenges to the strategic direction of various sports, leagues and clubs. These challenges place increased pressure on organisation decision makers, and at the strategic level, this is the domain of the board. Many of the studies identified similar issues of reduced government funding; increased competition for sponsorship; maturing markets, rapidly changing technologies; and the prevalence and growth in commercial management practices. Shilbury (2000) identified the expectation of financial autonomy within a maturing market, but highlighted that this position was yet to be realised for many sports in Australia. Using Porter's (1998) concept of industry clusters, he examined the future of sport delivery systems and conceptualised the sporting body having relationships with industry partners in varying degrees of significance. The analysis was based on the assumption that these cluster partners were to some extent economically reliant on the sporting body and therefore gave an ability to the sport to leverage off that relationship through potential to increase revenues (or to reduce costs). His first case study identified the cluster within which the AFL operated, and ranked media as an industry which has the strongest interest with the sport.

Mahony and Howard (2001) analysed trends in the United States sports industry over the 1990s and into the first decade of the new millennium. They identified that significant growth occurring in the industry was in line with the overall boom in economic growth. They noted however, that there would be greater challenges going forward than the industry had faced in the 1990s.

Key features of the emerging operating environment were firstly the growing disparity between “large and small market teams” (Mahony and Howard, 2001, p. 280). Secondly, there was increasing debt due to significant sports facility construction, this led to the third factor, a heavier burden being placed on fans and sponsors to provide revenue sources for recurring operations and to meet debt obligations. Fourthly, the major sports in the US faced increasing competition from second tier sports such as wrestling and NASCAR, fifthly, corporate investment which was seen as an essential and growing revenue component was vulnerable to the general economic cycle.

The authors did identify several opportunities for sport organisations that will assist them achieving long term viability, including effective use of technology; exploitation of major events, rivalries and the stars of the sports; targeted operational and marketing effort aimed at promoting and rewarding loyalty; and market expansion either geographically (promoting interest in other regions) or new target markets such as a different ethnicities. There was scope to reduce costs through better definition of which areas will give the most return and creative financing. They also suggested that there will be greater relationships with other key partners in the industry such as media.

The prominence of media in the discussion hypothesises outcomes should television broadcasters control a sport franchise. Stotlar (2000) suggested that the salary cap and distribution to players was vulnerable when broadcasters assumed a controlling interest in a sport franchise. While the profit for the group remained the same, the decision of where the revenue was recorded could mean greater funds available for distribution to players, thus encouraging better performances and greater revenues for the parent.

Gilbertson, Davies and Butler (2003) identified key issues facing sport organisations in New Zealand. A summary of their findings are presented in Table 3.3.

**Table 3.3 Trends in New Zealand Sports environment**

<b>Trends in Operating Environment</b>	<b>Key Strategic Focus Ranked in terms of Importance</b>
Reduced voluntarism	Increasing membership
Increasing competition for sponsorship	Increasing volunteer members
Changes in work and leisure patterns	Full support of national body by clubs
Increased competition from other forms of entertainment	Focus on junior development
Shifts in government funding	Shared national vision
'fast food' approach to sport	Comprehensive positive media coverage
Higher customer expectations	Increasing TV coverage
Changes in information technology	High quality venues and game resources
Increased regulation	Satisfactory financial resources
Changes in media and communications technology	Sustainable financial independence

**Source:** Gilbertson, D., Davies, J., and Butler, G., (2003), Sport Futures and the Perceptions of Sport CEOs: Their Impact on Sport Management in New Zealand, Proceedings of the 32<sup>nd</sup> Annual Meeting of the Western Decision Sciences Institute, Omnipress, Madison, WS.

Their study reinforced that the trends and challenges for sport organisations were global, while the impact and solutions would be addressed locally.

The above discussion presented several areas of concern and debate for sport organisations. However, two emerging themes, which arguably arose from the increased corporatisation of sport, are worthy of specific attention particularly in the light of the discussion of sport organisation ownership.

### *Marginalisation of the 'fan'*

Marginalisation of the sports fan has been the subject of considerable interest, primarily from the United Kingdom. Research has suggested that there is a potential conflict of interests between various shareholder investors in the Premier League listed clubs. Assuming a profit maximisation objective, much of the research discussed that owners have incentives to trade players, maximise transfer fees, reduce costs excessively and thus affect the outcome of team performance, a key objective for the club and club fans. Studies by Bourke (1999); Michie and Ramalingam (1999); Hamil (2000); Michie and Oughton (2005) and the Football Governance Research Centre (2004) all focussed on aspects of ownership of

Association football league clubs, primarily promoting the view that there was a role for fan ownership of clubs. Michie and Ramalingam (1999) proposed that a mutual form of organisation could better provide ownership opportunities for fans. Similar in nature to the membership structure of an AFL club, active supporters would have an ownership share which is non tradeable but carries voting rights. Given the value of share capitalisation of most listed clubs, a buy out of shares to achieve a mutual form of ownership was seen as impractical. The authors therefore proposed an alternate form of ownership through the formation of a supporter trust.

The Football Governance Research Centre (2004) in their annual State of the Game Report (highlighted three case studies of community ownership of clubs (Lincoln City; Chesterfield; and York City) as solutions to the potentially undesirable actions of profit seeking shareholders.

The issue of marginalisation of the sports fan was not country specific. Solomon (1999) presented a brief discourse on the topic of 'fan power' in the US, citing an example of a fan conglomerate bidding for the purchase of the New York Jets National Football League team. The National Football League (NFL) prohibits public ownership (with one historic exception) and the bid did not proceed. Solomon presented examples of escalating ticket prices, player strikes and increasing taxpayer funding for stadia, as drivers of much of the growth in fan activism. He argued that franchise values have increased significantly in recent times, contradicting the complaints of financial hardship by owners. The author challenged the governance of teams and the sport media for largely ignoring off field issues.

Brown (2000) presented a study on current issues in European football with the purpose of focusing the necessary policy agenda by national, European and transnational policy makers. The foundation of the study was the justification of sport and football in particular, as critical to the notion of personal and national identity, and as a factor influencing social cohesion (either positively or negatively). The paper analysed aspects of the modern sport industry environment which could potentially undermine desirable social objectives. The study concentrated on football in the European context, referring to individual European club strategies and issues, national issues for the countries participating in Union Européenne de Football

Association (UEFA) and issues of wider relevance for the European Union and the European Commission. Brown (2000, p. 131) argued that “football is also a major social and cultural phenomenon.....as a site for social cohesion and integration as well as a site for cultural division and exclusion”. Sugden and Tomlinson (1998 p. 131) suggested that “there is an increasing domination of all aspects of the game by the ‘golden triangle of television, football and sponsorship’ ...Football is a cultural product, and its meanings and significance are not wholly defined by its political economy....it is an increasingly commodified cultural product in a structured environment of an intensifyingly exclusive type”.

Brown (2002) identified key issues of concern to the sport in Europe (and elsewhere). The first concern was the impact of technology on football, mainly in the area of broadcast technology. He produced evidence that the introduction of digital television and ‘pay for view’ has changed the environment irrevocably.

He further suggested that the significance of the media presence in football has changed the egalitarian nature of the sport through the increased flow of broadcast revenues to a select number of clubs, to the detriment of national and local leagues and ‘grassroots’ football. He defined this as “an institutionalising of success through its financial and organisational arrangements...”(Brown, 2000, p. 137). He also highlighted the concern that share ownership and the listing of football clubs on stock exchanges would change the focus of those clubs to delivering financial returns rather than delivering social benefits. The third issue of concern was the preservation of sport (and football in particular), for its social importance.

The implications of some of these ownership issues are explored later in this chapter.

### *Brand Equity*

The corporatisation of sport is no better illustrated than when discussing the emerging theme of brand equity. The focus on marketing parlance is defining the sports game as a ‘product’ and applies corporate marketing principles to the analysis of consumption of this ‘product’.

Gladden, Irwin and Sutton (2001) discussed brand equity in sport. Their discussion gave a synopsis of developments in professional sport in the US and they suggested that continued financial success will be problematic. They contended (2001, p. 301) “that teams will increasingly be viewed as brands and managed accordingly”. The focus on brands was driven by the requirement to increase franchise value for owners. The authors suggested that the major strategy to enhance brand equity would be through the acquisition of assets primarily through horizontal integration and strategic alliances either between teams and participants in the music or entertainment industry (cited example of Fox One Integrated Sports Marketing Partnership) or between teams themselves (cross promotion between NBA team Toronto Raptors and NHL team Toronto Maple Leafs). The authors also identified customer relationships as a method to maintain brand equity and redress what they saw as a serious problem for professional sport, the defection of the “average fan”.

## **Sport Governance**

As the previous discussion demonstrated, sport has become increasingly corporatised and voluntary sport organisations, once the domain of a dedicated group of volunteers, are increasingly appointing professional management. The presence of a full time executive must change the nature of the governance of the organisation and there now needs to be better definition of the demarcation between the board and executive with regard to their roles and responsibilities. Much of the focus on governance in amateur or voluntary sporting bodies has been driven by reduction in government funding for sport and a consequent need for greater accountability as discussed by Shilbury (2000) in the previous section.

A useful perspective on sport governance was presented by Davies (2000). He argued for systems approach to governance and illustrated the effectiveness of this framework through case study analysis. Using the Viable Systems Model (Beer, 1985), he presented governance not just as a function of structure or composition but a system of communication channels and information flows; and interrelationships with multiple stakeholders.

Davies (2000) reviewed four cases, evaluating aspects of their performance with regard to effectiveness of the governance system. The target cases were: International Olympic Committee (IOC); UK Sports Councils; Federation of International Football Associations (FIFA); and the Football Association of Wales.

The findings determined that lack of representation of key constituents was a major impediment to achieving success in establishing and communicating their mission for the IOC and FIFA. Communication to constituents was generally found to be weak, thus compromising the planning and control roles of the board of those bodies. Sugden and Tomlinson (1998, p.71) argued that FIFA operated as a “personal fiefdom”. However, FIFA eventually appointed a Management Board comprising representation from the confederations and as such, has to a degree reconstituted their role in establishing mission role and improved their co-ordination ability.

Adoption of a smaller board and the formulation of two sub-committees was perceived to enhance strategic analysis, development and promotion of the mission, and ultimately, operational autonomy and effectiveness for the UK Sports Councils. The relationship between the CEO and Board Chair was also perceived to be crucial and effective. Davies argued that formalised demarcation of responsibilities between the board and the staff indicated a fundamental mistrust and potentially compromised operational autonomy for the Football Association of Wales.

This research was useful in recognising the fundamentals of governance as part of an organisational system. It then contributed to the knowledge of sport governance through illustrative examples of governance structures of prominent sports organisations and their ability to achieve effective system functionality.

## **Governance in Amateur Sports Organisations**

Amateur Sporting Organisations (commonly cited as Voluntary Sporting Organisations or VSOs) have been the subject of much of the research into sport



governance. The literature has been rich and varied and has delved into most aspects of governance. The majority of research has been on first, board characteristics and structure; second, roles of the board; third, board-executive relations; and fourth, management of change. Although increasingly corporatised, VSOs appear to conform to a sport-centred archetype (Cousens, 1997).

### *Board Characteristics and Structure*

Doherty and Carron (2003) addressed the issue of cohesion in volunteer sport executive committees. In this study, cohesion was defined as “a dynamic process which is reflected in the tendency for a group to stick together and remain united in the pursuit of its instrumental objectives and/or for the satisfaction of member affective needs” (Carron, Brawley, and Widmeyer, 1998, p. 213). The authors identified previous studies of cohesion in a sports setting (;Cuskelly, 1995; Kikulis, 1990) but determined that the “limitation in the research carried out by Cuskelly (1995) and Kikulis (1990) is the conceptualisation and operational definitions they used to measure cohesion” (Doherty and Carron, 2003, p. 118).

Previous work identified four aspects of cohesion relating to both the task aspect of the group and the social aspect (task cohesion and social cohesion). These were labelled for each individual as the attraction to the tasks performed by the group; feelings about the social interaction of the group; perceptions of the group’s unity and similar approach with regard to the group tasks; and perceptions of the group’s unit in respect of social interaction (Carron, Brawley, and Widmeyer, 1998).

The aim of their study was to investigate whether the task or social aspect was the stronger attraction for the participant committees as well investigating whether there were any committee composition issues or organisational issues such as length of tenure or frequency of meetings that influenced cohesion. Doherty and Carron (2003) further analysed whether there was a link between cohesion and individual commitment as well as committee effectiveness.

The findings indicated that the respondents perceived greater task cohesion than social cohesion. However, high levels of both task and social cohesion were

observed. There was no committee characteristic that correlated significantly with cohesion but they did find that medium and large committees (with 13 plus members) were more socially cohesive. The authors speculated that smaller committees may meet less often, if on some occasions there was not a quorum. A final finding linked the perceptions of cohesion with committee effectiveness. Feelings on the integration of the group and both task and social aspects were stronger predictors of committee effectiveness.

Individual factors and Organisational factors hypothesised to correlate with cohesion are summarised in the Table 3.4.

**Table 3.4 Cohesion Factors**

<p><b>Individual Satisfaction</b> - measured by JIG instrument (Smith and Brannick, 1985)</p>	<p><b>Organisational Committee size</b> - small (13&lt;); medium (13-18); large (&gt;18)</p>
<p><b>Effort</b> - respondent rating on 7 point scale.</p>	<p><b>Committee gender composition</b> - percentage of women members</p>
<p><b>Intention to Quit</b> - Respondent rating on 7 point scale based on Taylor, Daniel, Leith &amp; Burke, (1990)</p>	<p><b>Frequency of meetings</b> - weekly, monthly etc</p>
<p><b>Perceived committee effectiveness</b> - Respondents identification of criteria for determining if their committee was effective and then rated on 9 point scale</p>	<p><b>Length of meetings</b> - number of hours</p>
<p><b>Demographic</b> - respondent gender, position on committee, tenure</p>	

**Source:** Doherty, A. J., and Carron, A. V., (2003), Cohesion in volunteer Sport Executive Committees, Journal of Sport Management, 17.

Cuskelly, McIntyre and Boag (1998) examined the commitment of volunteer sport administrators (members of the committee or board) over time. A detailed discussion on organisational commitment is beyond the scope of this study, but Kanter (1968) cited in Cuskelly et al., (1998) argued that individual commitment to an organisation was strengthened through continuance, cohesion and control. Continuance suggested that commitment was a function of sacrifices made to join

and remain with an organisation; cohesion commitment relies on the individual's attraction to the social aspect in an organisation; and control commitment was present where the norms and values of an organisation are important influences on everyday behaviour. Their study contributed to this thesis through their discussion on the committee structure of boards, and the individual's benefits from participating in a volunteer board.

The authors posited that committees (boards) which embraced "cohesion, support, trust, and openness" (Cuskelly, McIntyre and Boag, 1998, p. 186) should enjoy greater levels of organisational commitment. Their research examined the extent to which organisational commitment was a function of those aspects of the workings of the committee and the perceived benefits of volunteering. They further suggested that organisational structure and individual volunteer personalities may influence that commitment.

They conducted their research over three 6 month periods and attempted to establish if the factors mentioned above had some predictive ability with regard to organisational commitment. The results showed, among other findings, that the volunteers committed an average of 6.8 hours per week to the organisation when their sport was in season. Other findings were: age, tenure and hours contributed were significantly correlated with organisational commitment. Occupational prestige was significantly negatively correlated but meeting attendance was not a significant predictor of commitment. The results further indicated that favourable perceptions of committee functioning lead to higher levels of organisational commitment. Four perspectives of perceived benefits of volunteering were studied: altruism; learning; recognition; and relaxation. All four were found to predict organisational commitment, although altruism showed the most significant relationship.

Doherty, Patterson & Van Bussell (2004) further explored commitment by executive committee members through a study of group norms of volunteer sport executive committees. Their empirical study of 121 executive board members examined the correlation between certain committee factors (tenure; position on committee; committee size; committee gender composition; and committee tenure composition) with eight pre-determined and expert validated committee norms. These norms were

categorised as task or performance norms (six) and social norms (two). The task norms were:

1. Participation - the expectation of individual contribution to the work of the committee
2. Communication - the expectation of effective communication
3. Attendance – the expectation of attendance for the duration of meetings and punctuality
4. Cooperation – the expectation of collaboration and compromise within the committee
5. Individual Performance – the expectation on preparation and delivery on assigned tasks
6. Group Performance – the expectation of prioritisation, focus and meeting deadlines.

Two social norms were:

1. Social interactions – the expectation that committee member relationships would be cordial and respectful
2. Socialising – the expectation that members would engage in some social discourse

The findings supported the strong existence of the six task norms and one social norm (social interaction), the latter perceived as being the strongest norm. The relationship between the committee factors of tenure, position, gender and tenure composition; and existence of the norms was not significant. Only committee size correlated with the group norms, with larger committees (16 members) identifying a greater expectation of social interaction, attendance, and individual performance than medium sized committees (12-16 members).

The study provided additional insight into the process of governance, and has illustrated that the introduction of new members onto a committee would not impact negatively on the group norms. Further, the study indicated that although there was evidence of strong norms on the executive committees, they exerted only moderate influence on individual effort and commitment.

### *The Roles of the Board*

Similar to the literature in the nonprofit area, there are a substantial number of studies attempting to define or explain the roles of the board in various sporting organisations.

Inglis (1997) examined the perceptions of executives, board presidents and board members of the importance of, and their performance on, a number of board roles. The study encapsulated 17 board roles identified from the nonprofit literature into four key focuses (labelled factors) of a board. The first factor was in relation to how the organisation “defines and conducts itself” (Inglis, 1997, p. 161) and was labelled “Mission”. The second factor related to the strategic and operational planning role and was not surprisingly, labelled “Planning”. The third factor dealt with the appointment and oversight of the executive and was appropriately labelled “Executive Director”. The fourth and last factor related to relationships with stakeholders such as members, constituents, funding providers and the wider community. This factor was labelled “Community Relations” (Inglis, 1997, p.166). The complete list of board roles is shown in Figure 3.1.

The results indicated that the first three factors were rated as important while community relations were seen to have relatively low importance as a board role. The ratings on performance were lower than the ratings on importance indicating there was room for improvement in performing the roles. Again, however, community relations were the least well performed. She highlighted that there were some differences between the respondent groups with regard to both importance and performance although consistent with the relativity of ratings.

**Mission:**

- Determining the Mission
- Being accountable to members
- Ensuring policy decisions made reflect mission
- Fulfilling ethical responsibilities
- Ensuring official charters are followed

**Executive Director:**

- Hiring the director
- Assurance of performance in serving board policies
- Fulfilling legal responsibilities

**Planning:**

- Setting financial policy
- Annual budget allocations
- Developing and assessing long range plans and overall strategy
- Hiring decisions on senior paid professional staff

**Community Relations:**

- Involved in developing and helping to deliver specific programs
- Representing the interests of certain constituencies
- Raising funds for the organisation
- Advocacy and community relations
- Setting policy from which staff can deliver programs

### **Figure 3.1 Roles of the Amateur Sports Board**

**Source:** Inglis, S., (1997), "Roles of the Board in Amateur Sport Organisations", Journal of Sport Management, Vol. 11, pp160-176.

#### *The Decision Making Role of the Board*

Auld and Godbey (1998) investigated the impact of professionalisation in Canadian NSOs by examining the perceived relative decision-making power of the aforementioned parties. Their study involved the total population of NSOs and required all Executive Directors (professionals) and a sample of board committee members (volunteers) from those organisations to complete a self administered questionnaire. Their findings indicated that both professionals and volunteers thought that the volunteers should have a greater influence over decision making, although all agreed that they should have a lower level of decision-making power than the professionals. This was particularly true in one activity: organisational planning and management.

Their overall findings indicated that there should be a more balanced degree of decision making. The authors speculated that this finding may indicate that the professionals recognised the value of contributions from a "well-educated and experienced board that had much to contribute to the management of the organisation. The volunteers may have considerably more knowledge and insight into their particular sport than did the professionals" (Auld and Godbey, 1998, p.34).

The authors also indicated that this research challenged some of the normative nonprofit literature which recommended clear delineations of roles between the board and management (Conrad and Glen, 1982; Duca, 1986). Their research suggested that professionals should have responsibility for day to day decisions but should also have influence over broader policies. They also indicated volunteers should exert a greater level of influence than they currently did in organisational planning, but also should maintain some involvement in day to day activities such as domestic liaison, thus reinforcing the existence of a complex interdependent relationship.

Decision making in Canadian NSOs was also the subject of research by Kikulis (2000). In a further examination of the impact of paid professionals in NSOs, she stated “It is the volunteer board to which responsibility for the functioning of the organisation is delegated by the membership that has been passed on through the generations of NSO members and is embedded in the practices and values of these organisations” (Kikulis, 2000, p. 306). She went on to quote Golden-Biddle and Rao (1997, p. 594) in that this was part of “organisational identity-the shared beliefs of members about the central, enduring and distinctive characteristics of the organisations”. Kikulis relied on Berger and Luckmann (1967) to suggest that volunteer boards possessed a certain knowledge about the organisation which is reaffirmed through symbols or symbolic acts. She suggested that these include “the AGM...which plays a significant role in communicating with stakeholders, adhering to bylaws and auditors reports, ensuring continuity in leadership, and assuring the membership that the programs, services and finances are in order” (Kikulis, 2000, p. 307). The author leant on Institutional theory to conclude that the motivation for the appointment of professional staff can be due to institutional pressures but also limited by financial constraints regardless of the desirability for professional management. An understanding of the level of institutionalisation of the organisation could clarify the likely governance structure.

#### *Board – Executive Relations*

Hoye and Cuskelly (2003) and Hoye (2004) extended the discussion of the relative roles of the board and CEO in the nonprofit area. The study conducted by Hoye and

Cuskelly (2003) appointed a panel of experts to rate each of 45 voluntary sport organisations in Victoria as to whether their boards were perceived to be effective or ineffective. The eight most commonly cited organisations formed the basis for further case study analysis. The final sample consisted of seven organisations of which 4 were rated effective and 3 ineffective.

The respondents (the CEO, board Chair and all board members) were asked to complete a self assessment of 11 items representing features of the board undertaking its duties, including relations between the board and executive. On the basis of the findings, they conducted interviews with the Executive, Chair and a randomly selected board member for each organisation examining the nature of the relationship between them. The results showed that there was generally a positive relationship between the board and executive in all the organisations but those with boards rated as ineffective had some experience of “mistrust, frustration and conflict” (Hoye and Cuskelly, 2003, p. 65).

Four key findings were clear from the study. Trust was seen as an important element in the relationship; the boards and executives felt they shared leadership for the organisation; the critical role of the executive in providing information to the board was a key to the relationship and the performance of the board; and finally the responsibility for the performance of the board rested with the board Chair.

A similar study conducted by Hoye (2004) on Voluntary Sporting Organisations (VSOs) further examined the nature of the relationship by examining board-executive exchanges. The findings indicated that the higher performing boards had better executive-board exchanges and that the executive-board exchanges were typically superior to exchanges between these two parties and board members. There was no evidence presented as to how these high quality exchanges came about, but it was presumed to relate to the presence of trust and mutual respect, established earlier in Hoye and Cuskelly (2003).

#### *Management of Change in VSOs*

Amis, Slack and Hinings (2004) conducted an instructive study investigating the capacity for revolutionary or “transformational” change in voluntary sporting



organisations. They conducted a longitudinal study into strategic change in 36 National Sporting Organisations (NSOs). The study discussed the role of leadership (both board leadership and management) in the change process and identified three elements underlying the transformation dynamic. The first of these was that pressure for change can stem from dissatisfaction at the individual or subunit level. The second element was how the distribution of power was influential in resolving conflicts and finally, the capabilities and competencies of the organisation at both board and management level determines its ability to achieve transformation. They define power as “the capacity to achieve outcomes” (p. 161) as an output of the political and social relationship.

The authors studied Canadian NSOs over a period of 12 year, examining the organisational and governance structures over that period and thus identifying those organisations which had achieved radical change. The structures of the organisations were classified as archetypes determined by Kikulis, Slack and Hinings, (1992).

These archetypes are:

**Kitchen Table** – characterised as informal, run by volunteers involved through their loyalty to the organisation rather than their skills, little formal planning or administrative procedures.

**Boardroom** – characterised by a more professional approach and structure. Volunteers are elected to a board and are often supported by paid staff. Volunteer board members are often elected for their business expertise and there is the existence of formal processes.

**Executive office** – characterised as a more formalised, bureaucratic structure with decision making shifting from the volunteer board to the professional staff. Technical expertise is required at all levels of the organisation both sport related and administrative. The expectation is for the board to set policy and the staff to administer the organisation.

These archetypes underpinned changes in government policy with respect to sport funding. Initially, NSOs who were recipients of government funding from Sport Canada were expected to move from the kitchen table to boardroom. At the elite level, sports competing in the Olympics and world championships were required to

operate at the executive office level. The authors' study was aimed at identifying how that archetype change was achieved.

They constructed six case studies from their data, each of which had achieved different organisational and governance structures over the period. Three of their case studies had progressed to achieve executive office status, while three had changed from kitchen table to a more sophisticated structure, only to regress to kitchen table by the end of the period. The case studies which had achieved the required structural change had several commonalities. These included recognition of the appropriate roles for staff and board and good working relationships, together with a level of trust between the executive and the volunteers (board). The timing of that recognition differed for each of the organisations, with the third organisation making the radical change only in the last few years of the study. It was also interesting to note that none of these organisations were initially 'kitchen table' organisations. They all commenced the change process from either 'boardroom' or 'executive office'.

Analysis of the results for the organisations which had regressed also provided interesting insights. In each of these cases, there was reluctance to cede power to professional staff in terms of decision making authority, and lack of clarity of roles and lack of leadership was a common response. Mutual mistrust between the boards and the staff lead to key executives resigning in the first two cases, and the start of a competitive and funding crisis which resulted in the necessity for volunteers to once again become 'hands on'. In the third case, it appeared that the issue was a result of the general status of the sport in Canada, rather than any overt governance conflicts. The authors' conclusion suggested that the difference in success of the organisations to achieve the desired change, emanated from internal dynamics rather than exogenous factors. In relation to three elements underlying ability to change, it was clear that conflicting interests were evident, mainly with regard to ceding decision making authority. All of the evaluated organisations initially concentrated power in the volunteer board. Those which were successful in achieving the desired change, were able to disseminate and share power. It appeared that the organisations that had visionary leadership and the ability to drive the vision had the capacity to achieve change.

## **Governance Principles in Sport**

Governance in Australian sport has been the subject of several reviews in recent years largely due to either poor sporting performances, financial distress or both (Crawford, 2003; Elliott, 2004). The ASC provided some context for these reviews in general and the governance of national sporting organisations specifically with the publication of a statement of best practice governance principles (ASC, 2002).

Five principles were determined: 1. clear delineation of governance roles; 2. effective governance processes; 3. effective governance controls; 4. governance improvement; and 5. member responsiveness. These will be briefly described here.

### **Principle 1: Clear delineation of governance roles**

This pertained to the importance of the constitution of the organisation, outlined guidelines on board composition and defined the roles of the sports board as: setting broad strategic direction; appointing senior management; monitoring financial and non-financial performance; ensuring risks are managed; ensuring compliance with laws and regulations; and providing for stakeholder participation in the organisation's strategic direction.

### **Principle 2: Effective governance processes**

The board meeting and board structure was the subject of this principle. The ASC provides guidelines for the conduct of meetings; recommended documented procedures and terms of reference for sub committees; and highlighted the need to formally determine whether the board will make decisions on the basis of democratic vote or by consensus.

### **Principle 3: Effective governance controls**

This principle defined the monitoring role of the board and how boards discharged their accountability. The recommendations included the need to establish protocols for board-management interaction; the requirement for an effective performance measurement system by which management can be monitored and evaluated; that all foreseeable risks are identified and risk management strategies formulated; and finally, the requirement for an effective system to ensure compliance.

#### Principle 4: Governance improvement

This principle suggested that the board should conduct a board evaluation; the directors have appropriate insurance cover; new directors are properly inducted into the organisation and board; and finally, that directors have access to relevant information.

#### Principle 5: Member responsiveness

The ASC required NSO directors to act in the best interests of the organisation and to identify and consider members' interests in the formulation of the strategic plan. Further, they specified the primacy of members in the board election process and require appropriate disclosure in the form of an annual report.

While these principles are only applicable to NSOs, they are generic in nature and can readily be extended to professional sports organisations.

### **Sport Governance Model**

Ferkins, Shilbury and McDonald (2005) considered the role of the board in building strategic capability and proposed an integrated model of sport governance. The authors presented a comprehensive review of the literature underpinning the current focus on sport governance. They presented a brief consideration of the universality of key management thinking in the corporate arena based on the theoretical concepts explored at length in this study. The study reviewed the nonprofit governance and sport management literature and presented a schema of sport governance comprising the following elements: Environmental Dynamics; Sport Governance Themes; and Governance Capabilities.

Environmental dynamics considered the level of professionalisation of the organisation and identified their key macro and micro influences. The macro influences included public policy, stakeholder demands, and legal requirements while micro influences considered funding, membership, program attractiveness. Sport governance themes were identified through a comprehensive review of the literature and were categorised under shared leadership; board motivation; board

roles; and board structure. Governance capabilities were drivers of strategic development as well as the board's own operations. Strategic development supported three areas of performance, conformance and policy.

The authors suggested that performance focused on effective strategic planning; financial stewardship; risk management; and achievement of organisation outcomes. Conformance was described as policy implementation; monitoring; accountability; and compliance. Policy involved consideration of policy development; methods to achieve organisation outcomes; evaluation of the CEO; and resource allocation. Operations were focussed on board processes within the board meeting.

The authors provided cases and studies describing and illustrating the importance of the facets of the model, many of which form the basis of chapters two, three and four of this thesis. Their conclusion was instructive in highlighting the emerging body of literature and providing a focus for future research. They also suggested that “an in-depth, qualitative approach may better capture the diversity that exists in sport, and may gather new data in different ways that may assist in creating new governance designs” (Ferkins, Shilbury, and McDonald, 2005, p.219).

## **Summary**

The literature on governance in VSOs encapsulates the emergent themes discussed in chapter two. The majority of the studies focussed on board roles, however, board processes are considered and therefore provides the context for this study.

The matrix depicted in Table 3.5 presents the key studies and their particular governance focus. The ASC principles and Ferkins, Shilbury and McDonald transcend one sub theme.

**Table 3.5 Summary of Literature**

Study	Sub Themes		
Author	Board Roles	Board Processes	Change Management
Doherty & Carron (2003)		Cohesion Factors	
Cuskelly, McIntyre & Boag (1998)		Commitment of board members	
Inglis (1997)	Comprehensive identification of roles		
Auld & Godbey (1998)	Decision Making – Board involvement versus Management’s involvement		
Kikulis (2000)	Decision Making – Compliance and institutional pressure to professionalise		
Hoye & Cuskelly (2003)	Board-Executive relationship (level of trust)		
Hoye (2004)	Board-Executive Communication		
Amis, Slack & Hinings (2004)			Strategic Change – amateur to professional
ASC (2002)		Governance: Principles of Best Practice	
Ferkins, Shilbury, McDonald (2005)	Comprehensive literature review		

## **Governance Issues in Professional Sports**

Much of the literature discussed earlier in this chapter has concentrated on amateur sporting bodies reliant, to a large extent, on government funding. Many of the governance issues faced by these organisations have in fact been driven by the need for better accountability of government funds as per the ASC principles discussed above.

There is, however, a significant body of work emerging in sport management research focussing on the complexities of particular sports and/or competitions in the increasingly commercial environment. This research is commonly tracing the evolution of many of these sports from amateur sporting associations to fully professional bodies/leagues/clubs which begs the question as to whether they conform to a sport-centred or business-centred archetype in line with Cousens' (1997) description. Although exhibiting different constituent focus, differing levels of both on field and off field competition, differing economic profiles, and regulation, and as much as the particular sports themselves demonstrate radical differences, the professional sport organisations share similar evolutionary experiences and face similar governance challenges.

The following discussion reviews some of this body of work in a further effort to place this study of AFL club governance in context. The sports which will be reviewed in detail are Rugby Union, English Football and AFL.

## **Rugby Union**

### *Morgan (2002)*

Morgan (2002) conducted an insightful and useful analysis of the professionalisation of English Rugby Union. This sport shared its origins with AFL in first being played in English public schools in the nineteenth century. It was however, the last major sport to professionalise in 1996. Morgan (2002) presented two views of the structure of the sport. The first was a linear view where feeder clubs contributed to a national team, where the majority of the revenue was generated. This in turn was fed back to the lower levels of the support for grassroots development. The feeder clubs had little ability to earn revenues and were largely cross subsidised by the elite international competition. The author pointed out that this view is also represented by world cricket. The second and alternate view was also presented, showing a network of stakeholders at various levels of the sport. He suggested that any conflicts between the identified stakeholders would be resolved in line with the type and influence of power exercised by those stakeholders.

He articulated approaches to governance identified by Heide (1994 cited in Morgan, 2002). These approaches are “unilateral/hierarchical governance imposed by a dominant member and bilateral governance in which the parties jointly develop policies directed towards the achievement of certain goals” (p. 43). He further suggested that rugby union was in the process of making the transition to a market led bilateral governance structure. The transition was characterised by a dominant international competition generating significant revenues particularly from broadcasters. This in turn was driving up salary expectations for elite players, keeping the pressure on the need to continually increase revenues at club level in an escalating spiral.

In England, the evolution of rugby was facilitated through private investment in elite clubs eventually resulting in a professional league Premiership Rugby. The other main rugby organisation was the national body responsible the national team, Rugby Football Union. English rugby is now represented by English Rugby Ltd. a 50-50 partnership between the aforementioned bodies.

Morgan (2002) further analysed the governance issues of the sport from the perspectives of critical stakeholders. He identified key stakeholder objectives and examined the link with structure of the sport. Key issues arising from the detailed objectives were listed as: composition of the leagues, structure (such as promotion or relegation), scheduling (fan friendly fixtures versus international commitments), players (workload, availability, and development), financial arrangements (revenue sources and allocation, sustainability) and control and governance (role of the NGB, freedom to negotiate broadcast rights and fixtures). These are summarised in Table 3.6.

#### *O'Brien and Slack (2003)*

The changes occurring in governance of English Rugby were also the subject of research by O'Brien and Slack (2003). This paper utilised the theoretical concept of organisational fields as conceived by DiMaggio and Powell (1983) and employing an Institutional Theory perspective. The study reported the process of change from an organisational field based on amateurism to one based on commercialisation.

DiMaggio and Powell (1983 p.419 ) stated “When values such as amateurism and



their related operating procedures are validated through the force of habit, history, and tradition, they become unquestioningly accepted and thereby, institutionalised”.

**Table 3.6 Stakeholder Issues for Rugby Union**

<b>Stakeholder</b>	<b>Objective</b>	<b>Key issue</b>
End users	Tight competition Vicarious success	Composition, Structure, Players
National Governing Body	Successful National team Development of the sport Co-ordination of the sport	Primarily composition, structure and players
Leading Clubs	Survival: On pitch success Commercial activities Share of NGB revenue	Primarily players
Broadcasters	Maximise subscriber base TV friendly package	Primarily scheduling

**Source:** Adapted from Morgan, M., (2002), Optimizing the structure of elite competitions in professional sport – lessons from Rugby Union, *Managing Leisure*, 7.

The authors identified four components which would change the organisational field: firstly, changes in the number of and nature of new actors (Bettis and Prahalad, 1995); secondly, changes in exchange processes and interorganisational linkages (Stern, 1979); thirdly, changes in legitimate forms of capital (Bourdieu, 1985; Bourdieu and Wacquant, 1992) and, finally, changes in regulatory structures (Scott Mendel, & Pollack, 1996).

The first key shift in the field occurred following the decision by the South African, Australian and New Zealand Rugby Unions (SANZAR Ltd.) to sign a broadcast agreement with News Corporation in 1995. The revenues were re-invested in players and increased pressure to remove the amateur status of the game. The International Rugby Board (IRB) removed the ban on professionalism in 1995 in what was to become known as the ‘Paris Declaration’. As discussed above, the sport became divided through the introduction of private investment into the elite clubs forming firstly English First Division Rugby, then into English Second Division Rugby, which ultimately became English Professional rugby Union Clubs Limited. The national body, Rugby Football Union (RFU), continued to operate as an amateur organisation. This resulted in an obvious change in the regulatory process for the sport. It was clear that legitimacy of the professional organisational field was

validated and the RFU was marginalised. This clash in the organisational field known as ‘club versus country debate’ was resolved as discussed above; with the formation of English Rugby Union Ltd.

However, the newly formed coalition occurred only after years of disarray in the professional sport. The 20 clubs constituting the EPRUC initially embraced professionalism to the extent they became publicly listed companies with 15 of the clubs owned by a majority individual shareholder, requiring formal adoption of listed company governance structures and regulation. The need for economic returns changed the nature of the organisational field to attempt to ensure financial viability. Social and cultural capital was replaced with economic capital. In the first years of professionalism, no clubs broke even, many sold assets to continue to operate and player salaries soared. Eventually in 1999, some benefactors of the privately owned clubs withdrew their support and at the end of the 1990s seven clubs had folded. While there was no direct evidence of governance failure, adherence to mission, effective oversight, fundraising, and effective strategic direction have been commonly identified as key governance roles, the performance of which could be considered sub-optimal in these cases.

Rugby was also the subject of a short paper criticising the global trend for organisations to concentrate on compliance governance rather than strategic governance and performance. Lockhart (2004) described the demise of the board and the resignation of the CEO of New Zealand Rugby Football Union (NZRFU). Given the opportunity to sub-host the 2003 Rugby World Cup, the CEO and Board Chair decided that they would relinquish their rights due to the projected poor financial return. Lockhart argued that the decision ignored the strategic advantage that the event would give the sport and its stakeholders in favour of economic returns. He argued that the decision was perplexing in that it was clear that NZRFU was in a strong financial position relative to the other co-host, Australia Rugby Union. The resulting inaction and lack of commitment by the NZRFU resulted, one assumes through stakeholder pressure, in the resignation of the CEO and Chair and ultimate dismissal of the rest of the board.

## **Association football (Soccer)**

As the most popular sport in the world (Sugden and Tomlinson, 1998), there is, unsurprisingly, an extensive body of academic literature covering most aspects of this sport. Firstly, it should be stated that the term for this sport used in this chapter is football, as that is the term used in the literature, but it is critical to differentiate it from the subject of the thesis, Australian Football. This is a particular problem in the Australian context where the dominant codes (AFL and Rugby League) are referred to as football, whereas globally, the term 'football' refers to 'the round ball game' of soccer.

Considerable research has been undertaken in regard to football as a business, the economics of the sport and significantly, governance of the sport and the clubs. There are in fact, numerous centres of football research, particularly in the area of governance. Many of these studies have made substantial contributions to informing this thesis and a selection of the literature is reviewed extensively in this chapter.

The Football Association (FA) in the United Kingdom is the governing body and the manager of the national team, however, the structure of the sport appears to give more influence to the participating leagues: Football League (FL) and Football Association Premier League (FAPL). Although charged with the ability to regulate the game and the clubs, the FA had not adequately addressed the financial problems of many of the clubs. The issue of football club financial distress has been at the heart of much of the debate over governance of the clubs. Traditionally, it had been the fans that rescued the clubs from financial distress and as stated earlier in this chapter, felt that these efforts went un-rewarded. Although, the economics may have changed for the elite clubs, several of the FAPL and FL clubs still face insolvency. A recent Report by The Football Task Force (1997) exerted pressure on the FA to form a Financial Advisory Unit and this was re-enforced by a recommendation that a Football Audit Commission should be established.

### *Governance and Stakeholders*

The earlier discussion on the perceived marginalisation of the 'fan' and the recent UK government response, highlights the issue of the role of the sports club board

with regard to stakeholders. While corporate law generally requires shareholders to be pre-eminent in directors actions, stakeholder theory suggests that stakeholders can and do influence organisation decision making and performance. As discussed in chapter two, this focus is particularly pertinent to the nonprofit. The OECD Principles of Corporate Governance and the ASX Principle of Good Corporate Governance and Best Practice Recommendations both contain provisions recognising stakeholder interests.

Within the FAPL and FL there is a specific problem in determining for whom the club boards govern. Many clubs could be considered ‘quasi-for profit businesses’ in that they were initially formed for nonprofit reasons, to participate in a sports league and for the majority of their existence operated as non-commercial organisations. However, the relatively recent need to upgrade facilities changed the economic landscape and the elite teams publicly sought share capital and listed on various stock exchanges, causing their status to change to shareholder-accountable organisations. The fans and members have long standing, ongoing relationships with these clubs and could be considered the key stakeholders. There is, however, no provision within English corporate law, for the clubs to explicitly formulate policy with regard to their interests, and therefore the extent to which the fans are considered in club strategic decision making is left to the good will of each club board.

The substantial research in this area considers the implications of the commercialisation of football including the concept of ‘fan power’ or stakeholder democracy, which to some extent is akin to the shareholders activism occurring in the for profit world. A further implication is the need for formal governance procedures in compliance with corporate law regulation.

### *Stakeholder Democracy*

The discussion on stakeholder democracy commences with the history of fan power in the English Football Association. While there are various definitions of ‘fan power’ it is clear that is a concept arising from feelings of increased marginalisation by club supporters, and has come to represent the efforts by fans and supporters to have a voice, both in the running of the clubs they support, and the game in general. Barber (1995) presented a history of supporter involvement in football clubs, largely

based on an earlier history by Taylor (1992). The formal structure of a Supporters' Club dates back to the early 1900s at club level and then a federation of supporters clubs was formed in 1927. This federation was most active in the 1950s but went into decline and by 1985 was marginalised as an activist group by the newly formed Football Supporters Association (FSA).

A common complaint from the supporters' clubs was the lack of representation or even consultation at Board level of the clubs, given the substantial financial contributions they were expected to make to keep the clubs viable. The feelings were well expressed by Lord Justice Taylor in his report on the Hillsborough Stadium Disaster (1989) "As for the clubs, in some instances it is legitimate to wonder whether the directors are genuinely interested in the welfare of their grass roots supporters...until recently, very few clubs consulted to any significant extent with the supporters or their associations." (p. 10). The FSA was formed in 1985 as a pro-active organisation committed to increasing access for supporters to the policy makers of the sport. Although a national association, there were few members in 1996 and could have been criticised for being unrepresentative.

A further supporter lead initiative was the formation of Independent Supporters Associations (ISA) at club level, often to counter a club crisis such as a campaign against a merger or a battle to save a club from bankruptcy. The ISAs were also pro-active and had objectives to make the clubs more accountable to supporters. The common purpose of these groups has been to improve the football experience for supporters as well as attempting to ensure a supporter focus for the club boards, which are increasingly driven by economic factors. These groups have, according to Barber (1995), achieved some success and had some representation on club boards by 1995, and have regular dialogue with all Premier League Clubs. The Labour Party in Britain, as a result of perceived fan disenfranchisement, addressed the issues of local support being priced out of the game. They argued that fans views should be accorded more weight within the running of the game and that there should be unity of voice by the supporter associations. These were ultimately addressed by The Football Task Force (1999) whose recommendations lead to the establishment of an Independent Football Commission which among other initiatives has mandated that clubs develop and comply with a Supporters' Charter .

Michie and Walsh (1999) argued that the commercialisation of football was a form of social exclusion through the inability of the ordinary fan to obtain tickets to games, the increased in corporate boxes etc. The club listings on the Stock Exchange following the Hillsborough and Bradford stadium disasters enabled the clubs to upgrade facilities. There was suspicion however, that these listings were for the benefits of key shareholders (Hamil, 1999).

Shareholder ownership forced club boards to focus on financial returns rather than the interests of fans and the game in general, in fact as Michie and Walsh (1999) identified, directors were legally obligated to put the company first. The authors answer to mitigating the potential dangers of 'corporate hijack' of football clubs was to create supporter ownership of the clubs, thus forcing a say at board level. Two forms were discussed: mutualisation which involves ownership through club membership; and perhaps more realistically, the formation of supporters' trusts to hold shares in the club.

The Football Governance Research Centre publishes an annual report on governance of football clubs entitled State of the Game. The 2003 report addressed the evolving structure of the game and regulation by the governing bodies; progress by the clubs to improve their corporate governance and the level of involvement with supporters.

The Report also discussed the interests of key stakeholders. These stakeholders were identified as broadcasters, supporters, players and investors. The Report claimed that the merged Football Supporters' Federation was growing in influence and also recorded the growth in supporters' trusts, following the establishment of Supporters' Direct a body established to facilitate the formation of trusts. The key benefit of the report however, was the detailed examination of how the clubs discharge their governance accountability, including the implementation of a Supporters' Charter, a requirement commissioned by the IFC. A detailed survey was used to determine how the clubs met their corporate compliance requirements and how they engage in dialogue with stakeholders. There was also a detailed analysis based on the annual Deloitte and Touche Report on the Finances of the clubs and the extent to which supporters and supporters' trust contribute to the financial health of the clubs.

The Report's conclusion argued that although the responses from the clubs indicated a vast improvement in corporate governance practice there was still some room for improvement. There were significant differences between the clubs' perceptions of the effectiveness of disclosure of information (including the Supporters' Charter) and the supporters' perceptions of the effectiveness of that disclosure.

A recent article by Shackleton (2000) illuminated the debate on supporters' rights in terms of football club governance. He reviewed three book publications: Hamil, Michie and Oughton eds., 1999, *The Business of Football: A Game of Two Halves?*; Morrow, 1999, *The New Business of Football: Accountability and Finance in Football*; and Szymanski and Kuypers, 1999, *Winners and Losers: The Business Strategy of Football*. The author summarised the issues covered by the three publications commencing with a review of how each publication presented their discussion on the economics of football. His conclusion was that although much of the information content was available from the popular press, the authors were attempting to bring a more disciplined analysis to the financial issues of football. He lauded Szymanski and Kuypers for their attempts to identify and measure competitive advantage through a series of economic analyses. These included an examination of links between wage expenditure and team performance.

The next area reviewed by Shackleton was the issue of regulation in football, timely with the introduction of the Football Task Force. He expressed reservations about many of the contributions to the Hamil, Michie and Oughton volume, and appeared rather scornful of Hamil's 'fan equity', where he attempted to define the fan's role and commitment to a football club, and argued for regulation of fans' interests in order to sustain the clubs from the volatility of the more affluent, fickle, theatre going fans. Shackleton expressed disappointment that a more balanced view was not included in the volume. Clearly showing some support for self regulation, he commended Szymanski and Kuypers for their "cooler approach" (p. 85).

The last area reviewed was the focus on corporate governance and accountability, issues where the Morrow publication was particularly strong. His review of each in turn again showed his particular sympathy. He appeared to be favourably disposed

to the analysis by Morrow which undertook a detailed economic analysis of the clubs and presented trends of changing revenue and expense streams. Shackleton acknowledged Morrow's discussion on the issues of wider accountability to the fans of the club and the game. Morrow likened the issue to the shareholder versus stakeholder debates occurring in the corporate world, a focus which found favour with Shackleton, although he was relatively silent in his approval or otherwise of this discussion.

Again, he showed little support for the views expressed in the Hamil, Michie and Oughton volume, suggesting that their recommendations for a mutual form of supporter ownership ignored the business trend away from mutualisation in other industries. He further commended Szymanski and Kuypers' discussion on the issue of fan board representation. They argued that it was not yet clear that supporters had any more rights in the provision of the football "product" than customers in other industry. Shackleton expressed sympathy with this argument and further suggested that it was not clear that the ordinary grassroots supporter had any insights to offer in the running of a sustainable business.

Overall, his review supported the attempts to engage in a more disciplined, academic dialogue of the business issues of football and football clubs. He clearly expressed scepticism on many of the fan driven thoughts included in the Hamil, Michie and Oughton volume, while clearly supported the more economic based analyses contained in Morrow and Szymanski and Kuypers. This was succinctly stated in his reflection that a changing football environment and the inevitable stress created was similar in nature to nostalgia for a previous economic existence where conditions were more certain. Shackleton's review is instructive in that it presents an alternative to the prolific research of Hamil, Michie and Oughton which tends to dominate inquiry into football governance through their involvement with the Football Governance Research Centre.

### *Governance and Corporate Compliance*



As alluded to above, the listing of several Premier League clubs on the London Stock Exchange or the Alternative Investments Market, has subjected them to a more rigorous regulatory regime. In many ways, this adherence to corporate reporting and disclosure requirements may actually improve governance. In this regard, the compliance with the Combined Code of Corporate Governance has been evaluated in the State of the Game Report (Football Governance Research Centre, 2003). The Report identified significant improvement in most areas of formal governance, however there were some areas of concern. Specific areas of non-compliance are listed:

*Directors Independence:*

The Code requires listed companies to have a board comprising a majority of non-executive directors and a majority of these directors should be independent. Only 56% of the clubs complied with this aspect of the Code. A further requirement of separation of powers between the CEO and Board Chair achieved only 69% compliance by the clubs which was significantly less than the percentage of compliance achieved by all listed companies.

*Board Committees:*

The requirement for listed companies to have a nominations committee for the appointment of new directors and the further requirement that this committee consist of a majority of independent directors had a weak level of compliance by the clubs. Only 33% of the clubs had a nominations committee, although of those that did, they all complied with the composition requirement. Further, only 44% of listed clubs achieved compliance to the requirement to have a remuneration committee which deals with executive salaries. There was slightly better but still less than significant compliance with the requirements of the Code with regard to Audit committees and the annual review of the effectiveness of their internal controls. Finally, the Report assessed that the clubs exhibited an overall deficiency in terms of appropriate risk management and business planning processes.

*Solvency:*

In terms of financial viability, the 2003 Report found that 65% of clubs had concerns over their level of debt. A survey of the financial contributions by the supporters' trusts found that 62% had made financial contributions. One of the key findings of the Report was the increase in the number of supporter trusts from 6,478 in 2001 to 32, 883 in 2003. This surely indicated the level of emotional and demonstrated financial investment that supporters contribute, with the 2003 Report recording £3.055 million raised by the trusts.

The ongoing research by members of the FGRC is represented in an article by Michie and Oughton (2005). The authors conducted a further review of listed Football Association clubs' compliance with the corporate regulations as contained in the Combined Code on Corporate Governance, which they suggest should constitute best practice for all clubs regardless of their listing status. They analysed certain practices with regard to several governance aspects including board structure and operations. The findings indicated general compliance with mandated, recommended or suggested governance actions. Table 3.7 summarises the results.

**Table 3.7**

**Governance Compliance of Listed Premier League Clubs**

<b>Action</b>	<b>Complied</b>	<b>Non-compliance or qualified compliance</b>
Provision of share register or company constitution	86-88%	20-28% clubs would charge
Disclosure through AGM	84-87%	
Disclosure of Director details	8-36%. This is dependent on disclosure item. Information on directors may well be included in annual report.	
Little difficulty disclosing information to shareholders	90%	Supporter perceptions:25%
Little difficulty consulting with shareholders	88%	Supporter perceptions: 21%
Effectiveness of consultation with fans	94%	Supporter: 40%
Implementation of customer charter	Not difficult: 83%	Effectiveness of charter:28%

**Source:** Michie, J., and Oughton, C., (2005), the Corporate Governance of Professional Football Clubs in England, Corporate Governance, Volume 13, Number 4, July.

The authors also compared compliance with the Combined Code by the listed clubs and all listed companies, taken from the 2003 State of the Game Report discussed earlier. In several instances: a third of the board non-executive; separation of CEO and Chair; presence of a nominations committee; transparency of procedure for director appointment; the listed clubs rated well below all listed companies in terms of compliance. The compliance with nominations committee was particularly poor.

**Table 3.8**  
**Governance Compliance Listed Clubs versus all Listed Companies**

	<b>% compliance – listed clubs</b>	<b>% compliance – all listed companies</b>
At least one third non-executive directors	56	95
Separation of CEO and Chair	69	90
Existence of nominations committee comprising majority non-executive directors	33	77
Transparent procedure for director appointment	29	87
Director appraisal procedure	0	8
Director training provided	0	46
All non-executive directors on remuneration committee	44	84
Remuneration report approved by shareholders at AGM	43	30
Audit committee with at least 3 non-execs	31	87
Annual review of effectiveness of internal control system	56	87
Did board receive report on internal audit controls	38	87

**Source:** Michie, J., and Oughton, C., (2005), the Corporate Governance of Professional Football Clubs in England, Corporate Governance, Volume 13, Number 4, July.

Using the Combined Code as a benchmark for good governance, Michie and Oughton (2005) also compared several compliance issues of relevance to all clubs between listed clubs and all Football Association clubs. These results are presented in Table 3.9.

**Table 3.9**

**Compliance of Listed Clubs versus all Clubs**

	<b>% of Listed clubs</b>	<b>% of All clubs</b>
Evaluation of risks	71	47
Likelihood of risks materialising	86	41
Specific risk studies and assessment of impact	86	26
Controls and procedures to limit exposure to fraud and loss of assets	100	45
Board approval of 3 year business plan	86	48

**Source:** Michie, J., and Oughton, C., (2005), the Corporate Governance of Professional Football Clubs in England, Corporate Governance, Volume 13, Number 4, July.

In summary, the corporatisation of Association Football has had a profound affect on the governance structures of clubs and has had commensurate impact on key stakeholders, particularly the supporters. The increased focus on financial prosperity as demanded by corporate shareholders has marginalised the fans to the extent that Michie and Walsh (1999) suggested that the clubs had been the subjects of ‘corporate hijack’. Various initiatives have been employed to redress this situation, including intervention by the Government. However, the more successful initiatives of recent times, is the formation of Supporter’s Trusts in an effort to participate in formal ownership of the clubs and ultimately be represented at board level. In terms of compliance however, including disclosure to stakeholders, the governance of clubs has improved markedly.

### **Australian Football**

There has been a growing body of literature examining various aspects of the AFL and its constituent clubs. At the time of writing, there were four studies being undertaken in the AFL or its clubs. McGuire (1999) reported that it was no accident that the AFL has become the dominant football code. He suggested that it is because they have the best business plan. As identified in chapter one this was not always the case (Linnell, 1995), and is not necessarily the case for the clubs themselves

(Foreman, 2005). It is in this context, that the literature pertaining to management and governance related issues in AFL clubs informs this study.

Dawson (1993) investigated the link between football club management and football success. His study was motivated by many of the drivers for this thesis, the parlous financial position of many of the AFL clubs and the poor management practices that contributed to those results. Dawson (1993, p.5-6) presented his aim as “identifying ten of the most highly regarded key success factors in the management of football clubs in Victoria; investigating the management structures and strategies of the regional football clubs; and investigating the correlation between the key success factors and their success rates”.

His thesis was instructive on several fronts. He defined football success in two commonly quoted dimensions: “Off the field” defined as a strong financial position supported by high fundraising revenue, high membership; high attendance; and high sponsorship revenues; and “On the field” defined as high win – success rate. He further categorised clubs as “Highly successful” (finishing top four in seven out of ten years); and “Low success” finishing in sixth place or lower in seven out of ten years.

His study employed a survey instrument sent to the committees (boards) of 125 football clubs throughout Victoria resulting in an approximately 50% response rate. He distilled the responses to obtain ten key success factors (in order of importance) reported by all respondents. He then ranked the clubs within the regional league into ‘highly successful’ or ‘low success’ based on ‘on field success’. He further ranked the ten key success factors as nominated by the ‘highly successful’ clubs and then for ‘low success’ clubs. Many of the key success factors were common to the two categories, although some differed in their importance ranking.

His conclusions were somewhat limited although he did identify two success factors that were present in all of the successful clubs but omitted from the responses of two of three low success clubs. These key success factors were: first, Respected President and, second, Cohesive management team. Another difference was the inclusion of the ability of personnel to attract fundraising and run effective meetings

in the rankings of the highly successful clubs. These success factors were omitted from the rankings of all low success clubs. One further difference was the prominence given to a twice yearly review of financial performance between categories. It appeared that an additional factor was the prominence of player recruitment negotiation in the low success clubs relative to the highly successful clubs. It could be assumed that the low success clubs had a stronger focus on “on field” issues than “off field”. It should be noted that there was no attempt to measure club success in terms of financial health as discussed by the author in his introduction. He concluded that clubs that were well managed “off field” had a stronger correlation to “on field” success. His results are presented in Table 3.10. Significant differences have been highlighted.

**Table 3.10: Club Key Success Factors**

<b>Ranking</b> <b>Highly successful clubs</b>		<b>Ranking</b> <b>Low success clubs</b>	
1	An efficient financial management system	1	An efficient financial management system
2	A strategic plan catering for short term and long term success	2	A strategic plan catering for short term and long term success
3	Respected President who displays strong leadership qualities	3	Strong negotiation skills (particularly for player recruitment)
4	Cohesive management team	4	Cohesive management team
5	Ability of personnel to promote fundraising activities	5	Respected President who displays strong leadership qualities
6	Twice yearly review of financial performance	6	Clear delineation of administrative roles and responsibilities
7	Strong negotiation skills (particularly for player recruitment)	7	An effective staff communication channel
8	An effective staff communication channel	8	Continual evaluation of club objectives (at least once at beginning of season).
9	Continual evaluation of club objectives (at least once at beginning of season)	9	Twice yearly review of financial performance
10	Effective meetings	10	Ability to attract enthusiastic personnel

**Source:** Dawson, M., (1993), Club Management and Football Success, Unpublished Masters thesis, La Trobe University College of Northern Victoria.

Shilbury (1994) conducted the first comprehensive study of management practices in AFL clubs. He examined the extent to which professional management practices

were prominent in AFL clubs, given the trend to increased commercialisation within the sport and the AFL in particular. The study was descriptive rather than normative and considered the extent to which AFL clubs had strategic plans, the objectives of the clubs, the strategies used by clubs, the planning time horizon and any problems encountered. Shilbury further considered club performance over a significant time period and classified the clubs into three categories: the top performing clubs; middle performing clubs; and bottom performing clubs. At the time of the study, the AFL comprised 15 clubs and each of the aforementioned categories contained five clubs. The results were obtained through use of questionnaires sent to the General Manager or CEO of each club and the club President or Chair, and a document review of AFL statistics and club Annual Reports. While all CEOs responded, the Carlton Football Club chose not to participate in the study. The response rate from the Presidents was 67 percent with only nine of the fifteen Presidents responding. The categories were used as a basis for explanation of different attitudes to strategic planning and strategic choice. Analysis of the AFL provided the context for the results of the study. Shilbury (1994, p. 5) found that the AFL was “a special type of business”. This was defined as highly regulated; a cartel structure to promote uncertainty of outcome; the inextricable links between the supporter and the game and clubs; the adoption of utilitarian goals.

Four key measures were used to rank clubs into the three categories: Ladder position; Financial surplus/deficit; Membership; and Attendances, however, on field success as indicated by ladder position was the main criterion for categorising the clubs and Category 1 was the five highest ranked clubs; Category 2, the middle rankings; and Category 3, the lowest ranked clubs.

A brief examination of governance was included through consideration of club structure and whether the club owned other businesses such as social or gaming clubs. The board’s view of strategic planning and the level to which they and management participated in the planning process was also considered. The key points of difference occurred within category 2. The results indicated that four of the five clubs did not have a formal plan.

**Table 3.11 AFL Clubs categorised on performance**

Category 1	Category 2	Category 3
Hawthorn	Geelong	Sydney
Essendon	North Melbourne	Adelaide
Carlton*	Melbourne	Richmond
West Coast Eagles	Footscray	St. Kilda
Collingwood	Fitzroy	Brisbane

\* Did not participate in the study

**Source:** Shilbury, D.E., (1994), A Study of the strategic planning practices of the AFL clubs, Unpublished doctoral dissertation, Monash University, Melbourne, Australia

The clubs in this category were unanimous in suggesting that the planning environment was uncertain rather than turbulent, stable, or placid. This category differed from categories one and three in that four of the five clubs did not articulate a mission. An examination of the parties responsible for the strategic plan was undertaken with category two clubs being the most highly represented as planning (such as it was) being a process of negotiation between management and the board.

The overall results of the study found that only eight of the fifteen clubs espoused the usefulness of a strategic plan. Category two clubs demonstrated a lack of commitment to the planning process. Shilbury suggested that these clubs were “stuck in the middle” (p. 256), at times successful and at other times poor performing. They appeared to have some confusion as to their strategic direction. A further interesting result of the study was the finding that the club CEOs tended to focus on the financial performance of the club, while the President had a more traditional on field focus.

## **AFL Club Governance and Management**

### *Port Adelaide Power*

Shilbury & Hooper (1999) examined the bids and ultimately successful entry by Port Adelaide Power into the AFL competition. Their study informs this thesis with a history of the Port Adelaide club and bid and their initial and subsequent governance structures. Following a hastily prepared bid, which was thwarted and resulted in the entry of the Adelaide Crows into the AFL, Port Adelaide was given the time to prepare a more professional bid which was ultimately successful.



Shilbury & Hooper identified two key areas of focus to ensure the success of the second bid and these illustrated adoption of board roles identified and discussed in chapter two. The club (through its incumbent board) worked hard to improve its image and public opinion (external liaison). It tackled three key stakeholders: wealthy people within the community (for fundraising); political leaders (advocacy and lobbying); and grassroots supporters. The second area of focus was finance. The club had been successful for many years “on field” but was not financially strong. The drive to enter the AFL, led the club to adopt a strategic business plan (strategic planning), primarily focussed on its net asset base. Port Adelaide Power entered the AFL competition in the 1997 season.

There were key decisions to be made by the new club including the decision to remain affiliated with the SANFL, so as not to alienate the grassroots supporters (focus on mission). The structure of the new club is a joint venture by the Port Adelaide Magpies Football Club (SANFL affiliate) and the SANFL Commission. The initial governance structure consisted of five directors appointed by the Port Adelaide Magpies and five appointed by the SANFL Commission. At the end of the 1998 season, the five directors appointed by the Port Adelaide Magpies reverted to positions elected by Port Power members. The SANFL continues to appoint five directors.

Shilbury & Hooper then discussed the leadership, strategy and culture of the club, (all suggested board responsibilities) and presented evidence of strong leadership and an inclusive strategy aimed at grassroots accessibility to the club, its facilities and players. They suggested that the club showed a strong link between culture and strategy and the strategic planning employed by the club was directly responsible for their entry into the AFL. They concluded by presenting the Port Adelaide Football Club vision “the Port Adelaide Football Club will be the most successful AFL club and be consistently competitive, playing Final’s series and being recognised as a leader in the business of sport” (p. 107).

*All AFL Clubs*

The discussion of literature on AFL clubs concludes with a review of two informative studies by Capling and Marjoribanks (2002) and Marjoribanks and Capling (2004). Capling and Marjoribanks (2002, p. 95) explored the concept of the AFL as a network "...sports leagues are not just temporary coalitions of individual firms; they are joint enterprises that produce a single product (closely balanced contests)". They discussed current challenges not the least of which is the potential alienation of the club member and supporter in favour of corporate and media interests. They presented a discourse on the nature of the AFL club member. They highlight the history of clubs as "member-based organisations with distinctive identities and long traditions of self government" (p. 98). They argued that members are not simply 'stakeholders' but active contributors to their club. They further suggested that members and supporters are patient in terms of realising on field success but their loyalty is challenged when "they feel they are not valued" (p. 98).

The authors presented compelling evidence of the AFL as a network, citing the club supported AFL strategy of competitive balance, described by the authors to include: equalisation practices introduced by the AFL; the need for clubs to maintain financial viability; the need for clubs to employ professional and transparent managerial standards and practices; maintaining professional relations with other clubs and the Commission; and promoting and maintaining competitiveness on the playing field. These strategies were neatly encapsulated by the authors "...competitive balance keeps open the biblical possibility that the first shall be last and the last shall be first in the future" (p. 95 ).

Their discussion extends to networks within clubs, where they identified the key relationships between President, CEO, various operational areas and supporters of all levels. They suggested that the CEO is charged with the administrative responsibility, while the President is the public face of the club, an assertion which is challenged later in this study. The authors highlighted an increasingly significant issue for clubs in identifying 'core values'. Many of these were presented but are not discussed here. They cited them as evidence that clubs are responding to the potential alienation of members and supporters, and attempting to meet their needs.

The authors further identified potential tensions within the AFL network: Victorian based clubs versus non Victorian based clubs; Clubs versus Commission; resource rich clubs versus resource poor clubs; global/national view versus community perspective. They concluded by suggesting that it was not evident that “simply grafting models of (good) corporate governance onto football clubs will address the tensions inherent in the club as member based cultural institutions and the club as a business” (p. 105 ).

Marjoribanks and Capling (2004) delved further into the issues of governance in AFL clubs and their study is in many ways crossing paths with this thesis, although perhaps at a more ‘macro’ level. They conducted interviews with the President or Chair and CEO at each of 12 clubs (their work is ongoing to include all 16 clubs), examining three themes: knowledge and experience required for club management; how the leaders view the purpose of the club; and how they characterise their relationship with the AFL. There is clear evidence, supported by results in this thesis that club boards are successfully progressing from boards of management to boards of governance. This shift in turn demanded increased professional skills of senior management. This received limited coverage in their study, with the main point of discussion being the need or otherwise for football or football industry experience. The authors considered that the other skills and knowledge necessary for an AFL club were related to processes such as improved performance measurement systems; the need for ‘quality people’, implying an increased focus on human resource management; and finally recognition and management of the emotion inherent in a football club. This last element is a point of fundamental difference between the football club business and a small and medium business in the corporate world. It has been accused of inhibiting good management in the past (Linnell, 1995) and appears to be still an issue in club management and decision making.

Marjoribanks and Capling (2004) also explored the issue of club purpose. Club purpose was seen to be: achieving on field success, winning premierships; providing emotional attachment for members and supporters; source of entertainment; providing a significant sense of belonging; and social obligation to the community; maintaining financial viability.

The relationship with the AFL was also discussed and the authors suggested that the relationship is healthy with clubs supporting the AFL as a facilitator and co-ordinator, for example in the negotiation of media rights, but can be unhealthy when they “become directive” (Marjoribanks and Capling, 2004, p.77). The competition is described as ‘football socialism’ and this concept had its critics. Some clubs resented the equal distribution policy, and clubs can be greatly affected by fixturing, stadia policy and AFL endorsed sponsorship.

The authors concluded by identifying that the clubs are pursuing, and to some degree achieving, transformed governance processes.

## **Summary**

This chapter presented a wide ranging discussion of the literature on governance in the corporate, nonprofit and sport environment. The focus on nonprofit governance appears to be largely prescribing board structures, roles and processes with an aim to improving governance in these organisations. While there was a substantial body of empirical work, this effort again appeared to have the aim of understanding current practice in order to improve it.

Cousens (1997) explored the vexed issue of whether sport was a unique type of organisation or whether it operated as a normal commercial operation. She identified key features of each type of organisation and found that the organisations studied generally conformed with one type or the other. There was one organisation which she classified as ‘intermediate’ in that it exhibited features of both sport and corporate. This was instructive to the study in that it resembles many of the features represented in AFL clubs. Other evidence of perceived corporatisation of the sports organisation was discussed as a precursor to a more substantive treatment.

The changing nature of the sporting environment was discussed by (Gilbertson, Davies & Butler, 2003; Mahony & Howard, 2001; Shilbury, 2000; Stotlar, 2000). The general thrust of these studies was the reduction in government funding, and increased competitive pressures from other forms of entertainment. The issues raised

place increased pressure on boards and management to procure the appropriate skills to compete and to ensure financial sustainability.

An integral party to the governance process is the owner, and ownership of sporting organisations was the subject of several studies (Bourke, 1999; Brown, 2000; Hamil, 2000; Michie and Ramlingam, 1999; Michie & Oughton, 2005 and Solomon, 1999). These studies explored the concept of fan ownership of sporting clubs as a means to ensure their interests are protected. A discussion of brand equity and the potential for value enhancement for sporting team owners was also briefly considered.

The detailed discussion on governance commenced with consideration of amateur sporting organisations, commonly referred to as voluntary sporting organisations. Issues of structure (Doherty and Carron, 2003) and commitment of volunteer directors (Cuskelly, McIntyre and Boag, 1998; Doherty, Patterson & Van Dussell, 2004) were examined. A key component of the review however, focussed on the role of the sport board. Inglis contributed a detailed listing of the roles required, while these were extended and further discussed by Auld and Godbey (1998); Kikulis (2000); Hoye (2004); and Hoye and Cuskelly (2003). Change management outlining the evolution of governance professionalism was the focus of a longitudinal study by Kikulis, Slack and Hinings (1992). The ASC Principles of Best Practice Governance were discussed with their focus on NSOs and recommending structures, roles and processes for NSO sport boards. Finally, Ferkins, Shilbury & McDonald, (2005) presented a proposed Schema of Sport Governance following a comprehensive review of governance literature.

There is also an increasing body of literature investigating issues of governance in professional sporting organisations. These organisations are often subject to different ownership structures, different funding sources, different competitive pressures and different regulatory requirements and as such may have significantly different drivers of good governance. Various sports are discussed at length, Rugby Union (Morgan, 2002; and O'Brien and Slack, 2003) which explores the key issues of concern to rugby boards and management. Morgan (2002) is particularly instructive in providing a Stakeholder Map for Rugby in line with Freeman's Stakeholder Theory (1984) and many of these objectives and issues are relevant to

AFL clubs. A significant research effort is being undertaken in governance in Association Football and many of these studies are included in this review. Issues range from the commercialisation of football to stakeholder democracy (Barber, 1995; Michie and Walsh, 1999) to issues of compliance (Football Governance Research Centre, 2004).

The final sport examined was Australian football which explored issues of key success factors (Dawson, 1993); new club formation (Shilbury & Hooper, 1999); and limited governance issues relating to all AFL clubs (Capling and Marjoribanks, 2002; and Marjoribanks and Capling, 2004; and Shilbury, 1994). These studies provide useful background to the analysis of the results from the AFL club respondents and give context to the findings.

However, studies on specific aspects of governance in professional sports organisations are sadly lacking, in contradiction to the breadth of literature on VSOs. It was evident that the substantive literature on VSOs was well developed and had been undertaken for a significant period which had already enabled longitudinal studies (Kikulis, Slack and Hinings, 1992). However, much of the literature was dominated by a few researchers and there was little evidence of emerging researchers in this area. There was virtually no VSO research outside North America and Australasia, a deficiency that needs addressing.

With regard to professional sports, there is little literature on issues of board structure and characteristics; board roles and board performance other than the board role in achieving compliance (Michie and Oughton, 2005). While there is some research on organisational performance per se, none examines links to governance. This deficiency heightens the significance of this study. Again, a major deficiency in this area of study is the geographic concentration of the research which is heavily UK centric. The research into Rugby essentially highlighted the limitations of strategic planning by the governing bodies, while the research into soccer, has concentrated on economic analysis of the FA clubs and the prolific literature on the ownership structure of the clubs and the perceived marginalisation of the fan. There is no doubt that this latter focus has had an impact in practice. The formation of the Independent Football Commission and the growth in supporter ownership of football clubs

through supporter trusts is evidence of the significant contribution these researchers have made. There are explanations for the quantity of governance related literature on English football, aside from the obvious popularity of the code. The listing of the Premier League and other clubs requires adherence to the Combined Code on Corporate Governance (2002).

The extent to which governance and various aspects of the board which have been discussed in this chapter result in improved organisational effectiveness is yet to be explored in any sport.

Chapter four presents a discussion on organisational effectiveness and will initially examine how effectiveness is determined in nonprofits. The chapter then proceeds to a study of effectiveness for sport organisations.

## **CHAPTER FOUR**

### **LITERATURE REVIEW PART THREE: GOVERNANCE AND PERFORMANCE**

Evaluation of various aspects of governance, including board structure, composition, roles and relationships inevitably leads to attempts to link governance factors to organisational performance. Several studies have examined links between the boards of for profit businesses and company performance, focussing on board composition and specifically, the separation of Chairman and Chief Executive (Coles and Hesterly, 2000; Barnhart and Rosenstein, 1998). Using well established financial measures as the measure of company performance, there was no conclusive evidence that linked a specific board structure to improved organisation performance. Several of the governance models discussed in chapter two (Forbes and Milliken, 1999; Friedman and Phillips, 2004; Nicholson and Kiel, 2004; Brown, 2005) linked governance to an organisation's performance, but without any consideration of how that performance was determined or measured.

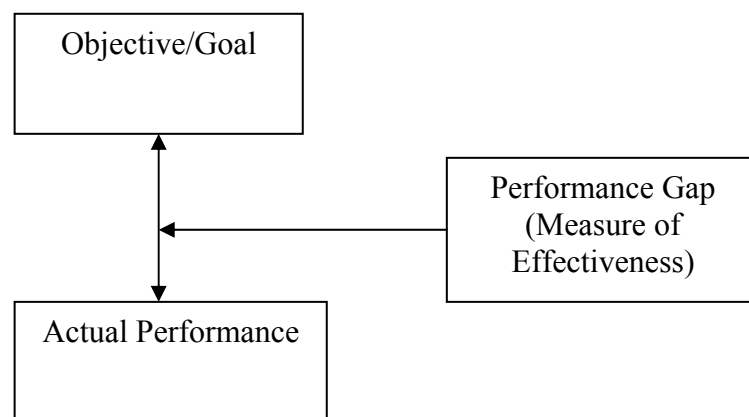
The purpose of this chapter is to discuss organisational performance. The concept of organisation performance is important, since it provides the link to the determination of board and organisation effectiveness. The initial focus is on nonprofit organisations, followed by a thorough consideration of performance in sport organisations.

There is however, confusion in the literature between organisational performance and organisational effectiveness, with the terms often used interchangeably (Rojas, 2000; Herman and Renz, 1998). However, the terms are not representative of the same phenomenon as the definitions of the terms illustrate. The Online Dictionary [http://www.onelook.com/?ls=b&fc=all\\_bus&q=performance](http://www.onelook.com/?ls=b&fc=all_bus&q=performance), accessed 20<sup>th</sup> December, 2005), defined performance as "any recognised accomplishment". In a business context, this represents the actual results of an organisation or their operational outcomes. Performance is constrained only by their ability to perform within their endogenous and exogenous context.



A definition of organisational effectiveness is provided by Robbins (1998, p. 77) “the degree to which an organization attains its short-term (ends) and long-term (means) goals, the selection of which reflects strategic constituencies, the self-interest of the evaluator, and the life stage of the organization”. Effectiveness therefore is by that definition, a rating of performance.

The misinterpretation of effectiveness tends to equate performance measures as measures of effectiveness. It is therefore necessary to reiterate that effectiveness can only be determined by a comparison of actual performance on any aspect with the anticipated or target performance (objective) for that aspect. The following diagram illustrates the relationship:



**Figure 4.1 Performance-Effectiveness Relationship**

As performance is an operational outcome and not a conceptual issue, the following discussion begins with an analysis of the theoretical issues underlying effectiveness.

### **Theoretical Perspectives of Organisational Effectiveness**

One point to note is that organisational effectiveness is a multi-dimensional concept and Robbins (1998) presented four key approaches to determining effectiveness. These are discussed below with a consideration of the implications for governance and organisational performance.

## **Goal Attainment Approach**

Robbins (1998) suggested that the goal attainment theory approach was intuitively sound and was the most commonly used approach for measuring effectiveness. Some assumptions are necessary to validate the goal attainment approach as a measure of effectiveness: goals must be identifiable; understandable; have general agreement or consensus; and progress must be measurable. Robbins stated that should the above assumptions hold, the key decision makers for the organisation should be responsible for specifying the goals and ensuring an appropriate measurement system to monitor achievement.

However, there have been criticisms of this approach in that an organisation may have many and sometimes conflicting goals. There is a need to identify the key decision makers and obtain consensus from them. Robbins also argued that organisations may have official goals dictated by social standards which may not represent actual goals. Short term goals are often different to, and conflicting with, long term goals. While goals are formulated to promote actions, Robbins suggested that goals can often be a rationalisation of past actions. He did not suggest that the pursuance of goals is not useful but that there is a problem in identification and measurement which introduces significant complexity into the performance measurement system. A further limitation of the goal attainment approach is the fact that an organisation could be deemed effective if goals are achieved, although those goals may be inappropriate or sub optimal.

The governance issue with regard to the goal attainment approach is the extent to which the board or management are responsible for the determination, agreement, prioritisation and measurement of goals. As these tasks are consistent with the roles of the board identified in chapter two, it is anticipated that the board would undertake the goal setting function.

## **The Systems Approach**

Robbins (1998, p. 58) defined this approach as "... emphasise criteria that will increase the long term survival of the organisation – such as the organisation's ability

to acquire resources, maintain itself internally as a social organism, and interact successfully with its external environment". This approach refers to the effectiveness of the organisation with regard to its throughput or transformation process, including its ability to acquire scarce resources. This is the organisational theory underlying resource dependency theory. It is noted that resources are not confined to physical resources and can include intangible resources such as strong supporter bases. It can also include reputation and contacts.

Slack (1997) described a variation of the systems approach through identification of key internal processes underlying effectiveness: the human resource processes and the efficient use of economic resources. The human resource focus was on the quality of the human resource processes such as teaming, sharing information, reward and recognition policies, and staff development. There are two aspects to the economic efficiency approach. Firstly, it can represent financial health in terms of earnings and sales while also evaluating fiscal policies. The second aspect related to effectiveness based on ratios of inputs to outputs and throughputs.

A focus on internal process enabled comparisons of similar organisations which have different inputs or outputs, while also providing a focus on the important factor of human relations. However many of the measures would be difficult to operationalise.

Robbins (1998) discussed two problems with the systems (or process) approach, firstly, the problem of measurement of the process and secondly, whether the processes (or means) really matters. In a sport context, a further complication was discussed by Slack (1997) who reiterated that it was too simplistic to concentrate only on inputs and that inputs in terms of gate receipts, sponsorship as examples were often dependent upon outputs like team success.

Robbins (1998) suggested that as both the goal attainment approach (which focused on ends) and the systems approach (focussing on means) have goals, it was perhaps preferable to use the method where the goals are more meaningful, that is the goal attainment approach. Although the validity of the systems approach has been questioned, it has some resonance with governance in that providing resources is an

identified role of the board, particularly in the nonprofit and sports context. It is consistent with Stewardship theory which focuses the role of the board on the provision of structures and processes.

## Strategic Constituencies Approach

This approach is more integrative as it considers the requirements of key stakeholders and evaluates performance against each of these stakeholders' criteria. The extent to which the sport organisation meets the specified criteria is the measure of effectiveness. Slack (1997) identified key stakeholders and proposed key criteria:

**Table 4.1 Strategic Constituents Approach**

Constituency or Stakeholder	Effectiveness Criteria
Owners	Profit; increased value of franchise
Players	Adequate salary; good working conditions
Fans	Entertaining games, reasonable priced tickets, concessions
Community	Visibility through team activities; economic benefits for local businesses
Media	Newsworthy coaches and players
National Association	Compliance with rules, efforts to promote a positive image of the game
Sponsors	Media exposure; high attendance

**Source:** Slack, T., (1997), *Understanding Sport Organisations: The application of organisation theory*, Champaign, IL: Human Kinetics.

Slack indicated that the advantage of this approach is the recognition of the complexity of multiple dimensions of an organisation. The problems associated with this approach include the difficulty of identifying the constituents; the difficulty of establishing their expectations; the importance of constituents changing over time; and the measurement of constituent criteria. He did suggest however, that this approach is becoming more popular and recommended it as a superior approach to determining organisational effectiveness.

As discussed in chapter two, consideration of stakeholders is integral to the governance process for a nonprofit. The role of the board in the determination of goals and overseeing the achievement of those goals has already been discussed

above. This approach further refines this responsibility to include the identification of key stakeholders and determination of goals specific to them.

## **Competing Values Theory**

This approach also recognised that organisations have multiple constituents and that there will be potential conflicts between their requirements of the organisation. Effectiveness was determined ‘in the eye of the beholder’ that is from the constituents’ value judgment.

Rojas (2000) proposed the Competing Values Framework (CVF) which was originally developed by Quinn and Rohrbaugh (1983), as an appropriate model to evaluate organisations across sectors. They suggested that it was particularly suited to the nonprofit sector and described the model in terms of quadrants: human relations; open systems; rational goal; and internal processes. The human relations perspective referred to using participation and openness as a way to engender commitment. The internal process perspective used measurements, documentation and information management as a driver of stability, control and continuity. Open systems saw innovation and adaptability as a key to achieving recognition and growth, and the rational goal quadrant linked financial performance and productivity to goals and direction.

Slack (1997) indicated that an important feature was the polarisation of the quadrants that is the human relations model was distinctly contrasted with the rational goal model. The following table illustrates the components of the model.

**Table 4.2 Competing Values Approach**

Model	Criteria of Effectiveness
Human Relations	
Means	Cohesive workforce where morale is high
Ends	Emphasis on training and development
Open Systems	
Means	A flexible work force able to adapt to changing conditions
Ends	Focus on growth and the ability to acquire external resources
Internal Process	
Means	Focus on communication and information management
Ends	Stability, order, control and smooth operations
Rational Goal Model	
Means	Emphasis on planning and setting identifiable goals
Ends	High productivity; efficiency in terms of outputs to inputs

**Source:** Slack, T., (1997), *Understanding Sport Organisations: The application of organisation theory*, Champaign, IL: Human Kinetics.

Rojas (2000) endorsed CVF as an appropriate model due to the fact that it “possesses instrument validity, reliability and breadth of empirical research to suggest a high degree of confidence in estimating measurements of OE across sectors” (p. 101).

Robbins (1998), while lauding the model for overcoming the limitations of the goal or systems approach, noted the problem of determining which constituents were ‘strategic’, that is the identification of a ‘cut-off’.

In terms of links to governance, the competing values approach could only be operationalised after significant input from the board in goal definition, key management appointments and establishment of clear mission and values, as well as a vigorous oversight and monitoring role. These factors could only be determined with extensive consultation with constituents.

A summary of the theoretical aspects of organisational effectiveness is shown in Table 4.3

**Table 4.3 Organisational Effectiveness Theory**

<b>Theory</b>	<b>Authority</b>	<b>Focus</b>
Goal Attainment	Steers, 1977	Identifiable goals Measurable Agreed goals Given a time frame
Systems Process	Miles, 1980	External environment Ability to access of resources Tangible & Intangible resources
Internal Process	Slack, 1997	Transformation process Good human relations Economic Efficiency Fiscal policies
Strategic Constituency	Connolly, Conlon & Deutsch, 1980	Multiple constituents Measures relevant to each constituent
Competing Values	Quinn, 1988	Multiple foci Need for trade off Specific measures for each quadrant Based on value judgments

There were similarities between all the models in that they each use identified goals. The systems, strategic constituency and competing values approaches were refinements which sought to overcome the limitations of relying solely on the goal attainment approach. The systems approach focused on the means to achieve a desired result, while the strategic constituency approach sought to answer the question posed by critics of the goal attainment approach in determining whose goals should be considered. The competing values approach was a further refinement on the strategic constituencies approach and reflects the complexities of determining effectiveness, while recognising that complexity then becomes difficult to operationalise.

This discussion has focussed on organisational effectiveness, which was defined earlier in this chapter to be the consequence of an evaluation of achievement of organisational objectives. As the preceding discussion demonstrated, the various approaches to effectiveness involve firstly the determination of objectives; secondly, the measurement of performance; and finally, comparison of actual performance to

objectives. The remainder of this chapter examines performance, its various indicators or measures and its links to governance.

## **Nonprofit Governance links to Performance**

The study of governance links to performance is approached in two stages. Firstly, a body of literature examining board performance was considered, and secondly, studies extending the links to organisational performance were presented.

Subsequent to this discussion, various models of performance and particular performance measures are evaluated. This foray into specific performance models and measures underpins the board's role of monitoring and evaluating which were highlighted in chapter two and provide context for the measurement of performance in AFL clubs. Initially, however a diagrammatic representation of the strategic planning-performance link may clarify the differences between performance and effectiveness and the role of the board in performance.

### **Board Performance**

In line with the emerging literature on governance, and governance of nonprofits in particular, there has been an increasing amount of research examining board performance, based on the premises that a well performing board should lead to a well performing organisation. Many of these studies have resulted in board performance evaluation tools.

One of the first of these was a survey undertaken by Fletcher (1991), who surveyed executive directors to determine what they required from their boards. These executives were asked to rate 25 board behaviours in terms of importance. These were distilled into 12 key behaviours representing what executives would see as being performed by an effective board. These behaviours are (ranked in terms of importance by executives):

- a. Actively promoting the organisation in the community
- b. Understanding the legal responsibilities of a governing board
- c. Holding effective and efficient meetings
- d. Taking an active part in long range planning
- e. Accepting leadership positions on the board
- f. Choosing new members with regard to their skills or connections
- g. Leaving administration to the executive



- h. Evaluating the executive's performance
- i. Opening doors to possible funding sources
- j. Preparing for meetings by reading material sent
- k. Making policy rather than rubber stamping
- l. Reviewing financial statements carefully and asking for explanations

The executives were then asked to rate how often their boards followed good board behaviour. These results were correlated with certain board characteristics. The results indicated that there were some factors i.e. board features which were significantly correlated with desired board behaviours. These factors are summarised below:

- High attendance at board meetings
- Active committees
- Frequent board retreats
- Larger board size
- Boards containing more women and middle income members

Length of tenure of the CEO was also a factor. The longer the tenure the better the board score. Fletcher (1991) also determined that the relationship between the CEO and the Board President was significant.

Holland and Jackson (1998) used previous studies (Holland, Chait, and Taylor, 1989; Chait, Holland, and Taylor, 1996) and the Board Self Assessment Questionnaire (BSAQ) to examine the essential elements of effective governance. As discussed in chapter two, they determined that board effectiveness could be captured in six dimensions as follows:

*Contextual* – board articulates the culture, values, mission, and norms of the organisation

*Educational* – board ensures that members are well informed about the organisation, the professions working there, and the board's own roles, responsibilities and performance.

*Interpersonal* – board nurtures the development of its members as a group, attends the board's collective welfare, and fosters a sense of cohesiveness and teamwork.

*Analytical* – board recognises complexities and subtleties in the issues it faces, and it draws upon multiple perspectives to dissect complex problems and to synthesise appropriate responses.

*Political* – board accepts that one of its primary responsibilities is to develop and maintain healthy two-way communications and positive relationships with key constituencies.

*Strategic* – board helps envision and shape direction and helps ensure a strategic approach to the organisation’s future.

Within the limits of their study, they found the following with regard to the BSAQ score:

- Diverse Boards engaging in efforts to develop their skills can markedly improve their performance
  - Changes in procedures and structures changed board behaviour which was easier than changing members’ attitudes or personalities.
  - Most members were motivated by a desire to contribute to improving their organisation’s performance, not the board’s own functions.
  - Participants reported that getting feedback on their board’s performance was a valuable input for learning
  - Improved performance was found in some organisations when the committees and use of meeting time was re-structured.
- Meeting time was focused on strategic priorities.
- Committees structured along operational lines often “second guessed” operational management. There was urging to re-structure committees along organisational goals and once achieved, the committee could go out of existence.
  - Individual expertise and advice is useful but developing strong teamwork enabled boards to add greater value to their organisation.
  - Boards that developed goals for the board as distinct from the goals of the organisation increased board cohesiveness and provided a framework for subsequent board attention.

Further research by Holland and Jackson (2002) focused on the issue of Board accountability. Referring to their earlier interview data (Chait, Holland and Taylor, 1991; Holland and Jackson, 1999), they analysed perceptions of accountability.

Their findings indicated that many boards did not pay due attention to accountability but those that did shared similar attributes. Boards typically had a Statement of Expectations and responsibilities, usually arising from the mission. This was used to

explain what was required of directors and as a basis for recruiting new members. Some boards also had explicit policies with regard to conflicts of interest in addition to anything in their constitutions. They also found that some boards supported accountability by focussing their time of setting and analysing strategic priorities rather than duplicating efforts of management. Some boards were more active participants in the strategic planning process. While most boards left the communication to constituents to management, some boards saw their key responsibility to engage in open communication with stakeholders. Further, some boards assessed their own performance either informally or through a formal evaluation process.

Gill, Flynn and Reissing (2005) developed another governance evaluation tool. Their study reviewed several earlier assessment tools (Holland and Jackson, 1998; Mollenhauer, 2000; Drucker, 1998). In their opinion, only the BSAQ could be tied to organisational effectiveness. Following analysis of the aforementioned tools, Gill et al. developed the Governance Self Assessment Checklist (GSAC). Items on the checklist were formed into 12 subscales:

- A. Board Effectiveness Quick Check
- B. Board Structure – assess the extent to which the board has clarity of structure including bylaws, policies and role description.
- C. Board Culture – explores board dynamics, organisational values, communication styles and degrees of trust.
- D. Board Responsibilities – Consists of the following
  1. Mission and Planning – measures the level of board engagement in planning, agreement on direction, and clarity of objectives.
  2. Financial Stewardship
  3. Human Resource Stewardship
  4. Performance Monitoring and Accountability
  5. Community Representation and Advocacy
  6. Risk Management
- E. Board Processes and Practices:
  1. Board Development
  2. Board Management
  3. Decision Making

The study's aims were to test the "internal consistency reliability and criterion-related validity of the GSAC, which are basic psychometric criteria that any reputable instrument must meet" (Gill, Flynn & Reissing, 2005, p. 276). They further aimed to test the tool as a means of identifying strong or weak governance practices. The study

involved the completion of the GSAC by 312 respondents (board members and CEOs) from 32 nonprofit organisations, indicating the level of adoption of specific practices. The respondents were also asked to rate their perceptions of their board effectiveness and the effectiveness of the organisation. The results indicated that the GSAC demonstrated a high degree of internal consistency and also that respondent perceptions of effectiveness correlated well with both internal and external measures of organisational effectiveness. Specifically, the study identified areas that the board rated as sub-optimal: mission and planning; performance monitoring; risk management; and human resources stewardship. The board members also rated board development as requiring improvement. An interesting subsidiary outcome from the study was that there was no significant relationship between the particular governance model and performance.

Preston and Brown (2004) focussed on the commitment and performance of nonprofit board members. They listed board member performance behaviours as: Attendance; Quality of attendance; Knowledge of the organisation mission, services, and programs; Knowledge of general board and nonprofit organisation (NPO) issues; and Provision of assistance when needed. Using a model developed by Meyer and Allen (1997, cited in Preston and Brown, 2004), they articulated three types of commitment: Affective commitment – employee’s emotional attachment to, identification with and involvement in the organisation; Normative commitment – feeling of obligation to continue involvement; and Continuance commitment – awareness of the costs of leaving the organisation.

One key finding was that board members with good attendance gave more time to the organisation, had served on the board longer and who held strong Affective commitment were more likely to be perceived as effective.

## **Linking Board and Organisational Performance.**

The logical progression from the assessment of board performance is the assessment of organisational performance and the extent to which effective board performance contributes to desirable organisational outcomes.

Herman and Renz (1998), using data from a previous study, conducted an empirical study on nonprofit organisational effectiveness and identified differences between effective and less effective organisations. The study involved defining objective (verifiable) measures of organisational effectiveness, collecting stakeholders' judgements of board effectiveness, collecting stakeholders' judgments of organisational effectiveness and identifying specific organisational characteristics such as board member age, organisational strategies, financial data and board prestige.

Two theoretical perspectives underpinned this study. The first was multiple constituency theory which states that organisations have multiple stakeholders and that these stakeholders will most likely have different objectives, and will therefore also have different views on organisational effectiveness. The second was social constructionism which states that reality about an organisation is actually created by the beliefs, knowledge and actions of stakeholders. As people invent their own reality, they may reach general agreement on this reality or they may disagree and the organisation will be a fragmented reality to the different constituents. The social constructionist perspective therefore would view organisational effectiveness as stakeholder value judgements. Hence, this study used multiple constituency theory to justify the inclusion of different stakeholders in the evaluation process and then used social constructionism to support the use of those stakeholder value judgments.

They determined several general, practitioner developed indicators of board effectiveness. These are presented below and were not ranked in any order of importance by the authors:

- Existence of a mission statement
- Use of form or instrument to measure client satisfaction
- Existence of a Planning document
- List or calendar of board development activities
- Description of or form used in CEO performance appraisal
- Description of, or form used, in other employees' performance appraisal
- Report on most recent needs assessment
- By-laws containing a statement of purpose
- Independent financial audit
- Statement of organisational effectiveness criteria, goals, or objectives.
- Board manual.

There were five further indicators which were specific to the particular charities which formed the sample and are therefore less relevant to this study.

They also identified nine indicators of organisational effectiveness as follows which were measured by way of stakeholder perceptions:

- Financial management
- Fundraising
- Program Delivery
- Public Relations
- Community collaboration
- Working with volunteers
- Government Relations
- Board Governance
- Human resource management

Their findings indicated that the sample taken as a whole showed no correlation between the practitioner developed indicators of board effectiveness and the stakeholders' judgment of organisational effectiveness. However, when the results were re-analysed for the very effective and the less effective boards, they did find a moderate relationship. They concluded that the more likely boards were to adopt correct procedures, the more likely those stakeholders perceived the board to be effective.

Their findings on the correlation between stakeholder judgments of organisational effectiveness and objective (verifiable) measures of effectiveness were again inconclusive when the whole sample was considered. However, when the results were stratified as above into very effective and less effective, clearer relationships emerged. They suggested that "doing things right (objective effectiveness)" (Herman & Renz, 1998, p.33) had a positive relationship with stakeholder judgment. One conclusion reached in their study supported the intuitive position that management practices such as needs assessment, strategic planning and measuring customer satisfaction, together with certain management strategies (seeking new revenue sources, cutting costs) are likely to improve effectiveness.

Nobbie and Brudney (2003) also attempted to link governance of a nonprofit to its performance. The study tested the effect of the implementation of policy governance (Carver, 1997) on both the performance of the board and the performance of the nonprofit organisation. The authors explored the extent to which firstly, the organisations had implemented the policy governance model; secondly, the effect, if any, on board performance; thirdly, the effect on organisational effectiveness; and finally a comparison with organisations which had not implemented the policy governance model.

The study involved several stages. First, board members were asked to rate their governance practices following adoption of policy governance. Second, CEOs and board members were asked to rate their perceptions of whether board performance had improved following implementation of policy governance. Third, CEOs and board members were asked to rate their perceptions as to whether the organisation had achieved its goals and the extent to which this had occurred. They were also asked to rate whether their progression against goals had improved or worsened over the past five years.

Nobbie and Brudney (2003) used five frameworks to assess effectiveness: goal achievement (measure by perception of achievement); financial viability (measured by calculation of revenue to expenditure ratios) and resource acquisition (measured by perceptions as to whether sufficient resources were acquired); internal processes (measured by perceptions of systemic process); CEO job satisfaction (measured by CEO ratings); and CEO effectiveness (measured by board chair ratings). The inclusion of CEO related measures, go to the core of the board's role in appointing and removing the CEO. Job Satisfaction could well be a predictor of tenure which Fletcher (1991) identified as a factor underlying board performance measures.

The findings indicated limited impact of policy governance on organisational performance and are discussed in some detail. The strength of the study was the attempt to link governance to organisational effectiveness. However the research lacked some rigour in the determination of some of the measures. For example, the study relied almost exclusively on subjective measures for the goal attainment factor rather than seeking specific identification of goals and determining objective

measures. One flaw in this approach, is that the organisations may in fact have poorly defined goals, or in fact no clear, explicit goals, which could compromise these results.

Some rigour was evident in the determination of the measures for financial viability and resource acquisition. The authors focussed on measures of productivity, profitability and resource acquisition. Productivity was determined to be the productivity of each dollar of expense to the revenue generated. Hence the financial measure revenue to expenditures ratio was used. It encompasses both a productive use of cash resources and profitability. However, the measures for resource acquisition were given a subjective measure through a rating by CEOs on the extent to which the organisation has been able to acquire the resources it needs. The findings indicated that there was no evidence that implementation of policy governance improved this measure.

The internal processes framework measured the relationship between the CEO and the board, which was highlighted by the authors as a source of frequent tension. Two aspects of the relationship were rated: the extent to which the CEO was allowed to interpret board policies; and the extent to which the board gives instructions to only the CEO and not other staff. The findings indicated that there was support for the hypothesis that the implementation of policy governance would improve this measure.

The fourth framework, CEO job satisfaction, again was measured subjectively with a rating of satisfaction. The fifth measure of CEO performance was obtained by asking Board Chairs to rate the performance of the CEO. There was support for the hypothesis that job satisfaction was increased following implementation of policy governance, but there was no evidence of support for improved CEO performance. These ratings were then compared to organisations which had not implemented policy governance. There was partial support for the hypothesis that implementation increased job satisfaction and CEO performance.

This study, while generally lacking objective measures of effectiveness, validated the need to link board performance and organisational performance. Their findings indicated however, that there was a tenuous if any, relationship.



Allison (2002) provided some further insight into the effects of turnover in CEOs for the nonprofit. Using the results of extensive consulting in nonprofit organisations, he approached the study on the basis that the CEO role of a nonprofit was a job someone only held once. This gave rise to concerns that there was a lack of experience in the nonprofit management ranks.

Allison conducted a study of organisations which the consulting group had assisted in CEO transitions, and evaluated the success of the transition one year after recruitment. He found that boards of nonprofits tended to underestimate the risks and costs of bad hires. The nonprofit board would respond more attentively and willingly to woo a new funds' contributor, than they would to replacing the CEO. Boards tended to see the replacement as an annoyance rather than an opportunity to reshape the organisation and this thinking was reflected in the attention they gave to the hiring process.

He also found that boards were unprepared for the task. Replacement of the CEO required the board to act in their governance role while many on the board were in a 'leadership' role. Finally, he found that boards failed to take advantage of opportunities in transition. The study implicitly provided CEO turnover as a measure of board effectiveness.

Brown (2005) is also pertinent to this discussion. His study used both subjective and objective measures of organisational performance, while board performance was determined through the BSAQ. Organisational performance was measured objectively by four factors: Public Support; Fiscal performance; Fundraising efficiency and Net Revenue. These were defined and calculated using the financial indicators summarised below. As there were limited relationships between all aspects of board performance and financial indicators, the author also determined a subjective rating of organisational performance from the respondents. The financial measures were determined as follows:

Financial performance:  $\text{Total Revenue} / \text{Total Expenses}$

Public Support:  $\text{Total Contributions} / \text{Total Revenue}$

Fundraising Efficiency: Total Revenue/Total Fundraising Expenses

Net Revenue: Total Revenue – Total Expenses

The study found that the analytical, interpersonal dimension and strategic dimensions of the board (discussed in chapter two), and ranked by board members had some impact on the financial indicators. Analysis of the perceptions of executives found that both the interpersonal and strategic dimensions were most likely to lead to better financial performance. The full results of the study are discussed in chapter two.

## **Summary**

### *Board Performance*

While there has been considerable literature on the performance of the board, the studies and results are generally highly subjective and based largely on self evaluation. Fletcher (1991) provided context for board performance by identifying key behaviours required of directors. The organisations' boards were assessed by their executives to determine how often they followed 'good board behaviour'. She identified six factors which were more closely correlated with a good behaviour rating. One factor was the tenure of the CEO which indicated that a longer tenure would suggest a better relationship and therefore a better rating. This last finding provides a useful context for further studies on performance which consider the tenure of the CEO or factors which may affect that tenure.

There were several models developed to measure board performance. Holland Jackson (1998) built on previous work to identify eight key characteristics that contributed to an effective board. Gill, Flynn and Reissing (2005) refined the BSAQ to develop their own board evaluation tool. Preston and Brown (2004) studied the commitment of board members suggesting a link between commitment and effectiveness.

Links between the board performance and organisational performance were discussed. Brown (2005) identified key organisation performance measures and used the BSAQ to examine any links between board performance and those measures. Failing to establish any link between the board and objective measures, he then obtained

subjective ratings of organisational performance and determined that there was a link between some dimensions of the BSAQ and the respondents' perceptions of the likelihood of increasing financial performance.

### *Organisational Performance*

Herman and Renz (1998) examined the links between board performance and organisational performance, although the study misused the term effectiveness to describe performance. Both 'objective' and subjective measures of organisational performance were identified and correlated with 'objective' measures of board performance. It should be noted that the authors acknowledged that 'objective' relates to the use of procedures and processes (inputs), rather than outputs or outcomes and on that basis found no link between 'objective' measures of board performance and 'objective' or subjective measure of organisational effectiveness. However, when they stratified their results for 'especially effective' or 'less effective' organisations, they found that organisations which used correct procedures are more likely to enhance perceptions of effectiveness.

Nobbie and Brudney (2003) evaluated links between the implementation of the policy governance model and organisational performance. They examined five areas of performance: goal achievement; financial viability and resource acquisition; internal process; CEO job satisfaction; and CEO performance. Subjective measures of performance were obtained for four of the five areas, with financial viability performance being the one measure which was objectively determined. They found a limited relationship between the factors and policy governance. They further found some relationship between policy governance and the relationship with the CEO, CEO job satisfaction and CEO performance. However, there was no evidence that policy governance improved the performance of the first two areas.

So, in summary, the studies indicated a rather weak relationship between governance processes and evaluations of board and organisational performance. This raises the question of whether AFL clubs' governance influences organisational performance. The conventional wisdom is that sound and professional governance produces improved organisation performance (OECD, 1999; ASX, 2003). As noted in chapter one, the primary aim of the thesis is to test this proposition.

## **Models of Organisational Performance**

Many of the research efforts in recent times have attempted to link governance factors to either board, or organisational performance. In that context, it seems obvious that some attempt is made to determine what constitutes organisational performance. The following studies provide differing perspectives on performance.

### **Evolution of Performance Models**

Speckbacher (2003) studied the issue of nonprofit performance measurement. He articulated the key differences between for profit businesses and nonprofits and found that common features were: primacy of owners, homogeneity of owners' interests; and a common currency for assessment and delegation.

The study then drew the distinction between for profit businesses and nonprofits. He also raised the issues of multiple owners with potentially different interests as a feature of nonprofits re-stating the importance of mission. This study clarified performance measurement in the nonprofit organisation and recognised the blurring of boundaries between the two types of organisations. Increasingly, for profit businesses are recognising the importance of stakeholders other than shareholders and these stakeholders' interests need to be subject to the organisation's efforts and therefore performance measurement system. In contrast, he suggested that nonprofits have needed to be more accountable and are placing more emphasis on performance measurement.

Speckbacher (2003) summarised the key assumptions underlying most performance measurement and management models: specific definition of the firm's key objectives and how to measure whether these have been achieved; identification of the firm's processes; and the relationship between these and performance. He presented three models of the organisation as potential platforms for performance measurement. Each model would result in different factors being reported.

The first model was the Technological model (Mas-Colell, Whinston, and Green, 1995 cited in Speckbacher 2003) which featured the use of inputs to produce goods and services. While this model was similar for both types of organisations, the key principle is the efficient use of inputs to produce those goods and services. The measurement of efficiency becomes problematic for the nonprofit in that some outputs and inputs were intangible, bundled and difficult to measure.

The second model was based on the concept of the firm as a nexus of contracts, the focus of which underlies the work of Jensen and Meckling (1976). Essentially, parties to the contracts have property rights and any residual property rights accrue to the owners of the firm. As Speckbacher (2003, p.271) stated “the traditional property rights view of the firm...is the backbone of today’s shareholder value-based performance management systems”. Whereas the technological view of the firm was based on perfect information on the inputs and outputs, the property rights view was based on assumptions of asymmetric information where management has access and input to information which owners don’t enjoy. There is therefore, a greater need for monitoring and engaging in efforts to align interests between management and owners under this model. Typically this leads to the use of monetary or equity incentives for management, in order to achieve this alignment in the for profit firm. Speckbacher (2003) suggested that this was not appropriate for a nonprofit firm due to the heterogeneity of owners.

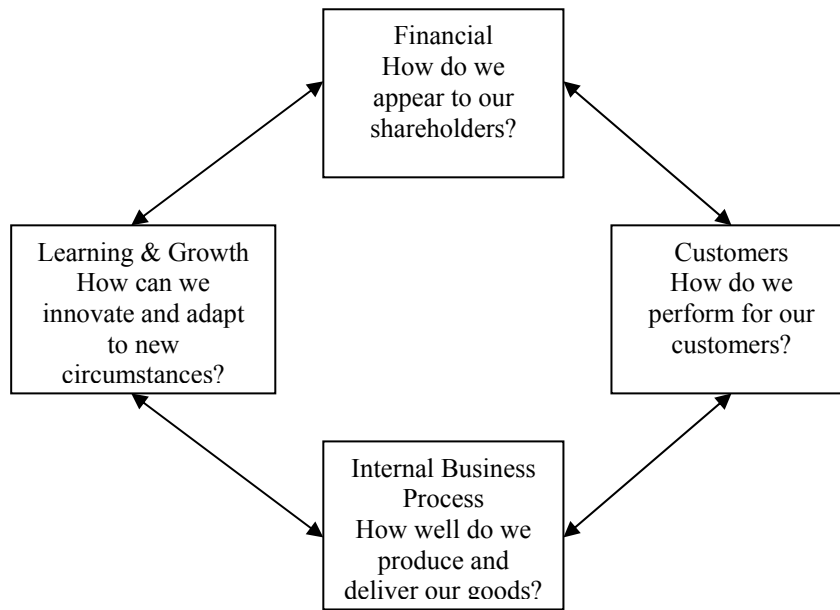
He raised the debate as to whether monitoring systems and incentive schemes are appropriate for the nonprofit. He suggested that monitoring systems are transferable to the nonprofit as long there is clarity over what is being monitored. He further stated that financial measures alone will not satisfactorily monitor performance due to the non-monetary objectives of the nonprofit. He also presented the argument that monitoring may not be necessary, because the management of nonprofits may have more commitment to the objectives of the organisation through personal values and therefore a presumption that management acts in the organisation’s best interests.

Speckbacher (2003) presented a third, Stakeholder view of the firm. The view of the firm as a nexus of incomplete contracts (no residual flowing to owners) leads to stakeholder-oriented performance measures (Atkinson, Waterhouse, and Wells, 1997

cited in Speckbacher, 2003). This concept was an adaptation of the property rights model whereby stakeholders make specific investments to the firm with the aim of their claims (tangible or intangible) being fulfilled. The dilemma for the nonprofit manager is the management of trade-offs of conflicting claims. All constituents of a nonprofit are classed as stakeholders, but the extent of the claims or the need for protection through monitoring, differ among stakeholders. Stakeholders, whose involvement is the most significant for the achievement of the mission, are defined as key stakeholders and as such have the voice in interpreting the mission in controversial circumstances. This discussion is consistent with the concept of strategic constituency theory.

Speckbacher (2003) argued a case for the balanced scorecard (Kaplan and Norton, 1992) as a potential performance measurement system due to its ability to focus on non-financial performance outcomes. The balanced scorecard is a performance measurement framework first presented in 1992. The traditional scorecard consists of four key perspectives that senior management need to get right for the organisation to succeed: financial perspective, customer perspective, internal business process perspective and learning and growth perspective. It recognised the importance of financial measures of performance but presented the other perspectives as key drivers of financial performance. Kaplan and Norton released two versions of the balanced scorecard, the first is represented below. The second version was a linear model which represented a cause and effect relationship: learning and growth leads to better internal processes which should lead to better customer outcomes and ultimately better financial performance.

The scorecard requires the organisation to set key objectives for each perspective, determine quantifiable measures for each perspective (albeit often perception ratings), identify key initiatives to be implemented and finally, to set a target level of performance for each measure. Speckbacher argued that this framework was ideal for the measurement of nonprofit organisations due to the inclusion of non-financial performance measures. He also implied that the multidimensional scorecard shown in Figure 4.2 highlighted any potential tradeoffs that needed to be made by the organisation.



**Figure 4.2 The Balanced Scorecard**

Adapted from: Kaplan, R. and Norton, D., (1992), The Balanced Scorecard-Measures that drive Performance, Harvard Business Review, 70, (1) pp. 71-79.

## **Alternative multi-dimensional Models**

### *Mission, Money, Merit*

Krug and Weinberg (2004) used a concept formulated by Drucker (1989). The model which has been developed for nonprofits considered three dimensions: mission, the focus on the organisation's mission or purpose described by the authors as 'doing the right things'; money, described as 'doing things right financially'; and merit, described as 'doing things right in terms of quality'. The title of the paper delineated the dimensions of the model. The first dimension is 'doing the right things' that is activities or programs that advance or underlie the mission of the organisation. The second dimension 'doing the right things financially' looks at the cost of the activities or actions undertaken and assessing the relative cost in line with the desired outcomes. The third dimension 'doing things right in terms of quality' measures how well the activities or programs achieve their desired outcomes.

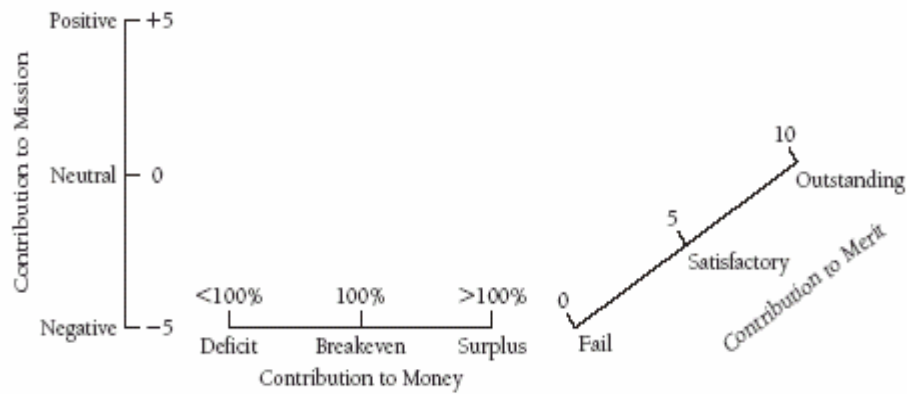
The empirical study was undertaken initially in American museums and evaluated programs in line with the dimensions identified above. Each program was identified and costed and then evaluated against the three dimensions. The purpose of the program was identified (mission); revenue/cost coverage was identified (money); and performance quality was determined (merit). The program's contribution to mission was determined through judgements according to the organisation mission or purpose; contribution to money was defined as the ability of the program to minimise the overall organisation deficit. Therefore those programs which covered their costs made a larger contribution to money. Contribution to merit recognised the need for a focus on quality not merely efficiency and was determined by objective and subjective measures of quality.

This model was useful in encapsulating and evaluating the three key fundamentals of nonprofits. The previous discussion emphasised the necessity for nonprofits to focus on mission and this means undertaking activities that are consistent with that mission or "doing the right things". It is also fundamental and more difficult these days for a nonprofit to be fiscally responsible, but clearly this is one aspect which must be evaluated and managed. Using a combination of financial and non-financial measure the organisation should be able to assess whether the it has met its own objectives.

The evaluation of activities' contributions to mission were qualitative judgements from individuals and then aggregated into a consensus assessment. The differences in rating the activities were seen as an important driver of discussion and reflection for the organisation. Measures of contribution to money were difficult to present due to varying opinions of which revenue and cost data should be used. Similarly, measures of contributions to merit, often based on quantitative measures such as attendances, failed to measure the quality of the experience and therefore the likelihood of a return experience. One important outcome of the study and the model was the realisation that there should be a more systematic approach to measurement along the three dimensions.

The scales of the three dimensions are as follows:





**Figure 4.3 Mission, Money, and Merit**

Source: Krug, K. and Weinberg, C. B. (2004), Mission, Money, and Merit: Strategic Decision Making by Nonprofit Managers, *Nonprofit Management & Leadership*, Vol. 14, no. 3, Spring pp. 325-342.

### *MIMNOE*

Sowa, Coleman Selden and Sandfort (2004), focussed exclusively on the need for improved measures of effectiveness for nonprofits. The authors highlighted that although there has been no agreement on the best way to define effectiveness and many approaches have been recommended, it is still a topic of debate due to its fundamental importance. The study proposed a multidimensional and integrated model of nonprofit organisational effectiveness (MIMNOE), which proposes two key aspects, management effectiveness and program effectiveness. These aspects were further disaggregated into capacity and outcomes. The authors reviewed the literature on nonprofit effectiveness and clearly supported the significant body of work favouring multiple definitions of effectiveness.

The authors built on the earlier work of Nobbie and Brudney (2003) but encapsulated both perceptual and objective measures into their effectiveness frameworks. The suggested indicators for each component are represented in Table 4.4.

This approach was instructive in illustrating the link between management processes and organisational outcomes, although the authors did not test the operationalisation of their model. Some of the perceptual measures may be problematic.

**Table 4.4 Management and Program Performance**

	<b>Objective Measure</b>	<b>Perceptual Measure</b>
Management Capacity	Presence of: <ol style="list-style-type: none"> <li>1. A Formal Mission Statement</li> <li>2. A strategic plan</li> <li>3. A human resources system</li> <li>4. An independent financial audit</li> <li>5. An information technology system</li> </ol>	Staff perceptions of the extent to which mission statements and strategic plans are used, and whether the financial audit occurs merely because of compliance.
Management Outcomes	<ol style="list-style-type: none"> <li>1. Stability of revenues from their primary funding sources</li> <li>2. Maintenance of a financial surplus</li> <li>3. Employee turnover</li> </ol>	<ol style="list-style-type: none"> <li>1. Management's perceptions of organisation's financial health.</li> <li>2. Employee satisfaction</li> </ol>
Program Capacity	<ol style="list-style-type: none"> <li>1. Technology used</li> <li>2. Resources provided for the program</li> </ol>	<ol style="list-style-type: none"> <li>1. Staff perceptions of their ability to affect outcomes</li> <li>2. Staff perceptions of the level of knowledge and resources available.</li> </ol>
Program Outcomes	Measures which capture the degree to which the program achieves its purpose (will vary depending on the organisation)	Client satisfaction.

**Source:** Sowa, J. E., Coleman Selden, S., and Sandfort, J. R., (2004), No Longer Unmeasurable?: A Multidimensional Integrated Model of Nonprofit Organisational Effectiveness, *Nonprofit and Voluntary Sector Quarterly*, vol. 33, no. 4, December pp. 711-725.

*Financial Performance Models*

Ritchie and Kolodinsky (2003) significantly contributed to the determination of appropriate financial performance measures. They distilled sixteen performance measures from the literature and practitioner interviews into three key measures: Fundraising Efficiency; Fiscal Performance; Public Support. Their Factor Analysis found that the following financial ratios had significant relationships with the measures as indicated.

<b>Fundraising Efficiency</b>	<b>Fiscal Performance</b>	<b>Public Support</b>
Total revenue/total FR Expense	Total Revenue/Total Expenses	Direct public support/Total Assets
Direct public support/Total FR Expense	Total contributions/Total Expense	Total contributions/Total Revenue

Foster and Bradach (2005) discussed the extent to which nonprofits were relying on, and should rely on, non core revenue to fund their programs. This revenue, termed earned income, was seen as a means of providing sustainability for the organisation in times when core sources of funds were lean. The main criticisms of the trend to earned income were the extent to which these endeavours compromised the activities underlying the mission of the organisation and the questionable expertise of nonprofit managers to manage these activities.

As identified in chapter two, Herzlinger (1994) added much to this discussion. Her clarification of the role of the board in performing its oversight function then begged the question as to which factors they oversee and what constituted good or poor performance. She suggested that the board needed to develop its own performance measurement system based on the questions presented earlier in chapter two.

In terms of consistency with a nonprofit's financial resource, Herzlinger suggested two key financial ratios: asset turnover and liquidity ratios. The asset turnover ratio measures the extent to which revenues are generated from investment in a particular set of assets, while liquidity ratio measures assets relative to liabilities. Interpretation of these ratios must be qualified. They are only meaningful if they are used as a benchmark, either indicating improvement or deterioration over time, or as a comparison with a similar organisation. She interpreted a high asset turnover for a nonprofit as an indicator that there is high level of services being provided relative to their asset base. Similarly, with liquidity turnover, a high liquidity could suggest that the nonprofit is sub-optimally providing its goods or services, while a poor liquidity could indicate that a nonprofit is over stretching its resources in the provision of services. There is a need to interpret these ratios carefully. Other potential indicators were consideration of the socio-demographic characteristics of its client base in an effort to better target resources, and an analysis of the distribution of expenses, particularly the percentage of administrative expenses in the total expense. It is not desirable for administration to be self serving.

To determine whether a nonprofit is meeting its intergenerational equity, the author used the asset base as a proxy for using its resource for short term or long term.

Herzlinger maintained that a nonprofit should be sustainable and not sacrifice the serving of future generations by exploiting its resources to satisfy current service consumption. She suggested a complex but rational measure of maintenance of intergenerational equity, the inflation adjusted net assets of the organisation. There are two features to this measure. Firstly, profit is viewed as an increase to the capital of the organisation, an amount necessary to replace the organisational assets, not as an end in itself. Secondly, although there are problems in the calculation of an inflation adjusted balance sheet, the author countered that there are several problematic calculations in a set of accounts and this measure shows the extent to which net assets have been maintained at continuing current prices.

The next measure dealt with ensuring that the sources and uses of funds in a nonprofit are appropriately matched. Herzlinger suggested that categorising expenses as variable and fixed is a first step in this process. Fixed expenses should be covered by enduring sources of revenue, or fixed revenue streams while variable expenses are covered by variable revenues. While this approach is appropriate, it is not always easy in practice to achieve this classification into fixed and variable.

In terms of achieving organisational sustainability, Herzlinger argued that a concentration of resources in any one area such as revenue, expense, assets or liabilities exposed the organisation to undue risk. The risks may stem from concentration on one funding source, one asset category which may be subject to varying valuations. The author called for a dispersion of resources into all financial categories. This may assist in aligning the strategic plan with financial resources.

## **Performance Based Compensation**

One of the potential outcomes of achieving performance is the recognition of staff for their contributions to that performance, thus stimulating a discussion of the appropriateness of providing performance based incentives. Performance based compensation is a popular method of aligning owner and manager objectives in the for-profit arena and the following discussion gives some insight into its relevance for nonprofits. The level of management compensation is a vexed issue for a nonprofit organisation. Convention accepts that it should be of a level to attract well

credentialed staff, but not at a level which would divert scarce resources away from the core purpose of the organisation and thus the remuneration decision is a key board role.

The issue of incentive compensation was the subject of an empirical study by Gray and Benson (2003) which attempted to determine key drivers of executive compensation including incentives. Their study was conducted through completion of questionnaires sent to Small business Development Centres (non-profits who are responsible for providing training and consulting to small businesses and entrepreneurs). They formulated several hypotheses regarding the drivers of incentive compensation. Their definition of compensation excluded incentives such as equity, bonuses and other non salary components. Their definition of performance, as has been well established throughout this chapter, was difficult due to the multidimensional facets of the organisations, but was determined by the authors to be client satisfaction. Their findings indicated that there was significant correlation between organisational size; the experience and education of executives; and gender (among other factors which are less relevant to this study) and the level of executive compensation. However, there was no correlation between executive compensation and performance as, measured by client satisfaction. In fact, there was a significant negative correlation between organisational size and performance.

They re-visited the definition of performance given the multidimensional feature of nonprofits and found some support for a correlation between executive compensation and performance as measured by resource efficiency.

Speckbacher (2003) also considered whether incentive schemes were appropriate for the nonprofit. He advocated that incentives are not universally supported in the for-profit literature (Gibbons, 1998 cited in Speckbacher, 2003) and as such are much more problematic in a nonprofit firm. The reasons he advanced were firstly, that the multidimensional measures in nonprofits created problems in determining the level of management performance; and secondly, there were greater intrinsic motivations in the nonprofit firm, an example of which is that employees may often accept lower salaries to work for an organisation whose mission they espouse.

## Summary

As highlighted earlier in this chapter, determination of performance is one step into an evaluation of organisational effectiveness. The discussion on organisational performance presented some key insights into both performance models and performance indicators.

Speckbacher (2003) described three models of determining performance, firstly, the technical model, which focussed on the relationship between inputs and outputs; secondly, the property rights model, with the rights having a value and therefore the issue became one of determining to whom those rights would accrue, management or owners; and thirdly, a stakeholder view, whereby stakeholders make tangible or intangible investments to the firm with an expectation that their claims will be fulfilled. The property rights view was a driver for increased monitoring in line with an agency theory approach while the stakeholder view necessitated a multi-dimensional performance measurement system. Speckbacher (2003) recommended the balanced scorecard as a way to facilitate this accountability.

Other models focussed on multiple performance criteria were discussed. Krug and Weinberg (2004) developed a model entitled Mission, Money, and Merit specifically for nonprofits. This model enabled evaluation of programs in line with three key criteria: 1. how they contributed to the mission of the organisation; 2. how they contributed financially in terms of reducing the deficit; and 3. how they contributed in terms of performance quality.

Sowa, Coleman Selden and Sandfort (2004) proposed a multi-dimensional and integrated model of nonprofit organisational effectiveness (MIMNOE). This model had two focuses: management effectiveness and program effectiveness. These were further broken down into performance measures or outcomes.

Financial Performance and some suggested financial measures was addressed by Ritchie and Kolodinsky (2003) and Herzlinger (1994). These measures addressed various strategic aspects of the organisation but were significant in that they were

easily operationalised. Finally, a brief discussion of the relevance of performance based compensation in a nonprofit context was discussed.

The potential limitations of any performance measurement model are the ease of operationalisation of the model. While Speckbacher (2003) recommended the Balanced Scorecard as a legitimate multi-dimensional model, there was no attempt to operationalise it. Similarly, Sowa, Coleman Selden and Sandfort (2004) presented a model which was conceptually strong and made an attempt to define measures. However, this raises the issue of credible performance measurement. This study will refer to both subjective measurement and objective measurement both in this chapter and in chapter seven. For the purposes of this study, objective has been taken to mean verifiable in line with its use in Friedman and Phillips (2004). Subjective was taken to mean based on perceptions and value judgements. The point needs to be made that neither objective nor subjective is superior to the other and both are prevalent in the literature for nonprofits and for profit organisations. However, the deficiencies in the performance models are the reliance on perceptual measures where objective measurements are also available. It appears endemic in the studies reviewed in much of the nonprofit literature that results are garnered through surveys and interview and thus relies on subjective data. This approach ignores the role of document analysis as a source for performance data and this study aims to redress this gap.

## **Sport Organisation Performance**

A key feature to be examined in this study is the link, if any, between governance attributes; responsibilities, and tasks; and ultimate club performance. It is therefore necessary to examine what is meant by performance in the sporting organisational context. The preceding discussion on performance in nonprofits is relevant to sporting organisations to the extent that sport organisations possess similar characteristics. The subject of this study, AFL clubs were formed for the purpose of fielding teams within the AFL, and historically operated as members' clubs with a focus on sporting competitiveness rather than profit. However, the increased commercialisation of the sport and the formation of at least one team which is a wholly owned subsidiary and required to provide dividends suggests that the not for profit mission may be compromised.

Further examination of this issue found that many sporting organisations are now operating on a basis of maximising profit for their owners, including English Premier League Clubs and private franchises in the US. An understanding of the distinction is necessary to determine the appropriate performance measurement focus for the organisation. The more sport organisations resemble for profit business, the more likely that market based financial measures are relevant and the less complex their performance management becomes.

In chapter three, Cousens (1997) identified key differences between ‘traditional’ sport organisations and ‘business centred’ sport organisations. One key point of difference was criteria of effectiveness. The traditional organisation focussed on team performance and the business-centred organisation focussed on profit. While there are other differences identified, this highlighted one important performance issue. However, it is too simplistic to suggest that traditional sporting organisations focus solely on team or athletic performance. Chapter three presented discussions by Shilbury (2000) among others, which suggested that the sports environment has changed and the challenge is to be financially sustainable. For those sport organisations without a profit maximising objective, financial considerations still have some priority and may well determine the sporting performance outcomes.

Sport organisations therefore, share some of the multi-dimensional success criteria prevalent in the increasingly commercialised nonprofits. A further similarity is the integrative and participatory nature of the services provided. The customer, supporter or service recipient all participate directly in the main ‘product’ or service provided and indeed in most cases, this participation is the reason for the organisation’s existence.

The following studies describe the potential trade-off between profit and utility maximisation.



## **Resource Based View**

Sport organisations' effectiveness was discussed by Gerrard (2005) and Smart and Wolfe (2000). Both papers illustrated the Resource-Based View (RBV) which gives insight into an organisation's likely competitive advantage and performance.

### *Utility Maximisation*

Research by Gerrard (2005) was of particular interest to this study. Using RBV, the author addressed not only resources which potentially achieve competitive advantage, but the efficiency with which these resources are used. The author acknowledged Amis, Pant and Slack (1997) and Smart and Wolfe (2000) for their application of RBV in a sports context. He built on this work with a study of English Premier League teams.

Gerrard (2005) presented the argument that professional sport teams must potentially negotiate tradeoffs between financial and sporting performance. He extended previous studies by Sloane (1971) and Noll (1982) which had common themes that teams should have objectives to maximise number of games won and profit, subject to a minimum profit constraint. Gerrard noted that while instructive, these studies did not address owners' preferences for sporting success over financial performance, but merely recognised the validity of both.

The author conducted his study using two methodologies. First, he developed a resource utilisation model for professional teams which could highlight resource allocation differences between profit maximisation teams (the implication is that this consisted of listed teams) and those which placed more emphasis on sporting performance. This was developed using complex mathematical relationships and is not discussed here. Second, using financial ratio analysis and regression analysis, he examined links between owner status and performance.

The regression analysis used several key variables: current sporting performance; previous sporting performance; profitability; wage costs; revenue; team playing quality; team fan base; and team ownership status. The two financial ratios considered were:

Revenue efficiency = Total revenue/average league gate

Wage efficiency = Total wage costs/league points.

Gerrard then empirically studied performance within the Premier League, using data on playing records and player rankings together with published financial results, to determine whether ownership status (listing) had an impact on effectiveness. In terms of the financial ratios, the results showed that listed teams had higher revenue efficiency than non-listed teams. In terms of wage efficiency there was no significant difference.

Overall, he concluded that there was strong evidence of a relationship between ownership status (listing) and financial performance. Listed teams had lower wages, higher revenues and higher profits. He concluded that the “financial efficiency gained allowed the listed teams to improve financial performance without any significant impact on the accumulated stock of playing talent and sporting performance (Gerrard, 2005, p. 167).

### *Competitive Advantage*

Smart and Wolfe (2000) considered the sources of competitive advantage of a college Athletic program in line with RBV. The authors quote several authorities on RBV (Barney, 1991; Conner, 1991; Grant, 1991) and RBV within a sports context (Amis, Pant, and Slack, 1997). Essentially, RBV focuses on internal tangible and intangible resources, as a source of competitive advantage. Smart and Wolfe (2000, p. 135) stated that in order for a resource to provide competitive advantage, it must possess the following attributes:

1. It must be valuable
2. It must be rare among current and potential competitors
3. it must be imperfectly imitable.

The authors suggested that sources of competitive advantage were often tied to intangible resources such as reputation, customer loyalty, culture since these resources are hard to imitate exactly. Their study examined any link between RBV and the athletic program success. This was of interest to this thesis with regard to the

potential definition of the Board as a resource and their ability to protect intangible resources such as club culture and club image and reputation. It was also of interest in offering some examples of success measures albeit in a different sport context.

Smart and Wolfe (2000) cited Putler and Wolfe (1999) in describing four outcomes that could be perceived as program success: success on the field (win/loss records); student athlete graduation rates; athletic program ethics (absence of league violations); and financial performance (surplus or deficit). Their study was based on analysis of a college football program and they measured outcomes over a period of ten years. They identified the percentage of games won; established the graduation rate; determined the number of league sanctions and violations and used a proxy of attendances for financial performance, as the program itself did not record revenues. In terms of RBV, they identified physical resources (stadium, training facilities and equipment); human resources (players, coaches); organisational resources (including: history, culture, relationships possessed by a group of individuals. This group was defined by the authors as 'top management' but operationalised in their study by senior coach). Tenure of the coach was important for strategic advantage. Their findings argued that the physical and human resources were replicatable by other teams, so that the only source of competitive advantage was organisational resource. They undertook a comparison of outcome measures for three teams to illustrate this point.

### *Productive Efficiency*

Haas (2003), using a similar mathematical methodology to Gerrard, focussed on production efficiency of English Premier League clubs in terms of meeting the expectations of supporters and sponsors. The study used two variables as inputs to the 'production' process (that is the process of engaging in football competition) and defined two key outputs from that process. The methodology involved calculating an efficiency score based on outputs divided by inputs and a comparison to other teams' efficiencies scores, creating an efficiency frontier. They then could establish which clubs operated outside the efficient frontier. Again, this study is a useful input to this thesis by discussing appropriate performance measures. It is instructive to consider how the author determined effective measures for the inputs to the production process and the outputs from that process.

Haas determined two input variables as playing talent and coaching expertise. He operationalised these inputs with proxy measures in total wages and salaries less the salary of the head coach, which he set as the second proxy measure. The two key outputs from the production process were deemed to be commercial success as measured by total revenue and football success as measure by league points won. The author recognised the limitations of the use of proxies. He included both total revenue and premiership points as measures to allow for the fact that several teams participate in European competitions which generate revenue but do not earn competition points.

He found that only two teams were efficient under all versions of the model, and he noted that the results of these teams were good relative to the moderate expenditures on payers and coaches. He also noted that several of the more prominent teams were found to be inefficient, in that the wages and salaries were high relative to their success.

### **Multiple Constituency approach**

Organisational effectiveness in sport was further considered by Papadimitriou and Taylor (2000) using strategic (multiple) constituency theory (Miles, 1980) to determine effectiveness of Hellenic NSOs. The authors justified their use of the multiple constituency approach to determining effectiveness rather than the more rigorous competing values approach (Quinn and Rohrbaugh, 1983) by determining that it was difficult to operationalise the latter model without a definitive knowledge of the values of each constituency group and the relative weighting of those values. The authors also suggested that the four perspectives of the competing values model limited the effectiveness criteria, whereas a focus on constituents allowed the criteria to be unrestrained. The authors presented contradictory evidence relating to the usefulness of the multiple constituency approach as a means of determining effectiveness in a sporting context and avoided continuance of the debate by deferring that consideration for further research.

Their sample consisted of 20 Hellenic NSOs who had at least two professional staff. They interviewed the General Managers of these organisations and defined the constituents as: board members, national coaches, scientific staff, elite athletes, international officials, and paid administrative staff. Semi structured interviews were conducted with individuals from each constituent group to identify factors that in their perceptions would affect effectiveness. Five major factors were identified and supported by 33 effectiveness variables. The five key factors were: calibre of the board and external liaisons; interest in athletes; internal procedures; long term planning; and sports science support. Each effectiveness variable was rated using a Likert scale in order to determine the extent to which they were present in each NSO.

Their findings were instructive for their insight into the validity of the multiple constituency approach to determining effectiveness in a sport context. One specific finding was that effectiveness of the NSOs required a multiplicity of strategies each with specific targets. A second finding was that there was conflict between constituents' definition of effectiveness. The authors suggested that effective NSOs were those that successfully recognised and reconciled that conflict. They concluded by confirming that the different constituent groups did in fact have different views on effectiveness, which was intuitively appealing, but now empirically tested. The authors identified implications for the NSOs, the primary one being the need to identify and prioritise their key constituents.

### **Competing Values Approach**

Shilbury & Moore (2006) conducted an empirical study of the effectiveness of 28 Australian National Olympic Sporting Organisations using the competing values approach. They firstly noted the confusion over a definition of effectiveness but did little to clarify the issue. They also noted that the focus on effectiveness was largely driven by increased government funding and the implied requirement for accountability.

Shilbury & Moore (2006, p. 16) discussed the inherent tensions within the competing values model and described these as "...tensions between professional staff and volunteers, support for elite athletes versus promoting mass participatory programs,

the need for both government support and private funding, and the contradictions between nonprofit and commercial cultures.”

Semi-structured interviews were conducted with executives to establish the constituent groups and refine the questionnaire which was then sent to respondents within those constituent groups. The respondents rated the effectiveness of the organisation on a series of factors. The results were distilled into ten factors: Flexibility; Resources; Planning; Productivity; Information; Stability; Motivation/Recognition; Work Harmony; Professional support; and Volunteer support. Their findings indicated that flexibility was important in the determination of effectiveness. The results also indicated the importance of organisational processes through the rational goal and open systems quadrants, with the factors contained in the rational goal quadrant the dominant factor for effectiveness.

The study operationalised the competing values model which was thought to be fraught with operational constraints (Papadimitriou & Taylor, 2000), however, the performance measures were again compromised through lack of objectively derived data.

## **External Performance Reviews**

Due to the high profile nature of sporting organisations, there is considerable public interest in their performance and continued viability. This chapter presents two key reviews of the financial performance of high profile sports organisations. Deloitte and Touche (UK) have undertaken an annual review of clubs within the English Football Association since 1992, with an emphasis on financial sustainability. This has been replicated to some degree by the Institute of Chartered Accountants in Australia (ICAA) with their review of the financial reporting of AFL clubs. The last review in 2004 for the 2002-2003 financial year, also considered some key governance aspects.

### *Annual Review of Football Finance (Deloitte and Touche LLP, 2004)*

There are several key performance indicators which are routinely reviewed by this report: revenues (match day, sponsorship and broadcasting revenues); profits

(including the costs and benefits of relegation and promotion); taxation; wages and salaries (in total); transfer fees; capital expenditure on football facilities; and financing (including interest costs and dividend payments). These key indicators are discussed on a comparative basis and are also compared longitudinally.

The Review highlighted a financial ratio which the authors identify as a key performance indicator in football – ratio of total wages to turnover. A further insight was reported in terms of maximising the revenues from the limited stadia capacity. Described as improving the yield on existing seats, the Review suggested a more scientific approach to pricing of season tickets and corporate suites. A further key indicator of ongoing solvency was the gearing ratio (total borrowings to shareholders equity).

#### *Annual Survey of AFL Clubs Financial Reporting (ICAA)*

The above report had five key objectives: firstly to review the clubs' annual reports for the financial year; secondly, identify key accounting policy issues; third, to assess the appropriateness of the policies within generally accepted accounting principles; fourth, to identify examples of industry best practice; and finally, to collect information on and comment on governance practices. The Survey presented the comparative financial performance of clubs for Revenue, Profit, AFL distribution, Player payments, Net cash flow from operations, and working capital.

The governance aspects which were reviewed included: the existence of a business plan; the preparation and review of month end financial reports; the existence of an audit committee; and the existence of other board committees.

#### **Governance**

The ICAA recommended the following good governance practice:

- A business plan for at least three years in advance
- The provision of month end reports in one to three days
- The finalisation of the year end financial report in five days with board and audit sign off and dissemination to members within ten days.
- The presence of an audit committee; meeting at least five times per year.

- The presence of a separate finance committee.

In terms of disclosures on directors, they recommended disclosures on directors' indemnification and information on the qualifications of directors.

### **Revenue**

The ICAA found that all clubs disclosed revenue in line with the minimum accounting requirements. They suggested however, that disclosure be relevant to members and proposed that revenue be disclosed on: Net gate receipts; Revenue from the AFL; Merchandise; Membership and Annual reserved seating; Marketing/Corporate sponsorship and Fundraising; Non football revenue (for example social and gaming revenue).

### **Expenses**

ICAA recommended the reduction in the use of 'Other' expenditure as an expense category. They benchmarked best practice as disclosure of: Coteries and Sponsorship expense; membership and annual reserved seating expense; Social Venue expenses; Function, training and education expense; Merchandise expenses, Football Department expenses; Administration expenses; Borrowing cost expenses; plus other statutory disclosures.

### **Contractual Obligations**

The key contractual obligation for the AFL clubs is the commitments for medium term player and coach's' contracts. The ICAA recommended that these obligations be disclosed, in addition to contingencies such as Long Service Leave. They also recommended that any clubs which have borrowings should disclose the collateral provided for those loans. It is clear from the results of this study, that many of these recommendations have been adopted.

### **Summary**

Performance management and measurement is a strategic issue for most organisations. The performance measurement system provides essential information



to the board to enable effective oversight of management. Various approaches to performance and effectiveness in sport organisations have been discussed.

Gerrard (2005) developed a model defining the financial versus sporting performance dichotomy. His research was conducted on English Premier League teams and his initial premise was that the value to the owner would be a function of financial and sporting performance. His second contribution to this thesis was an empirical test of any links between ownership status and performance. He used transferable indicators of financial performance: Revenue efficiency and Wage efficiency which provides useful indicators for AFL club performance. He then investigated correlation between ownership and performance, with the results indicating that listed teams had greater financial efficiency but this offset the lower sporting performance.

Smart and Wolfe (2000) examined the use of tangible and intangible resources as a source of competitive advantage. Their findings indicated that physical and human resources were not a source of competitive advantage, because they could be replicated by other clubs. The only potential source of competitive advantage was organisational resource which was defined as history, culture, and relationships possessed within a group of individuals.

Using a similar methodology to Gerrard (2005), Haas explored the productive efficiency of Premier League clubs. He operationalised the measures through a series of proxy measures, again many of which are transferable. His findings indicated limited productive efficiency within the league using commercial revenue and league points won as outputs.

Papadimitriou and Taylor (2000) used a multiple constituency approach to determine the effectiveness of 33 NSOs in Greece. Their study validated the use of multiple constituency approach but also highlighted the problems with conflicting definitions of effectiveness. They deemed that the effective organisations were those that successfully reconciled the different viewpoints of the various constituents.

Shilbury & Moore (2006) examined organisational effectiveness of Australian Olympic Sporting Organisations using the Competing Values Approach. They

determined ten effectiveness factors to be: flexibility, resources, planning, productivity, information, stability, motivation/recognition, work harmony, professional support, and volunteer support.

Finally, two external performance reviews were discussed. The Deloitte annual Review of Football Finance is conducted within the Premier League and indicates firstly the importance of performance measurement for this sector of the industry and secondly provides some useful indicators of performance. In Australia, the ICAA conducts an annual Survey of AFL Clubs' Financial Reporting and again, provides a context within which to evaluate clubs' performance.

In conclusion, there was evidence that innovative, objective and practical performance measures exist for sports organisations and there was substantial alignment of these measures to theories of effectiveness. Inclusion of these measures within conceptual models of performance discussed in earlier sections of this chapter provided a rigorous approach to the measurement of organisational performance, which in turn, provided a basis for evaluation of effectiveness and represents the second stage of the governance-performance link.

In most cases, the measures contained within the literature were easily operationalised and this is critical to their usefulness.

The ability to obtain and operationalise performance and economic data is perhaps a feature of sport organisations. By nature, they have quantitatively determined performance outcomes in contrast to many of the nonprofit organisations subjected to scrutiny. In the studies into nonprofit performance, outcomes were much less definitive and relied almost exclusively on subjective measures.

There is an interesting paradigm emerging here. The studies into the governance of nonprofits were substantive and well developed but their studies into performance measurement were few. This was mirrored to an extent by the range of studies into VSO governance and again, there was little research effort into performance

In contrast, however, there was little focus on governance aspects of professional sporting bodies but a rich vein of measurement studies. The significance of this is yet to be explored but could indicate that while VSOs share many similarities with nonprofit organisations, this is less true for professional sports organisations.

The preceding chapters have given a substantial theoretical basis to the empirical results and the next chapters present the findings of the semi-structured interview process and comprehensive document reviews. Chapter six focuses on the governance aspects of the Governance-Performance Framework, while Chapter seven presents comparative performance for the clubs.

## **CHAPTER FIVE**

### **METHODOLOGY**

This chapter discusses the methodology employed in this study, and describes the research design, the sampling method, the data collection procedures and instruments, and the development of the theoretical framework employed.

#### **Qualitative Research**

On commencement of this study, a choice needed to be made as to whether to utilise a quantitative or qualitative approach, since both methods are prevalent in the governance literature. It was consequently important to utilise a research design that was consistent with the objectives of the project. In this case, the basic research objectives examined in this study and presented in chapter one, emanated from a broad understanding of governance in the for-profit area, and an appreciation of the complexities and problems associated with governance. This study committed to apply that knowledge to a new area of enquiry, AFL clubs. Using the significant body of literature on governance as a starting point, the aim was to explore governance processes in the clubs and consider the relevance of those processes to organisational performance. Strauss and Corbin (1990, p. 19) suggested that qualitative research is appropriate to “gain novel and fresh slant on things about which quite a bit is already known.” Also, qualitative methods can “give the intricate details of phenomena that are difficult to convey with quantitative methods.” (p. 19). It therefore seemed appropriate to adopt this approach to close the gap in the governance literature with regard to professional sports organisations in Australia generally and the AFL in particular. Qualitative research can more comfortably identify webs of relationships and underlying values and beliefs. The study therefore, is both descriptive and interpretative in nature, and attempts to provide credible explanations for objectively derived outcomes.

## Grounded Theory

The specific research design involved a number of phases and adopted a grounded theory approach. Strauss and Corbin (1990, p. 23) defined grounded theory as

“...inductively derived from the study of the phenomenon it represents. That is discovered, developed, and provisionally verified through systematic data collection and analysis of data pertaining to that phenomenon. Therefore data collection, analysis, and theory should stand in reciprocal relationships with each other. One does not begin with a theory and then prove it. Rather, one begins with an area of study and what is relevant to that area is allowed to emerge.”

Corbin (2005) stated that grounded theory used an inductive methodology, developing theory from actual data and identified this as one of its strengths. Further she stated (2005, p. 51)

“One of the method’s strengths, however, is the ability to identify salient practice problems and the structural and personal conditions that lead to those problems. Perhaps the most valuable aspect of grounded theory is its ability to generate basic concepts, thereby providing the stepping stones necessary to develop and update a disciplinary body of knowledge”.

She argued that theory development through the collaboration of both researcher and participant (labelled the constructionist view) resulted in a theory “more reflective of practical situations than speculatively derived theories” (Corbin, 2005, p.49).

Corbin countered the view of Glaser (1992) which suggested that theory should emerge from the data (therefore implying one view or ‘truth’ from that data). She argued that a constructionist view allowed multiple realities to emerge. She identified the use of analytic tools as a useful way of “clarifying thinking, provide alternative ways of thinking about data and facilitate the teasing out of relevant concepts” (Corbin, 2005, p.50). This is counter to the criticism of Glaser (1992) which saw analytic tools as a means of forcing data.

Strauss and Corbin (2003) reinforced the value of grounded theory through its ability to support conceptualisation of data which in turn facilitates the identification of patterns and relationships. They also suggested that the theoretical coding (or development of concepts) is enhanced by theoretical sensitivity of the researcher. The authors acknowledged the reciprocal nature of this sensitivity, that is, the interaction

between the researcher and participant will to an extent shape the outcome. They suggested that at the end of the study, the researcher may well “give back to the actors, in the form of a final theoretical analysis, or framework...” (Strauss and Corbin, 2003).

The explicit objectives of this study outlined in chapter one highlighted the basis on which grounded theory was adopted. There was firstly a desire to identify the practice of governance; secondly, to determine meaningful relationships between various aspects of the data; thirdly to use both literature and theory to inform further data collection, particularly in the area of performance measurement; and finally to develop a coherent link between aspects of governance and AFL club performance. The above discussion on grounded theory supports these aims.

Pandit (1996) suggested that the process undertaken in grounded theory development encompassed five analytic phases which were then evaluated against four quality criteria: construct validity; internal validity; external validity; and reliability. A brief definition of each criterion is provided in Table 5.1.

**Table 5.1 Grounded Theory Quality Criteria**

<b>Criteria</b>	<b>Description</b>
Construct validity	achieved through use of explicit operational procedures
Internal validity	establishment of causal relationships
External validity	ability to generalise the findings to a broader area of study
Reliability	the ability to replicate the study’s processes and achieve the same outcomes.

Pandit (1996) provided the research framework for the development of the conceptual model (theory) used as the basis for the research design; the subsequent data analysis; and the results evaluation in chapters six and seven. The framework is shown in Table 5.2. A discussion of each phase follows.

Table 5.2 the Process of Building Grounded Theory

Phase	Activity	Rationale
<b>Research Design</b>		
<b>Step 1:</b>		
Review of Technical Literature	Definition of research question	Focuses efforts
	Definition of a prior constructs	Constrains irrelevant variation Sharpens external validity
<b>Step 2:</b>		
Selecting respondents	Targeted selection	Focuses efforts on key participants
	Random sampling	Ensures lack of bias
<b>Data Collection</b>		
<b>Step 3:</b>		
Develop data collection protocol	Create respondent database	Increases reliability Increases construct validity
	Employ multiple data collection methods	Strengthens grounding of theory through triangulation of evidence Enhances internal validity
	Collect Qualitative and quantitative data	Synergistic view of evidence
<b>Step 4:</b>		
Entering the field	Overlap data collection and analysis	Speeds analysis and reveals helpful adjustments to data collection
	Use of semi-structured Interviews	Allows use of emergent themes
<b>Data Ordering</b>		
<b>Step 5:</b>		
Data ordering	Arraying responses by club	Facilitates easier data analysis
<b>Data Analysis</b>		
<b>Step 6:</b>		
Analysing data	Use open coding	Develop concepts, categories and properties
	Use axial coding	Develop connections between category and its sub-categories
	Use selective coding	Integrate categories to build theoretical framework All forms of coding enhances internal validity
<b>Step 7:</b>		
Development of analytical Framework	Comparison of respondent data with features of models	Develops theoretical context for data presentation
<b>Literature Comparison</b>		
<b>Step 8:</b>		
Compare emergent theory with literature	Comparisons with similar frameworks	Improves external validity establishes the domain for generalisation of findings

Source: Adapted from Pandit N. R. (1996). The Creation of Theory: A Recent Application of the Grounded Theory Method. *The Qualitative Report*, Volume 2, Number 4, December.

## **Research Design Phase:**

The broad research questions explored in this study were to critically examine the governance processes of AFL clubs and to investigate any links between those processes and club performance. These questions derived from the theoretical sensitivity of the researcher. First, previous research conducted in the area of corporate governance (Barut, Foreman & Richardson, 2003; Foreman, Richardson and Barut, 2003; Foreman, Barut & Richardson, 2004; Foreman, 2005) provided a level of technical understanding of corporate governance. Second, the personal experience of avidly following an AFL club stimulated the enquiry into links between governance of an AFL club and club performance.

### *Selection of Subjects and Respondents*

The subjects of the research were AFL club boards and all sixteen AFL clubs were studied. The respondents to this study were directors of the clubs at date of interview, although it is recognised that governance of clubs is dynamic, and changes to the board may well have occurred after that date. Due to the voluntary positions held by these respondents and the profile accorded them through their involvement with an AFL club, it was not physically possible to interview the entire board, comprising between seven and twelve directors depending on the club. Therefore a sample was targeted, comprising the President or Chair and three randomly selected directors from each club. The nominal sample consisted of 64 respondents (four from each of sixteen clubs). However, the unavailability of some directors and the unwillingness of two club Presidents to participate reduced the actual sample size to 54. The response rate for President/Chair respondents was 81 percent, and for other directors was 83 percent, although there was a variation in response rate by club. The respondents by club are shown in Appendix 3.



### *Random Sampling*

The President or Chair of each club was specifically targeted, so the random selection of directors involved a selection of three from each club. This number of respondents was chosen for its practicality and also to provide corroboration of responses. It was thought to be more rigorous than other similar studies where the Chair and one other director were chosen. The median board size for the clubs was seven to eight directors including the Chair, so the sample of a further three directors represented approximately fifty percent of the board and could therefore be seen to be representative. The names of directors were obtained from the club annual report, club website, or the Australian Securities and Investment Commission (ASIC) database as necessary.

### *Coding of respondents*

The directors were numerically coded from 1 to x (variable with the size of the board); corresponding numbers placed in a receptacle; and three numbers randomly drawn. The drawn numbers were then matched with the number associated with each club director and the sample was thus identified. Confidentiality of the club and director was paramount in this study and was achieved through random coding of clubs and directors within each club. Club coding was also performed manually, with the clubs numbered 1 to 16, and those numbers drawn again. The associated number was then identified with a club and all clubs were only referred to by their code number throughout the study. Within each club, the same process was assigned to the coding of each respondent. Respondent comments included in the results chapter, are identified as Dir<sub>x</sub>Club<sub>y</sub> (where <sub>x</sub> = 1-4, and <sub>y</sub> = 1-16). In order to preserve anonymity, the President or Chair was randomly coded as one of the directors. There is no relationship between club or director code and their alphabetical or on field performance order.

## **Data Collection Phase:**

### *Data Collection Protocol*

Two methods of data collection were employed in this study. The first involved the use of semi-structured face to face interviews with respondents, and the second involved a comprehensive document review. The semi-structured interview questionnaire asked broad questions on key areas of governance: nomination or recruitment processes; board operations; and desired performance outcomes. The interview questions were derived and ordered from the non-profit governance literature in line with the governance models subsequently used from the Governance-Performance Framework described later in this chapter. Using Miller-Milleson (2003) the first series of questions (1-7) explored the recruitment processes of the club boards. While the constitution of the club outlines the boundaries within which the club can appoint directors, the aim of this study was to identify actual practice. The questions were framed to allow elaboration by the respondents and demonstrate their knowledge of these processes, which in turn, could highlight the need for director induction. Exploration of the prior involvement with the club potentially highlights desirable areas of involvement from which future board candidates could be targeted. Question 8 was specifically included to identify knowledge and appropriate skills of the respondents in line with Forbes and Milliken (1999). A substantial amount of the non-profit and sport governance literature explored the role of the board and this forms the basis for the next series of questions (1-15). The next series of questions are driven by Forbes and Milliken (1999) board processes (16-19). Finally, the questions target the issue of accountability and performance as represented by Forbes and Milliken (1999) and Nicholson and Kiel (2004). A copy of the interview questions is included as Appendix 4.

The document analysis involved a review of governance information contained within the club annual report, such as names of directors, length of service, number of meetings held, and director attendance. Club constitutions were not consulted as the respondents provided details of the constitutional board size and nomination and election processes. Data on performance was also gathered from the annual reports,

in the summary financial statements and the notes to the accounts. Newspaper reports on issues of compliance and governance was also used as a secondary source.

### *Entering the Field*

#### *Semi-structured interviews*

The field work was undertaken over a period of twelve months from May 2005 to April 2006. Each club was contacted by telephone and the first contact point was the executive assistant to the CEO. After a brief explanation of the nature of the research, an email was sent outlining in more detail what was required of the club and nominating the chosen respondents. A copy of the email is included in Appendix 2. Typically, the executive assistant would refer the email to the CEO, obtain approval to participate and either, reply giving details of the respondents' contact details, or their agreement to organise the interviews themselves. An appointment was made, and the interview conducted usually in the respondents' premises, although in some instances at the football club, or in informal surroundings in a coffee shop. The interviews usually took between 45 minutes and one and a half hours, the maximum time practicable for these respondents.

It was decided not to audio tape the interviews due to the confidential nature of the issues discussed and the media pressure with which these respondents are often confronted. AFL clubs are high profile organisations and any club official is besieged by dozens of accredited journalists. It was thought that the presence of a tape would compromise the quality of the discussion. The interview instrument was therefore fairly well structured and answers or comments were captured in longhand, and reviewed with the respondent at the conclusion of the interview. The transcripts were typed within a day of interview into a word document from which they could be aggregated easily into a response per club. Respondents were advised that they may be contacted for further clarification, although this was found not to be necessary. The electronic data was stored on a password protected hard drive and was backed up daily. The hard copies were filed in a locked filing cabinet.

All respondents were shown a consent form at the beginning of the interview and advised that if they were happy with the interview, they should sign and date it on completion. A copy of the consent form is included in Appendix 5.

### *Document analysis*

The annual report for each club for each of five years from 2000 to 2004 was obtained from a variety of sources: State Library of Victoria; Deakin University Library; the club itself and the AFL. The document analysis involved a review of the directors' report and perusal of the Statement of Financial Performance, Statement of Financial Position and Notes to the accounts for each club for each year. Key data items obtained were directors' details and appointment dates; number of board meetings, number and name of board sub committees; director meeting attendance; Revenue and revenue categories; Expense categories; total assets, liabilities and equity.

The Hawthorn Football Club Annual Report (2002, 2003, and 2004) was a source for all club membership figures and these figures were verified by the ICAA Annual Survey of AFL Clubs Financial Reporting (2001, 2002, 2003, and 2004). On field performance on number of games won and lost each year, including finals was obtained from the AFL Statistician.

### **Data Ordering Phase:**

The transcripts were categorised electronically by club and the verbatim responses cut and pasted into an aggregated word document on a club by club basis. Respondents comments were coded as outlined above to facilitate citation of relevant comments.

### **Data Analysis Phase:**

#### *Coding*

The research instrument was pre-coded into broad categories: Board Nomination Processes; Board Operations; and Board and Club Performance. Within these categories, several open-ended questions were asked. The interview transcript was typed verbatim, using the categories as headings. The transcript was then disaggregated into meaningful concepts with the use of open coding (Strauss and Corbin, 1990). The coding was done manually. An initial code was pre-determined; then within that code, concepts were identified and assigned separate codes. The

number of codes increased with the number of interviews undertaken and the number of clubs completed. An example of the coding process is shown in Figure 5.1.

<b>Speaker</b>	<b>Transcript Text</b>	<b>Code</b>
JF Respondent	What is the role of the football club? To continue the wonderful tradition as an organization in .... The club has been going for ... years. It is the soul and spirit of the place for all that time. We have almost gone broke several times but it has survived due to the dedication of so many. It is a privilege to serve as President which means a duty of care for the ... Community.	Role of the Club

Adapted from: Hoye, R. (2002), Board Performance of Australian voluntary Sports Organisations, Unpublished doctoral dissertation, Griffith University, Brisbane, Australia.

**Figure 5.1 Excerpt from interview transcript**

The above code was populated with all other comments from respondents and the key concepts emerged. An example of this disaggregation and conceptualisation is shown in Figure 5.2.

<b>Segments of transcripts which have been coded to Role of the Club.</b>	<b>Disaggregated Code</b>
What is the role of the football club? To continue the wonderful tradition as an organization in .... The club has been going for ... years. It is the soul and spirit of the place for all that time.	Community
... is an institution worth fighting for. It is part of people's lives from grandparents to grandchildren. It is as significant as their religion. It gives people one of the most significant pleasures in their life.	Members' emotional lives
To win premierships, the club has no other role	Premierships

Adapted from: Hoye, R. (2002), Board Performance of Australian voluntary Sports Organisations, Unpublished doctoral dissertation, Griffith University, Brisbane, Australia.

**Figure 5.2 Development of sub codes**

The study developed fifteen codes a priori and the responses resulted in thirteen final codes and the generation overall of fifty-three sub codes. The full coding structure appears in Appendix 7.

## *Development of an Analytical Framework*

This step within the Data Analysis phase, involved the design of an analytical framework by which the club results could be replicated and categorised consistently. This framework provided the basis for the results and arose from a distillation of theoretical models of nonprofit governance discussed in chapter two.

The development of the framework involved the analysis of the respondent data from the clubs and a comparison of this data with the integrated models of nonprofit governance. The models developed by Forbes and Milliken (1999) and Miller-Milleson (2003) were the most representative of the data, although neither model in isolation captured all elements. An adapted model, combining features of both Forbes and Milliken (1999) and Miller-Milleson (2003) was developed and used for purposes of results analysis. Key components of these models have been compared against each other and representative empirical data in Table 5.3. The following discussion considers the theoretical basis for the selection of each of the components of the adapted model.

The features of the Forbes and Milliken (1999) model, discussed in chapter two, focuses on what boards do rather than how they are constructed.

The model represented four aspects of governance: board characteristics; board processes; board level outcomes; and firm level outcomes. Board characteristics encompassed board demography and included the presence of knowledge and skills. Board processes included effort norms (renamed in this study as director effort); cognitive conflict (renamed board debate); and the use of skills and knowledge. Board level outcomes were the activities or tasks that boards undertook, labelled in the model as control and service tasks, and these are detailed in Table 5.2. Finally, firm level outcomes were included as a governance aspect, but were not defined or discussed.

The model identified a series of relationships and hypothesised some correlations which were discussed earlier in chapter two. However, the model was deficient in its unilateral causality, and the interdependent relationships were overlooked. An example is the unilateral representation of the link between board demography and the

presence of knowledge and skills. Clearly, from the respondent data, there is a bilateral and interdependent relationship between demography and presence of knowledge and skills. As new skills are sought, candidates for the board are identified and then selected, influencing the demography, in an ongoing iterative process. Similarly, the results of an evaluation of board processes on occasion change the board demographics. Board task performance and firm level outcomes should also be represented as a multilateral relationship between board processes and board demography. Failure to achieve board or firm outcomes may necessitate a short term revision of board processes and if still not achieved, may require long term director replacement. The model is a useful framework but suffers from its failure to recognise the iterative nature of governance and particularly, fails through its exclusion of any discussion of firm level outcomes.

Miller-Milleson (2003) extended the parameters of the conceptual framework by providing an internal and external context for the components. Her model suggested that funding sources and the regulatory environment would influence the recruitment process, thus recognising that board demography is potentially influenced by factors other than skill mix. The organisation's corporate responsibilities needed to be reflected in the overall framework. Labelled as board behaviour by Miller-Milleson; her model defined the key board tasks in a similar but more comprehensive manner than Forbes and Milliken. These are also included in Table 5.2. However, the model did not include a link to either board or firm performance and this was its most obvious failing, although feedback loops within her model were appropriately represented.

Miller-Milleson's model was instructive in three ways: firstly, she provided a theoretical underpinning of the key components of the model and the board behaviours she identified. Secondly, she included a focus on the external environment labelled 'boundary spanning', and thirdly, she linked the behaviours to a particular theoretical model. The theoretical perspective included Agency theory, which underpinned the monitoring and control behaviours; resource dependency theory underlying the boundary spanning behaviours; and Institutional theory which supports the conforming behaviours.

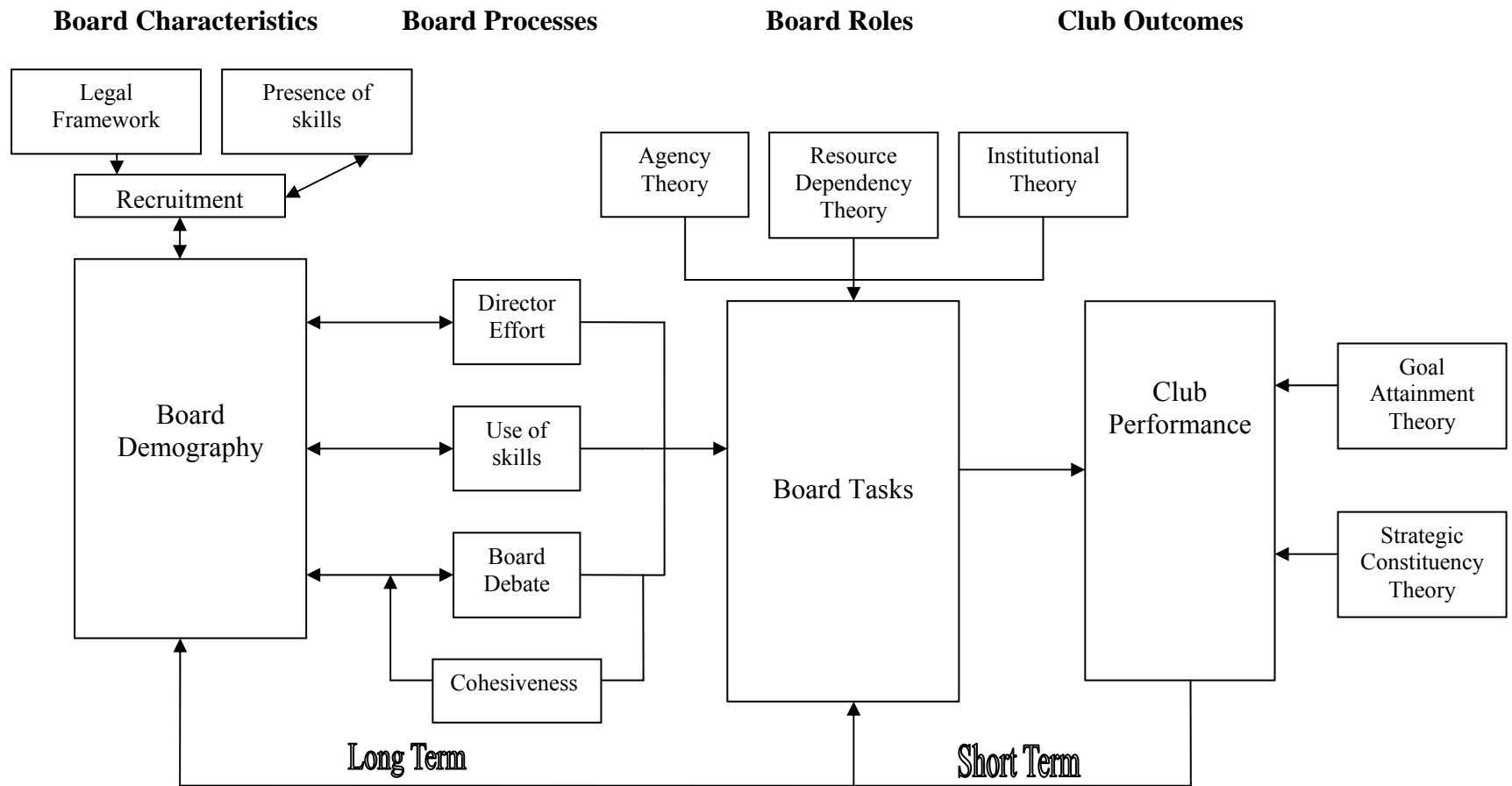
Miller-Milleson (2003) was at odds however, with several other theorists (Brown, 2005; Green and Griesinger, 1996; Siciliano, 1996) in her inclusion of strategic planning as a board monitoring role, whereby others saw it as an outcome of external linkages and board expertise as explained by resource dependency theory.

**Table 5.3 Comparison of Governance Models and Respondent Data**

<b>Model Feature</b>	<b>Forbes &amp; Milliken (1999)</b>	<b>Miller-Milleson (2003)</b>	<b>Respondent Data</b>
Legal Framework	No	Yes	Implicitly
Recruitment	No	Yes	Yes
Board Demography	Yes	Yes	Yes
Board roles:	Control Tasks:	Monitoring:	Set Strategic Direction
	Hire, compensate and replace senior management	Determine and purpose Oversee programs and services	Protect Mission Appoint/Remunerate CEO and Coach
	Approval of major management initiatives	Strategic planning fiscal control Evaluate CEO	Monitor Management Exert fiscal control
	Service Tasks:	Boundary spanning:	Ensure compliance
	Providing expert and detailed input during major events	Reduce uncertainty Manage problematic interdependencies Raise money	Represent club for members
	Generating and analysing strategic alternatives	Enhance image Conforming:	Enhance brand Network to enhance club
	Other: Maintain ability to work together	Assure legal compliance Implement mandates	Ensure survival
Link to Performance	Yes	No	Yes

Organisation outcomes have been included in the developed framework as per Forbes and Milliken (1999) and two organisation effectiveness theories have been used to analyse the study results. Table 5.3 presents the features of each of the two models of nonprofit governance and also includes representative survey evidence from AFL club respondents on key governance aspects. It is clear that neither model adequately captures all the respondent data and thus a combined and adapted model was created. This model, labelled Governance-Performance Framework is illustrated in Figure 5.3. It was subsequently used to contextualise and frame the results of the study.





Adapted from: Forbes and Milliken, 1999; Miller-Milleson, 2003 and Slack, 1997.

**Figure 5.3 Governance-Performance Framework**

## **Literature Comparison:**

The last phase of the methodology involved the comparison of the results of the data collection, ordering and analysis with the theoretical literature. The literature was a point of comparison in four key areas of the study. First, the literature was instrumental in informing the development of the Governance-Performance Framework for this thesis. Second, the study used the literature to identify appropriate performance measures which was integral to the underlying research question. Third, the extent to which the results supported the various organisational theories examined in chapters two and three was presented, and fourth, the study included a comprehensive evaluation of the results from the clubs against several governance models discussed in chapters two and three. The literature was therefore a continuous reference point in the study.

## **Operationalisation of the Governance-Performance Framework**

There are four sections to the framework used to frame the results. The first section is an amalgamation of the Forbes and Milliken (1999) board characteristics and elements of the environmental factors and recruitment practices components of the Miller-Milleson (2003) model. The second section is exclusively adapted from Forbes and Milliken (1999); the third section is represented in both models but the terminology in the Forbes and Milliken model (board tasks) was used to identify the functions that the board performs; and finally, the club outcomes have been identified and measured. The Miller-Milleson model's theoretical discussion has been used to inform this framework, with the three theories: agency; resource dependency; and institutional all represented in the data. There are two aspects to the determination of club outcomes. Firstly, the respondents were asked to identify how the club measured success and these have been determined to be broad performance goals and are club specific (albeit with many similarities). Secondly, the literature on organisational effectiveness and performance was reviewed to determine hypothesised goals which could be used consistently for all clubs and therefore provide a basis for comparison and benchmarking. Each section is described in the

ensuing discussion and the model is reviewed at the end of the chapter against the four quality criteria discussed by Pandit (1996) earlier in this chapter.

### **Board Characteristics**

There are four aspects to this section of the framework. The first legal framework, describes the constitutional issues such as ownership, legal jurisdiction, and board size. The second aspect considered the recruitment practices of the clubs and these were typically, by invitation; as part of a ‘ticket’; independent nomination and election; and appointment.

Underlying the recruitment practices, the respondents suggested that knowledge and skills was an important driver of board candidates, so the respondent skills or desired skills were identified. Finally, the actual demographic of the directors was described in terms of age, gender and tenure.

### **Board Processes**

This section encompasses the three aspects from Forbes and Milliken identified above. Director effort was operationalised in the framework as: time commitment; meeting attendance; and qualitative comments on effort. The extent to which cognitive conflict is present and positive was measured by qualitative comments on cohesiveness and debate. The negative aspect of cognitive conflict was operationalised by recalcitrant directors in terms of meeting attendance, and director turnover. The presence of skills was measured by identification of job related diversity, differing qualifications and/or expertise, and industry knowledge or experience, while the use of skills and knowledge could best be measured by qualitative comments on individual expertise and involvement.

### **Outcomes**

The third section of the framework is descriptive in nature and identifies the role of the board. Chapter six discusses these roles in the theoretical context proposed by Miller-Milleson (2003). The final section of the framework is also informed by theory which was discussed in chapter four. Club outcomes were subjected to two data capture exercises. The first was the recording of performance against the self

defined goals, with an aggregated identification of broad performance goals for each club. Measures were obtained from a comprehensive document analysis. Club effectiveness was determined through the achievement or otherwise of those goals. The second data capture exercise was the creation of a balanced scorecard for each club using consistent performance goals and measures, emanating from the literature. Club effectiveness was then determined for each goal and measure.

An overall analysis of effectiveness was undertaken through a comparison of the two data capture exercises. Clubs which were deemed effective or ineffective in both were isolated for further analysis.

### **Evaluation of the framework**

The Governance-Performance Framework was easily operationalised and as it was data driven, and developed from the literature, demonstrated evidence of a grounded theory. The quality of the framework can be assessed against the four quality criteria identified by Pandit (1996).

**Construct Validity:** the codes which were determined a priori were found to be representative of both the interview data and the governance literature and streamlined the analytical process, albeit generating additional sub-codes. The method exhibited construct validity.

**Internal validity:** the adoption of multiple data collection methods (the use of semi-structured interviews, literature review and annual report analysis) served as a triangulation of the data, and together with adoption of both quantitative and qualitative performance measures, achieved robust results.

**External validity:** the development of the governance-performance framework extended models which have already been subjected to academic scrutiny, and as it is not industry or organisation specific, is transferable to other sectors within the for profit or non-profit arena.

**Reliability:** The framework was able to demonstrate that the data was collected consistently from all clubs and contained many similarities, providing validation of

the a priori codes. The performance measures were easily operationalised and for the most part were easily replicated across clubs and across years. The limitations to this replication, was the lack of disclosure in some clubs' reports.

The results of the study are presented in the next two chapters. Chapter six examines the governance attributes of the AFL clubs while chapter seven presents club performance outcomes. Finally chapter eight uses the data compiled in chapters six and seven to conduct a comparative analysis of effective and ineffective clubs in order to establish the links between governance processes and performance.

## **CHAPTER SIX**

### **RESULTS PART ONE: CLUB GOVERNANCE ATTRIBUTES**

The results of this study (both the semi-structured interviews from fifty-four directors and comprehensive document reviews) are discussed over the following two chapters and presented in the context of the parameters of the governance-performance framework. Chapter six concentrates on the governance attributes of each of the clubs while chapter seven presents the comparative club performance results and chapter eight explores the links between governance and performance through an analysis of effective and ineffective clubs.

#### **Review of Governance-Performance Framework**

The governance-performance framework was presented and discussed in chapter five, and provided the context within which results are presented and analysed. This governance-performance framework consisted of three parts. Part One, board characteristics, included sections on legal framework, presence of skills, recruitment and board demography. Legal framework addressed board size and brief constitutional issues such as corporate structure and ownership. Presence of skills focused on the expertise and board qualifications of the respondents as well as identifying the expertise they felt was essential for board effectiveness. These two sections lead to the next component, recruitment, which dealt with the appointment, nomination and election processes of the board. All of these elements influenced board demography, which presented a comparison of the age, gender, tenure, and industry experience of respondents.

Part Two of the model, board processes, focussed on the aspects discussed by Forbes and Milliken (1999). The first section, director effort, dealt with meeting attendance, and other time commitment to the board. The second was the use of knowledge and skills, and the authors suggested that the presence of skills on a board was not sufficient; there must be evidence that these skills were used. While difficult to operationalise, the skills contribution was evident from respondents' comments. The final section was the issue of board debate, which included a discussion on cohesion.

Again, this was difficult to operationalise, but was well illustrated by respondent comments.

Part Three of the governance component of the conceptual framework examined the key board tasks. This area discussed respondents' views on the role of the board versus the role of the CEO; the role/purpose of the club (a surrogate for mission); the board involvement in strategic planning; the monitoring role of the board; and board self evaluation processes among others. This component leads neatly to the issue of club performance which is discussed in chapter seven.

## **Part One: Board Characteristics**

### **Section 1: Legal Frameworks**

All AFL clubs are registered under the Australian Corporations Act 2001 (Cwth) as Australian Public Companies which requires a higher level of disclosure than a similar small business enterprise. The majority of clubs are companies limited by guarantee, which essentially limits their liability to members' contributions. Three of the clubs are companies limited by both shares and guarantee (two for historical reasons which are no longer relevant), and one club is limited only by shares.

The majority of clubs are owned by members who pay an annual membership fee which gives among other things, access to games. However, the most recent clubs to enter the competition have a variety of ownership structures. Two clubs are owned by a State government through their football commission, although one of those also has member/owners. One club is owned by the AFL following the re-purchase of the licence after failed private ownership, one club has both member/owner and State league ownership, while the last club has full State league ownership. In regards to ownership, Dir<sub>2</sub>Club<sub>2</sub> felt that *'the concept of club ownership by members is dubious. They are customers who get a discount season ticket...their representation on the board is greater than their stake warrants'*.

The size of the board also varies among clubs. The smallest board size is seven, the largest 12 with a median of eight. Clubs have over the years and subsequent to this

study, reduced the size of the board. This requires a change to the constitution, needing ratification by members at an Annual General Meeting (AGM). Two clubs have one executive director, while all other clubs have only non-executive directors. The key aspects of the legal framework of clubs are presented in Table 6.1.

**Table 6.1**  
**AFL Club Legal Frameworks**

<b>Feature</b>	<b>Number of Clubs</b>
<b>Company Status</b>	
Limited by Guarantee	12
Limited by Shares and Guarantee	3
Limited by Shares	1
<b>Ownership</b>	
Members	10
AFL	1
Shareholders	1
State League/Members	1
State League	1
State government commission	1
State government commission/members	1
<b>Board Size</b>	
7	5
8	6
9	1
10	3
12	1

## **Section 2: Presence of Skills**

Forbes and Milliken (1999) suggested that boards should possess relevant skills. The majority of respondents indicated that the mix of expertise was a driving factor for board effectiveness and they therefore based their board recruitment decisions on attracting the appropriate expertise for the needs of the club at its particular stage of evolution. Some respondents however, indicated that it was not necessarily



functional expertise that was required but general business acumen and certain personality traits. One issue which was explored in the study given the nature of the industry was the necessity to have an ex-player on the board. This presumed that an appreciation for playing the game at the highest level would provide essential insight for the board and emanates from a wider debate in the for profit arena, which suggests that particular industry expertise is a requirement for a corporate board. The findings describe firstly the respondents' expertise and then highlight the expertise they felt was necessary for their board to be effective. In the majority of cases, the expertise required for effectiveness was the expertise that their board already possessed, although some respondents did identify desirable expertise that was lacking. There were mixed results with regard to the presence of an ex player on the board, although most respondents identified a need for football industry experience. Where the club saw the need for an ex player it was often accompanied by the representative comment from Dir<sub>2</sub> Club<sub>15</sub> "*Members like to see one or two past players, although they must contribute other expertise*".

### *Respondent Expertise*

Respondents were asked to identify the particular expertise that they possessed and could contribute to the club. In some cases, they were expansive and identified several areas of expertise. The most cited areas of functional expertise were (in order, with number of responses in brackets):

1. Financial/Accounting (21)
2. Other Board experience (14)
3. General business acumen (12)
4. Entrepreneurial/Own business (9)
5. Football (ex player all had other business or football industry expertise) (9)
6. Marketing (6)
7. Contacts (4)
8. Legal (4)
9. Media (3)
10. Strategy/Events/Political (each had 2)

The personal characteristics that respondents brought to their board are illustrated by the following comments: Dir<sub>3</sub>Club<sub>16</sub> promoted his "*enthusiasm, youth and running*

*of a successful business” while Dir<sub>1</sub>Club<sub>12</sub> suggested “I ran the social club for ...years and have a good idea what drives members”. Further characteristics were identified by Dir<sub>2</sub>Club<sub>1</sub> “Have passion, I love being in the inner circle...but willing to work hard and accept risk” and Dir<sub>4</sub>Club<sub>7</sub> suggested his additional contribution was “local knowledge, youth and energy”. Dir<sub>1</sub>Club<sub>10</sub> stated “I think I have expertise in people management and have started my own company with one person and it is now a national company trading in five states”.*

Given that the sample of directors represents 40 percent of the director population of the clubs, the expertise that respondents possessed should be reasonably representative of the actual mix of expertise at the clubs.

### *Desirable Expertise*

Respondents were asked to identify the desirable mix of expertise, and there was significant difference to the actual mix of expertise represented in the sample. The identified expertise was deemed by the respondents to be either essential or desirable. Financial expertise was most commonly cited, but marketing, media and the presence of a woman were much more heavily weighted than the sample. The desired mix of expertise in order of most cited (number of responses in brackets) is:

1. Finance (33)
2. Marketing (24)
3. Legal (22)
4. Ex Player (19)
5. General business acumen (20)
6. Football Industry experience (not an ex player) (13)
7. Media (12)
8. Contacts (13)
9. Presence of a woman (10)
10. Entrepreneur (4)

Four clubs which did not have a woman on the board identified this as desirable. Dir<sub>2</sub>Club<sub>11</sub> stated “We need a woman, they understand female members but also, women think differently, they bring another perspective”. Several clubs identified

the need for marketing or greater marketing expertise but two clubs suggested that marketing was better left to management. Dir<sub>3</sub>Club<sub>16</sub> argued “*Marketing is not material, it’s helpful, but if management is doing its job, it is not really necessary*”.

The inclusion of a past player on the board, found general support as evidenced by the number of responses, but also had its critics. Dir<sub>3</sub>Club<sub>16</sub> “*Football expertise is at the bottom of the list, helps but not critical*”; “*Not necessary to have ex players who aren’t business people as well*” (Dir<sub>2</sub>Club<sub>9</sub>). Dir<sub>3</sub>Club<sub>2</sub> suggested that “*You should have a recently retired player who is well credentialed. The game is so different and the issues are different, need someone who understands*”. There was only one club who in the aggregate of responses did not think football industry expertise was necessary. Club four was the most ardent supporter of the inclusion of a past player.

There were several characteristics other than functional expertise which were identified. There was a suggestion that “*It is a bit of a furphy targeting particular expertise, directors should have active involvement in business, should be the type of people that I would go into partnership with. Clear thinkers, good decision makers, have intelligence. Behaviours and characteristics are more important*” (Dir<sub>4</sub>Club<sub>16</sub>). Dir<sub>2</sub>Club<sub>13</sub> supported this “*... not a believer in functional skills, you need a diversity of commercial skills... high level influential people. I have tended to always have one finance person on the board and could try to get one legal, however passion for the club is essential, you need to enjoy the involvement and work for the good of the club*”. Passion for the club was cited by seven clubs while one club stated that “*they avoid having passionate supporters on the board because they are not objective*” (Dir<sub>2</sub>Club<sub>14</sub>). Dir<sub>1</sub>Club<sub>2</sub> suggested ‘*... should be a strategic thinker, have smarts, someone who is not afraid of debate, innovative.*’ Further, Dir<sub>2</sub>Club<sub>10</sub> added “*No egos, there is no room for egos, we would not recruit them...must be good people, successful business people, must be team players...have passion and vision*”. Several respondents identified the ability to commit time, hardworking and disciplined as desirable traits. Dir<sub>3</sub>Club<sub>10</sub> added “*collectively have enough wisdom...good peripheral vision and the ability to steer the entity through bumps*”.

### Section 3: Recruitment Processes

This section explores the process by which the respondent sample was recruited to the board and what was, if anything, their prior involvement with the club. While the majority of the clubs have members eligible to nominate for the board and a process for electing directors, personal invitation was the most prominent method of board recruitment. This approach is summarised by Dir<sub>1</sub>Club<sub>9</sub> “*the elected members is a bit of a raffle, members vote on different criteria ... they do however, bring a members’ perspective*”. It should be noted that there was a distinct difference between a full spill of the board where a ‘ticket’ was elected in entirety, usually following a club crisis, and individual independent nomination and successful election. The results are categorised in terms of the level of control over board composition: 1. appointment; 2. invitation; 3. running a ticket; 4. independent nomination. It should also be stated that invitees usually fill a casual vacancy and depending on the club constitution, face an election at the next AGM or the end of the incumbent’s term. The respondents’ recruitment methods are summarised in Table 6.2.

**Table 6.2**  
**Respondent Recruitment Method**

<b>Method</b>	<b>Number of Respondents</b>
Appointed	11
Invited	29
Part of a Ticket	6
Independent nomination	8

There was only one club in which the majority of the respondents had independently nominated for the board. Where the respondents had identified invitation as the method of achieving board membership, they were asked to explain the process by which they or other potential board candidates had come to the attention of the board. Dir<sub>3</sub>Club<sub>1</sub> stated “...*searched for a candidate, started asking people who had*

*suggestions and trusted their judgement...my name was put up and I was interviewed about what skills I could bring.” Dir<sub>2</sub>Club<sub>15</sub> suggested that “In terms of who to recruit for the board [it] comes from personal knowledge of appropriate people.” Dir<sub>3</sub>Club<sub>10</sub> stated “It was an arduous process. It took between three to five months from the initial discussion to appointment.” Some of the invitees had participated in sub committees of the board or had assisted the board or club in some way. Dir<sub>1</sub>Club<sub>2</sub> stated ‘most of us have wide business contacts and are always on the look out for new blood. They should have a serious long standing interest in [football].’*

This prompted an examination of whether the majority of directors had any prior involvement with the club or whether the clubs recruited from outside the club and industry. Forty-four respondents had been supporters of the club they represented, although their involvement was varied. There were family connections in several cases, resulting in life long support for the club but relatively little active involvement with the club until board appointment. Eight of the respondents were past players of the club they now governed, but in all cases they possessed other attributes in terms of business or other football experience which complemented their football credentials. The recruitment from club coterie members represented 22% of the respondents with two clubs having the majority of respondents as coterie members. Several coterie members also supported the club through sponsorship. Six directors indicated that they had been sponsors of the club in some capacity, not always a major sponsor. Three clubs had formal advisory boards which were formed as a resource group for the club. There were only four respondents who had no involvement with any club, and had been appointed through personal or professional relationships with a member of the board or club management. In three instances, consultants were employed to find suitable candidates. Table 6.3 summarises the respondents’ prior involvement.

**Table 6.3**  
**Respondent Prior Involvement**

<b>Involvement</b>	<b>Number of Respondents</b>	<b>%</b>
Supporter	12	22
Club involvement/Adviser, committee	11	21
Sponsor	6	11
Past Player	8	15
Coterie	12	22
Personal relationship	5	9

In the majority of cases, the respondents were identified through the existing board members' networks or contacts. This applied mainly to the invitees, but in some cases also to those who independently nominated, enabling them to be supported in the election process.

*Formal Nomination Process*

The board appointment/election process is stipulated in the clubs' constitutions however as stated in chapter five, a review of five clubs' constitutions were not instructive as to how they actually recruited to the board. The methods of board selection were extremely varied. The majority of club respondents identified the potential for electoral challenges of directors. Respondents from eleven clubs identified some scope for ordinary members to vote and nominate for the board. Two clubs only allowed full members (paying a slightly higher fee) to vote; one club allowed only shareholders to nominate and vote, although members can and do lobby for an invitation onto the board; and two clubs' board is fully appointed, although by the majority shareholder. Two clubs required membership for a certain length of time before becoming eligible to nominate, while there were limitations on the number of elected positions in several clubs. A summary of the usual arrangements for board selection is presented in Table 6.4.

Only one club appeared to encourage and profit from independent nominations, although those respondents which have faced elections either through a board spill or

subsequent nomination, are usually elected unopposed or win on a vote in subsequent elections. It was clear that at least four clubs faced fairly active interest from potential challengers while the majority of clubs are rarely challenged unless there was a sustained period of lack of success. Dir<sub>2</sub>Club<sub>13</sub> stated “*We generally have an election, anyone can nominate and we encourage a democratic process. About 40 percent of the nominees are from ‘grassroots’ supporters, while other have been identified...try to get the best people*”.

**Table 6.4**  
**Board Nomination Process**

Constitutional Arrangement	Number of Clubs
<b>Eligibility to nominate and vote</b>	
Ordinary members	11
Full/Social Club members	2
Shareholders	1
Nil - appointees only	2
<b>Time Qualification</b>	
Nil	11
1 year	1
2 years	1
<b>Term</b>	
2 years	3*
3 years	13
<b>Annual positions vacated</b>	
One third	14
Other	2**

\*the club has both two and three year terms

\*\*one club has only two elected positions of which one is vacated each year  
one club has a full spill of the board every three years.

Most respondents, particularly those who did not seek independent nomination, actively discourage a board challenge requiring an election for a variety of reasons. The following comments illustrate the common reasons cited. Dir<sub>4</sub>Club<sub>16</sub> suggested that “*members forcing an election that they were unlikely to win, was an expensive exercise for the club*”; Dir<sub>1</sub>Club<sub>6</sub> stated “*the nomination processes appear to be transparent but need to be selective in who will be elected. There were two occasions when a challenge was mounted, but an election would be costly and was*

*therefore resolved through discussions between President and candidate...the candidate could fill a casual vacancy when available”.*

Dir<sub>4</sub>Club<sub>11</sub> commented “*Need the best people not the most popular...not looking at stakeholder representation at this stage , more interested in getting key skills for a medium sized business”*. Dir<sub>2</sub>Club<sub>6</sub> stated “*...pretty rare to get grassroots nominees, it is too onerous the level of director’s liability. You need experience; you would be pretty ineffectual without experience”*.”

The final section presents the demographics of the respondents, and while not attesting to be the board demographic, in a random sample, should provide some representative view of club boards.

#### **Section Four: Board Demography**

It is important to note that the data populating much of the model is confined to the results of the field work, taken from the random sample of directors as well as the President or Chair of each club, and does not therefore represent the characteristics or views of the entire board of each club. In some cases, the demographic aspects determined in the interviews are disclosed in the club annual report for their directors, but in many cases no such disclosure exists, and therefore full board demography comparisons are impossible.

The respondent sample indicates that the majority of directors are between 56 and 65 years of age and at least 50 percent of them have served on their boards for six years or longer. The longest tenure was 12 years, represented by two directors while five directors had been appointed during 2004, therefore serving one year or less. There were two clubs where the respondents had all been appointed in the 1990s and two clubs where club unrest caused a recent board spill and all directors had been appointed or elected within the last three years. The respondent skills relate to their primary expertise. In terms of industries in which the respondents work, fourteen different industries are represented with the most prominent being Finance and Property.



The demographics are summarised in Table 6.5.

**Table 6.5**  
**Respondent Demography**

<b>Feature</b>	<b>Number of Respondents</b>
<b>Age</b>	
36-45	10
46-55	19
56-65	22
65+	3
<b>Tenure (Based on year of appointment)</b>	
Prior to 1995	9
1996-1999	18
2000-2002	10
2003-2004	14
Not Disclosed	3
<b>Gender</b>	
Male	50
Female	4
<b>Expertise (Prime expertise)</b>	
Financial/Accounting	14
General business acumen	13
Entrepreneurial/Own business	4
Professional Directorships	2
Football	6
Marketing	5
Contacts	1
Legal	3
Media	3
Strategy	2
Events	1

The following two clubs provide a snap shot of club board demographics based on respondent profiles. The first club has a board all selected through invitation, the

second club has a board largely consisting of independent nominations. The demographics of the respondents for each club are presented below:

**Table 6.6**  
**Comparative Structures**

<b>Club A: four respondents</b>		<b>Club B: four respondents</b>	
<b>Age Profile:</b>		<b>Age Profile:</b>	
36-45	1	36-45	0
46-55	1	46-55	2
56-65	2	56-65	2
<b>Tenure:</b>		<b>Tenure:</b>	
1996-1999	2	Prior to 1995	1
2003-2004	2	1996-1999	3
<b>Expertise:</b>		<b>Expertise:</b>	
Legal	1	Finance	1
General Bus Acumen	2	General Bus Acumen	1
Strategy	1	Marketing	1
		Football	1

Club A has football expertise on the board and one of the respondents has expertise in both Marketing and General Business Acumen. However, the profile for Club B illustrates that selection of directors by independent nomination and election does not necessarily inhibit an effective mix of expertise and, as evidence by the tenure of the directors, does not require either generational or professional adjustment.

## **Summary**

So, in summary, while sharing common legal status, the clubs exhibited differing constitutional arrangements with regard to board size, tenure, and appointment processes. Within their constitutional arrangements there are various forms of board appointment, with the vast majority being invited rather than challenging through an election process. There is evidence of substantial business skills on most boards, with a heavy emphasis on financial expertise. Industry (football) experience was

present on most boards and identified as desirable. In terms of board demography, the majority of respondents were aged over 45 years, while tenure was polarised to either five years or more, or appointment within the previous two years. In terms of ability to generate resources, marketing expertise appeared to be under represented on the current boards, although considered desirable.

## **Part Two: Board Processes**

A key feature of the Forbes and Milliken (1999) model was the emphasis on board processes, that is, how directors actually discharge or perform their roles. In chapter two, the Forbes and Milliken model was discussed in detail and key processes (effort norms; use of knowledge and skills; and cognitive conflict) were defined and presented. Chapter five re-named these processes as ‘director effort; use of knowledge and skills; and board debate’; and these are operationalised by respondent comment on time committed to board activities, exclusive of game day; comments on where the particular skills have been utilised, either on committees or particular tasks; and finally, the quality of debate and key aspects of board dynamics. This latter section includes a discussion on board cohesiveness, as respondents often cited board unity as a desirable attribute.

### **Section 1: Director Effort**

In line with Forbes and Milliken (1999), this section explores the level of meeting preparation of directors, the time commitment made and illustrations of actual effort and commitment through respondent comment. The first issue discussed, is the board meeting and the presence of sub committees if any.

#### *Board Meetings*

Most AFL clubs hold board meetings at least monthly. While these meetings are organised for a specific time and date, usually far in advance, at least one club, Club 1, will change the dates of meetings if necessary. The number of board meetings held each year is surprisingly varied between the clubs and has not necessarily remained stable over the years. The highest number in 2004 is 16 while the least number is 8. In 2001, one club reported 22 meetings for that financial year. Two

clubs do not disclose the number of meetings in their annual report. In one club's case, the respondents indicated that they held monthly meetings, so an assumption was made that twelve meetings were held. The most common number of meetings (five clubs) was eleven per year.

Meeting attendance is a primary responsibility of a director and therefore the clubs' annual reports were scrutinised to establish the actual attendance behaviour of directors. The attendance was examined for the 2004 financial year and the majority of directors attended all or all but one meeting for which they were eligible. Only one club (Club 14) had directors attend all meetings, while one club (Club 5) had only one director attend all meetings, with all of the remaining directors missing at least one meeting. In total, 27 directors had missed two or more meetings, representing 26 per cent of disclosed directors and 12 of the 16 clubs. Two clubs reported more than one meeting missed as 'leave of absence'. Three clubs had directors who had missed four meetings with no reported leave of absence; seven clubs had directors who missed three meetings, again with no reported leave of absence. Club 11 had 3 directors who missed three meetings. Further examination revealed that two clubs (Club 1 and Club 16), had one director who habitually missed three or four meetings over the past three years. A summary of disclosure on directors' meetings is presented in Table 6.6.

### *Time Commitment*

All respondents were asked to nominate the amount of time per week that they committed to board matters. Dir<sub>3</sub>Club<sub>10</sub> indicated that "*The board tends to be more hands on than a business board.*" There was considerable difference between the time expended by directors and that spent by the President or Chair of each club. The typical time committed, including board and sub committee meetings, for the ordinary director was between two and three hours per week. In addition, there would be either a mid month 'catch up' as in Club 5; or circulation of issues regularly as expressed by Club 3 respondents. However, this is an average over the year, and at certain times this may increase substantially. Prior to a major fund raising event, Dir<sub>1</sub>Club<sub>12</sub> suggested that "*I am currently working 25 to 40 hours per week*"; Dir<sub>1</sub>Club<sub>5</sub> indicated that due to the need to renegotiate several sponsors

concurrently, he would spend approximately 20 hours per week. Dir<sub>2</sub>Club<sub>15</sub> stated that *“You need to recruit directors who have time to participate; there were some directors who had a profile and wanted to do things but did not have time”*.

Dir<sub>2</sub>Club<sub>2</sub> stated *‘I spend 24/7 on the club, not all on board issues but always thinking about issues’*.

**Table 6.7**

**Board Meeting Attendance**

<b>Number of Meetings</b>	<b>Number of Clubs</b>
8	1
11	5
12	3
13	1
14	2
15	1
16	1
Not disclosed	2
<b>Directors’ Attendance</b>	<b>Number of Directors</b>
Attended all/missed 1	79
Missed 2	16
Missed 3	9
Missed 4	3
Not disclosed	27

Typically, directors involved in football or football committees would spend more time at the club often attending training, although this was not always their board responsibility. The time commitment for those respondents involved in a football or match committee varied between six hours and 20 hours per week. Dir<sub>1</sub>Club<sub>7</sub> stated *“With meetings and training and going to see the seconds, about 20 hours in total”* Further involvement is indicated by Dir<sub>1</sub>Club<sub>4</sub> indicated *“I would spend 2 hours on sub committee meetings and 4 hours on board meetings each month. However I am always talking to supporters and am on the job 24/7. I try to help members understand the policies of the club and endeavour to resolve as many issues as possible as well as possible”*.

The time commitment borne by the President or Chair was considerable and varied again among clubs. The least time committed was 6-7 hours per week, while the most was 60 hours and represented a full time role, although the president did not have an executive role with the club. On average, the majority of club Presidents committed 20 hours per week to club or board matters. There was considerable contact between the President/Chair and the club CEO. This usually took the form of several phone conversations per day but in one club, was confined to a weekly meeting. Dir<sub>4</sub>Club<sub>2</sub> suggested “*there are times when it is almost full time. I think it would be very difficult to run a business full time and give the club the attention it deserves*”. In the majority of clubs, the time commitments for all respondents had decreased substantially over the past few years, demonstrating evidence of increased professionalism and a move to the oft quoted ‘board of governance’.

Further illustration of time commitment was indicated by the fact that two directors had sold their businesses and this allowed them opportunity to concentrate on the club and board. Dir<sub>2</sub>Club<sub>14</sub> stated “*I sold my business in..., met (club President) and was keen to get involved. I was offered an opportunity*”. Dir<sub>3</sub> Club<sub>9</sub> declared “*(The board) takes too much time; I had a...business but sold it to concentrate on the board. I love the club, making a difference is important*”.

## **Section 2: Use of Knowledge and Skills**

As discussed earlier in this chapter, there is a variety of skills present in the respondent sample. However, restating Forbes and Milliken (1999, p. 496) that directors should “... able to combine their knowledge of various functional areas and apply that knowledge to firm specific issues”), there are two ways to identify directors’ use of those skills. Firstly, the presence of functional sub-committees which target specific skills and secondly, representative comments from respondents illustrates their skills contributions to the club.

### *Sub Committees in the Governance Structure*

The ASX Principles of Good Corporate Governance and Best Practice Recommendations (2003) recommend that the boards of listed companies should have three sub committees: audit (potentially including risk management);

nomination; and remuneration. While this recommendation does not pertain to non-listed companies, it is evident that through their wider corporate exposure, club directors have used the ASX Principles as guidelines for club governance. Notwithstanding, the use of sub-committees varies widely.

Thirteen clubs have formal sub committees in their governance structure. The number of sub committees within clubs range from a low of zero to a high of six. Twelve clubs have either a Finance sub committee or an audit sub committee, two of those clubs have both. This is consistent with the predominance of financial expertise on club boards and also the increased focus on solvency. Nine clubs have either a football or list management sub committee. Three clubs have no sub committees, although one of those clubs assigns a specific functional responsibility to each board member. Dir<sub>3</sub>Club<sub>1</sub> stated “*there are no board sub committees as such, we are each allocated certain responsibilities to work with certain executives... we are not responsible for the allocation of day to day responsibilities*”. The other club will convene issues based sub committees as necessary. The variety of sub committees is illustrated in Table 6.7 and gives some insight into skills contributions of board members.

There are, however several directors who do not have sub committee membership and one club (Club 5) is looking to rotate membership. One disturbing feature is that only six clubs disclose any detail of their sub committees including membership of those committees, in their annual report.

**Table 6.8**

**Board Sub Committees**

<b>Sub Committee</b>	<b>Number of Clubs</b>
Finance	7
Audit	4
Finance and Audit	1
Executive	2
Marketing	7
Football	8
List Management	1
Remuneration	5
Governance	1
Investment	1
*Fundraising	1
Strategy	1
Business Development	1
Membership	1
Innovation/Strategic Projects	1
Commercial Operations	1

\*this pertains to a specific sub committee set up for fundraising purposes.

The usefulness of sub committees was an area of difference between clubs. Some clubs had originally had sub committees and then discarded them; others had reinstated them for a particular function (football in the case of Club16) or operated them on a needs basis. The following comments illustrate the variety of views about the importance of sub committees.

Dir<sub>3</sub>Club<sub>16</sub> “*We abolished sub committees and then reactivated them this year*”

Dir<sub>4</sub>Club<sub>16</sub> “*Football is the only one that really matters, the other sub committees are for corporate compliance*”

Dir<sub>2</sub>Club<sub>4</sub> “*Most of the work and creative thinking is done in sub committees and we then to come to board meetings with issues resolved*”.

Dir<sub>4</sub>Club<sub>3</sub> “*Finance sub-committee meets before the board meeting and makes recommendations to the board*”.

Dir<sub>1</sub>Club<sub>5</sub> “*The role of the football sub committee is to report on how footy department is performing, the board advisor who is a member of that sub committee will also give a report*”

Dir<sub>2</sub>Club<sub>14</sub> “*Will convene a sub committee for a specific issue; however (on an ongoing basis) they lead to agendas being developed. You receive no fees; therefore*



*you would need to be passionate to spend additional time on sub committees and therein is the dilemma”.*

In addition to sub committees, one club has two subsidiaries, one of which operated the social club premises and the second which established a foundation for facilities improvements. This company has two sub committees, one of which is a donor to specified charities and one aimed at fundraising.

### *Other evidence of Skills Contributions*

There was some evidence of skills contributions from respondents’ comments and the discussion on board debate further highlights their effectiveness. Dir<sub>3</sub>Club<sub>11</sub> was heavily involved in a complicated contractual negotiation on behalf of the club to the extent that his availability for his business was severely reduced. Dir<sub>2</sub>Club<sub>16</sub> used his political skill to advantage for a diverse membership. Dir<sub>1</sub>Club<sub>12</sub> spent significant time on a major fundraising event utilising his hospitality expertise. Dir<sub>3</sub>Club<sub>9</sub> frequently used his empathy with grassroots supporters to deflect potential supporter unrest. Dir<sub>1</sub>Club<sub>14</sub> chaired the board meetings in lieu of the President due to his extensive board experience. A director for Club 3 negotiated a financial loan arrangement that was acceptable to the club and lenders, in a time of precarious finances for the club. Dir<sub>3</sub>Club<sub>13</sub> expressed significant contribution “*there were lots of problems in the marketing area so we took a skills approach and it resulted in a dramatic change in structure, I was active in setting that up*”. Similarly, Dir<sub>2</sub>Club<sub>2</sub> was influential in setting up financial processes and policies after years of dealing with the club’s financial issues. However, many of the directors simply brought their cognitive powers and different insights into the boardroom and it is that aspect that is discussed in the next section.

### **Section 3: Board Debate and Cohesiveness**

Forbes and Milliken (1999) stressed the usefulness of cognitive conflict (renamed board debate) in the governance process. They cited Jehn’s definition as “disagreements about the content of tasks being performed, including differences in viewpoints, ideas and opinions” (Jehn, 1995, cited in Forbes and Milliken, 1999,

p.494). They further stated that "... cognitive conflict is concerned with the presence of issue related disagreement among members". As discussed in chapter two, the benefits of cognitive conflict should lead to greater critical enquiry and enhanced monitoring of management. The negative aspects were also discussed. Forbes and Milliken presented cohesiveness as a key process and the benefits presented in chapter two, included the ability to engage in "...extensive communication and deliberation... board members must trust each others judgement and expertise" (p. 496). However, the authors cited authorities (Janis, 1983; Mullen et al., 1994 cited in Forbes and Milliken, 1999, p. 496) which argued that high levels of cohesiveness may lead to 'groupthink' and a lack of critical enquiry. The respondents to this study determined that board unity and cohesiveness were desirable attributes of an effective board and therefore the issue of the level and tenor of board debate was raised with them in the context that cohesiveness could foster complacency. Respondent comments are presented and they clearly suggest that most club boards are collaborative but individual directors have strong views and espouse them frequently. Cohesiveness is evident and expected given the comments from Dir<sub>3</sub>Club<sub>10</sub> "*We see each other every week, sometimes twice a week, we attend games together and all have the same short term objective of wanting to win today's game. On other boards I see people once per month and may not speak to everyone.*" The role of the Chair or President is critical to the process of debate. The results discuss the board meeting in terms of the agenda, the participants and then examine the level of board debate by presenting respondent views.

### *The Board Meeting and Director Debate*

Taylor, Chait and Holland (1996) argued that board meetings were generally sub-optimal. They suggested that ideally, the focus should be on key issues, particularly if time is short or they meet infrequently. They further suggested that the board should engage in debate and review alternatives rather than try to win arguments or shore up positions. On occasion, there should be freedom to discuss sensitive issues without management present. It was also suggested that boards should experiment with meeting formats to achieve the most effective outcomes. Within this context, respondents were asked to describe a normal board meeting and the routine board

decisions undertaken. They were further asked to identify who, other than the directors, attended the meetings, and how debate was managed.

The majority of clubs used the monthly board meeting to track club performance over a range of areas. Four clubs identified that they spent considerable meeting time discussing strategic issues, after a routine consideration of management reports. Respondents' views are considered on a club by club basis highlighting the differences and similarities in approach.

### **Club 1**

#### *Board Meeting:*

There were some contradictions between respondents on the format of the meeting. Dir<sub>3</sub> suggested that the meetings were run very formally whereas Dir<sub>1</sub> stated it was “*an informal format*”. This latter view was substantiated by Dir<sub>4</sub>. The standard meeting length is two to three hours, the longest was 4 hours. There is a social get together after the meetings for approximately one hour, with perhaps half of the board and the CEO attending. There is a set agenda of between seven to eight items which included Football, Finance, Membership, People issues and Other Business. Each director has an opportunity to get an item on the agenda. Finance is considered on an exception basis with comparison to previous years. There is on occasion, strong discussion on player recruitment.

#### *Attendees:*

The CEO and Assistant CEO attend and present the management reports. The Senior Coach and/or Football Manager attend for the football report and answer questions. The CFO attends twice per year to present the budget and later to report progress. There are on occasion presentations on new issues with the example of an external party giving an update on insurance issues.

#### *Board Debate:*

Dir<sub>1</sub> indicated that there are few surprises at the board table as there is regular communication between directors. There was only one vote, a secret ballot for the appointment of Vice President. He described the debate as “*they would thrash out an issue and if not resolved, would leave it at that and discuss between board meetings. With a couple of directors there is not a middle ground – not afraid to*

*express views. There is strong debate about issues, but there must be total commitment to an issue”.*

## **Club 2**

### *Board Meeting:*

Board meetings are held monthly and there is a formal agenda which is circulated three to six days prior to the meeting. The Audit and Finance committee is held before the board meeting. One hour is spent on the finance report and there is usually a director only session first. Dir<sub>4</sub> indicated *“this could last anywhere between 15 minutes to one and a half hours to free up discussion on management sensitive issues”*. Adherence to the salary cap is always monitored. They consider their actual versus budget and look at the revised forecasts. The attendees then come in. Next is a discussion on the CEO’s report which covers staff issues, stadium issues among other performance issues. The Head of Football then discusses the football report which covers injuries and other issues. There is a session on revenue generation and substantial discussion on the stadium negotiations in General Business. It is a key strategic issue. The meeting duration is three to five hours.

### *Attendees:*

Board, the CEO, CFO and Head of Football. The senior coach attends irregularly, but is always welcome.

### *Board Debate:*

The respondents indicated that there was no shortage of debate and challenge, although Dir<sub>2</sub> suggested that they may have been more complacent in the past and their previous CEO, who had been there for a long time, had not been challenged enough towards the end of his tenure. Cohesiveness and stability had been sought and delivered. Dir<sub>2</sub> stated *‘There are not many egos around the table and [Chair] manages them well.’* The respondents consistently described the level of debate as ‘robust’. Dir<sub>1</sub> suggested *‘There is no shortage of disagreement... there are strong ideas and it can quite forceful... Chair manages it well’*. Further, *‘We sometimes count numbers but we usually decide by talking it through.’* Dir<sub>2</sub> stated *‘Debate is “robust” to say the least and it is the blokes who have known each other the longest [who are fiercest]’*. Dir<sub>4</sub> added *“Board debate is measured but robust. I am not sure if pure democracy is good in footy clubs, depends on the intellect and character of the people. There are no factions but behind closed doors, anything goes. There*

*are regular dissenting views and these are often strongly expressed, but once discussed, people move on.”*

### **Club 3**

#### *Board Meetings:*

There is a set agenda covering all Key Performance Indicators (KPIs) including result of games; business operations, major projects, media and public relations and finance. They received reports from department heads about all areas of the business. Football includes information on injuries, player development, training opportunities. They discuss events, coteries, sponsorship, and membership routinely. They are made aware of media coverage, player appearances, community work etc. Both Dir<sub>1</sub> and Dir<sub>2</sub> indicated that they spent considerable time on numbers, although finance issues were already the subject of sub committee activity, with recommendations going to the full board.

#### *Attendees:*

The CEO attends as does the senior coach and football manager.

#### *Board Debate:*

Issues are circulated to directors between meetings and sub committees meet prior to the board meetings, so directors have full information. Dir<sub>2</sub> suggested that the board discussion was “*too operational*”. However, the respondents appeared to have a high level of trust and congeniality. Dir<sub>1</sub> suggested that “*there must be chemistry between directors*”; while Dir<sub>2</sub> stated that “*the directors needed complementary roles and work together as a unit. They needed loyalty to each other and to the club*”. Dir<sub>2</sub> further stated that they needed “*creativity, basically innovate and move on, create a culture that enables that to occur within a solid cohesive framework*”. Dir<sub>3</sub> offered “*the board needs lively debate*” and suggested that this did occur. This was supported by Dir<sub>4</sub> who stated that “*we are not yes people, need open discussion and respect for each director. Decisions are by democratic process*”. All directors stated that confidentiality was essential.

### **Club 4**

#### *Board Meeting:*

Dir<sub>2</sub> stated that “*all directors are familiar with contents of the board papers and come to the meetings ready to ratify. All issues are resolved at sub committees*”. A

typical agenda commences with a review of Finance and then the board receives a report from each of the executives, including information on marketing, communications and football. They discuss special projects and upcoming fundraisers at length. Department and sub committee reports are discussed and then the remaining time is spent discussing strategic issues. The duration of meetings is “*far too long*” (Dir<sub>4</sub>), they often go for 5-7 hours.

#### *Attendees:*

The CEO presents the majority of the board pack, although two to three people from marketing may also attend. It is usual to have the department head attend for their report. The Football manager and senior coach attend nearly all meetings. The Football manager presents the football report, and Dir<sub>3</sub> stated “*the coach submits himself to questioning on tactics and player management*”.

#### *Board Debate:*

Dir<sub>3</sub> indicated that “*there was a high degree of trust... there are personalities that gel and he enjoys the absence of political infighting*”. Dir<sub>2</sub> related the feeling for the Chair “*(He is) an excellent Chair, respectful and civil*”. This was supported by Dir<sub>1</sub> “*President has enormous capability...well liked by everyone, doesn't favour anyone and can stand up to media, cranks, can make hard decisions...he is good for the club*”. Dir<sub>4</sub> stated that “*one of the criticisms was that nothing ever got resolved at meetings so each director will now be heard and will all be involved and have their say*”. He further stated “*they are enthusiastic supporters who have views... (Chair) lets them go a little bit and then brings it back*”. Again, “*(Chair) works different to that. Any director can speak on any issue as long as not personal. Once a decision has been taken, need to abide by the umpire's decision and not talk out of school... (Chair) will invite them to speak if they have not contributed, will ask what their views are; you need to find that out. The biggest problem is leaking*”.

## **Club 5**

### *Board Meetings*

The board meetings run two and a half to three hours. There is a strict agenda and the meeting is divided into monthly review of reports and the other on strategy and planning. Management issues occupy about one and a half hours. They review the various lines of business; evaluate financial performance against budget, membership, match attendance and football performance. There are detailed

summaries of football. Items receive increased prominence depending on the time of year. Dir<sub>4</sub> suggested *“It is not a forum where we would drill ... on on-field issues, it is mainly strategic”*.

*Attendees:*

The CEO presents the majority of the reports although the Chief Finance Officer (CFO) presents the finance report. The relevant sub committee chair will contribute. A Marketing executive attends some meetings for a short period. The senior coach attends three times per year, pre season, mid season and post season.

*Board Debate:*

The role of leadership in promoting constructive debate was evident in the following responses. Dir<sub>2</sub> stated *“the board should be united and agreed on strategic direction, agreeing to take a position of support...the level of analysis is good to great. Board debate is healthy when issues relate to cross discipline. There was considerable debate as to ... the board was split ... board debate will ensue, very healthy debate. There is a high level of constructive debates, but you need unselfish leadership”*.

This was supported by Dir<sub>1</sub> *“Confidentiality – the biggest downfall was lack of confidentiality. The board has very varied opinions and debate is very vigorous”*. He further stated *“you need to interact well together and you know that happens when board members are calling each other”*. Dir<sub>4</sub> *“We engage in robust debate, have the odd argument about them and move on. You need to be big enough to accept defeat. We have not had a vote at this stage. We had differences but discussed them and came to consensus. There is a need to control egos”*.

## **Club 6**

*Board Meeting:*

The agenda is a set format considering Finance, Chairman’s Report, CEO’s Report which addresses marketing, sales development and membership and then football. A key issue is solvency and they always consider budget position. They review progress on key targets and tasks and actions from previous meetings. The meetings run for four to five hours with about an hour on football.

*Attendees:*

The CEO and CFO sits through the entire meeting, the senior coach attends each meeting for the football discussion. The board calls on other managers as and when needed. They also invite a relevant expert to address the board on emerging issues.

*Board Debate:*

Dir<sub>3</sub> suggested that “*Will challenge issues at the meeting and can sometimes have a break out meeting*”. Dir<sub>1</sub> stated “*(You) accept the view of the majority, able to engage in robust debate and often have differences of opinion but have never had to put a motion to the vote*”. Dir<sub>3</sub> again “*Cohesiveness is a key, no backstabbing, no leaks, need to work well as a team. Can’t assume that director selection is based on the Peter principle – you need to actively seek different views, we have never had a vote. It is a healthy situation...*”.

**Club 7**

*Board Meeting:*

Dir<sub>1</sub> identified that there were 19 items on the board agenda. Meetings are planned 12 months in advance and are well attended. Meetings generally last about three and a half hours. The major departments are all considered as well as investments (with consideration of appropriate risk management), people issues and the generation of non core revenues. An issue of concern is salary cap compliance and this is always reviewed. Dir<sub>2</sub> stated “*they look at the whole infrastructure*”. Dir<sub>4</sub> stated “*Every three to four months review the whole chart of accounts, will bring up different items*”. About an hour is devoted to football, Dir<sub>3</sub> “*football discussion is longer than normal*”. One meeting per year is dedicated to player contracts.

*Attendees:*

The CEO attends and the COO takes minutes. The senior coach and football manager attends each meeting. Dir<sub>1</sub> “*they use electronics and are at meetings with laptops, they discuss welfare, injuries and recruiting...you can ask any questions in that hour and would not normally contact football department outside the boardroom*”.

*Board Debate:*

There was evidence of significant debate within this board, the majority of whom had been independently elected however, this does not compromise cohesiveness. Dir<sub>1</sub> “*(You) do need to listen. There is robust discussion, and there was a heavy debate about ..., six months debate, but it was a key decision for longevity. There is serious debate on some things, they do rally on some issues*”. Dir<sub>4</sub> “*All need to understand the game plan of the club – if all understand objectives then there is no tug of war. If successful, then there is no tug of war; if not then there is division in the ranks. Balance – is an agenda driving someone? There may be some*



*complacency, you learn through time and contact. There is a fine line, be respectful not antagonistic. Election process does not encourage cohesiveness". Dir<sub>2</sub> "Need to work together, difficult if you have groups with different agendas". Dir<sub>3</sub> "It is important for the Chair to create an environment for the board ... where individuals could speak and put their point of view and directors respect that point of view. Robust discussion is accepted by the board. But want solidarity once decisions made. If there was a leak, would have a one on one discussion".*

## **Club 8**

### *Board Meeting:*

There is a structured meeting and agenda. The senior management present reports on their areas of the club including football, finance, commercial operations, innovations and special projects. Then there are reports from sub committee chairs: particularly list management and membership. They receive the board papers three to four days prior and are very much prepared. The meeting goes two to three hours generally and the Chairman pushes things along, they then convene to a dinner where they may invite a special guest, an ambassador of the club.

### *Attendees:*

Senior managers including the coach attend for the first part of the meeting, Introduction, minutes, action items and then give their reports. They then leave before the CEO delivers his report.

### *Board Debate:*

There is an induction process for new members. Dir<sub>2</sub> stated "*Looking for people to stimulate and challenge... don't want them to be accepting. You need regular and active debate, so stimulation around the table is encouraged*". Dir<sub>3</sub> suggested "*It is a very productive and efficient board, we fiercely debate but collectively come up with a decision...need the courage to make tough decisions in this environment*".

## **Club 9**

### *Board Meeting:*

Board meetings occur monthly for about three to five hours with a usual duration of three and a half hours. The board scrutinises the management reports on all areas of the club. Finance is still an issue; they are continually evaluating the cost position, while they also review football, marketing, membership, sponsorship and key

relationships. There are one or two board meetings where a more in depth review of list management occurs. There is a governance discussion which focuses on compliance and disclosure, particularly in regard to financial information.

*Attendees:*

The CEO, CFO and Executive Assistant for minute taking. The Football Manager prepares the football report which the CEO delivers. The board will ask for the coach or football manager if they feel it necessary. Dir<sub>3</sub> indicated “the board will sometimes meet at the ... Hotel without the CEO for example, when considering contract extension”.

*Board Debate:*

The board has been deemed inquisitive with a good level of enquiry. Dir<sub>1</sub> stated “*that a good level of respect and trust is necessary and confidentiality*”. Dir<sub>2</sub> suggested “*Trust and harmony although there is no problem with someone having an opposing view, you need a mix between debate and harmony. There needs to be a willingness to accept an opposing view*”. Dir<sub>4</sub> “*Directors need a strong ethical background, provide unity and strength of character. We must be united in our decisions, they must embrace it*”. Dir<sub>3</sub> further stated “*If I believe in an issue, I will try to win over other board members*”.

## **Club 10**

*Board Meeting*

The club holds twelve meetings per year as well as sub committee meetings. Held monthly unless there is a crisis and they need to get together. The meetings stick to a very formal agenda prepared and distributed five to seven days prior to the meeting. Directors have an opportunity to include issues on the agenda and discuss other concerns during general business. All subcommittee minutes are included in the Board pack. Discussion is focussed on strategic issues. Dir<sub>1</sub> stated “*It is different to what I thought it might be. We are focussed on strategic, long term stuff. I thought we would have a lot more discussion on football and operational issues.*”

Football subcommittee chair is the conduit for football issues. The duration of the meeting is typically two to three hours.

*Attendees:* CEO, CFO, other managers by invitation. The senior coach attends three to four times per year and gives a comprehensive pre-season and post-season briefing.

*Board Debate:*

Dir<sub>1</sub> would like to have some time to discuss issues without CEO present. He was not sure that having CEO present for the whole time was appropriate. However, he stressed that this was no reflection on the quality of the person or their competence merely that best practice would dictate opportunity to discuss issues without his presence. There was indication of good discussion and appeared a very cohesive board. Dir<sub>2</sub> indicated “...*is very healthy, very intellectual, business like, hard and ethical. It is never really heated...on 22 boards and this is the most pleasurable, most cohesive.*”

**Club 11**

*Board Meeting:*

There is a standard agenda which is distributed three days prior to the meeting. Usually, there are ten agenda items. The meeting reviews minutes, reviews financial (usually a very rigorous discussion), review of strategic issues, investments, football and risk management. The average meeting time is four to five hours although the longest finished at 12.40am from a 5.30pm start. Dir<sub>3</sub> advised “*At a recent meeting there was a two hour presentation and discussion on a new computer system*”.

*Attendees:*

The CEO, Football manager and senior coach attend. The Football Manager and Coach present the football report which includes a discussion on injuries and other football issues.

*Board Debate:*

Dir<sub>3</sub> suggested “*the board actively seeks different personalities, not yes men, we want robust discussion*”. Further “*It is a young board, leadership, strength and harmony are all important*”. Dir<sub>4</sub> indicated “*As a manager and director, I have always looked for people with different opinions. There must be trust that people feel free to disagree and do so constructively*”. Dir<sub>2</sub> stated “*you need new ideas and renewal, need the ability to critique, challenge and promote new ideas. Directors must fit professionally and culturally. It is very important that they are positive rather than negative.*”

## **Club 12**

### *Board Meeting:*

There was some contradiction between the respondents with regard to regular agenda items. Solvency and financial discussion dominates the meeting, with the only other regular discussion on membership and marketing. Dir<sub>1</sub> also included football in the regular board discussion. There are other issues addressed on an occasional basis: Home games; Innovative marketing; Player Draft; Enterprise Bargaining Agreement. The meeting usually lasts three hours.

### *Attendees:*

The CEO is the only non-board member attending.

### *Board Debate:*

The majority of directors suggested that there should be limited tenure in order to create generational change. Dir<sub>2</sub> said “*the board needs to present a single mind, although there is open communication. There is a vote to resolve any conflict... can be complacent and run out of ideas*”. Dir<sub>1</sub> stated “*An effective board needs harmony, a united front and adherence to a code of conduct. Directors should be free-thinking and constructive*”.

## **Club 13**

### *Board Meeting:*

The club operates a formal agenda comprising: opening, Apologies; Confirmation of Previous Minutes; Critical Issues Decisions/Discussion; short break for dinner; Continuation of Critical Issues if necessary; Football; Business Arising; Reports (discussed on an exception basis); Other Business; and after the formal close of the meeting, a social catch up. The typical duration is four hours with approximately 65 percent of that time discussing the business and the remainder discussing football. Four times a year, the board reviews the strategic plan and tailor it as appropriate.

### *Attendees:*

The only attendee is the CEO. The coach attends three times per year and presents for an hour.

### *Board Debate:*

There is due consideration before a decision and people feel free to say “*I don’t understand*” (Dir<sub>3</sub>). Dir<sub>2</sub> “*There has been a reasonable level of natural attrition in the last ten years with eight directors resigning, so there is no problem with*

*staleness*". Dir<sub>3</sub> stated "It is a very tight knit public unit; however, there have been some very special moments in here. They were all very social together and I had seen them at three or four get togethers, and I was surprised how heated the debate has been, there is a lot of 'with due respect'. Also, at some stage, after we had agreed on a course of action, one director would interject and ask 'Have you thought about this?' That would re-open debate and could lead to a different or more considered outcome".

## **Club 14**

### *Board Meeting:*

The club has an organised board. Board papers are distributed seven days prior and meetings have reduced from five to six hours duration to two to two and a half hours. There is a different board chair to the club Chair. Dir<sub>1</sub> summarised "It is a situation of 'plan your work and work your plan'". They review finances and the forecast along with progress on strategic initiatives. The focus is on revenue generation and there is management responsible for various revenue and expense lines. There is virtually no discussion on football, only 10 to 15 minutes.

### *Attendees:*

The CEO as well as the GM Commercial attends. The senior coach will usually only attend twice per season.

### *Board Debate:*

Dir<sub>3</sub> stated "this is a ... board which enables everyone to have an input. After ... years together, we have learnt to operate more effectively as we go along. You must have mutual respect and unity, although at times they have absolute blues, at least they are all on the same page. What is decided is then the view of the board and there are no leaks". He continued "No real problems on this board – reason – most clubs argue about footy issues when they don't really know what they are talking about. These are issues you don't need to get involved in. We keep it on business related matters". Dir<sub>1</sub> supported this "this is not a political board, if any of those directors not contributing, they would offer to stand down, we are apolitical. We have totally different personalities, simpatico – works well. Cohesiveness on the board is seen. Reality is discussion is fearless, no-one is dictated to by rules". Dir<sub>2</sub> further stated "there is a need for transparency, all need to come with an opinion and

*we have opinions. It is unstructured. (Chair) does not expect everybody to make an equal contribution; there will be others who have certain skills”.*

## **Club 15**

### *Board Meeting:*

Meetings focus on the financial report, marketing, special projects and a regular football report. The CEO report advises on progress against KPIs, while major decisions are made on finance in the Finance and Audit Committee and brought to the board for ratification. Football discussion centres on financial aspects not ability or form.

### *Attendees:*

The CEO, Commercial Operations Officer and the football Manager all attend and stay for the entire meeting. The Football Manager presents the football report. Leaders of each area attend at least once per year. GM Marketing had just attended the last meeting. The senior coach attends three times per year.

### *Board Debate:*

The respondent comments indicate a high level of cohesiveness. Dir<sub>3</sub> stated “(we) are a close knit group based on mutual trust. Have casual vacancies we can fill, and are therefore not susceptible to hostile elements”. Dir<sub>1</sub> suggested “you need personality differentiation; you don’t want the board to be too complacent or too competitive. You don’t want ten possible Chairmen that is all too potent, you need varying egos and styles. The best people in terms of skills are not always the right personality fit”. Dir<sub>2</sub> argued that “Previous Chair would not listen to a devil’s advocate position. However, it should be the role of some members to put that position to give food for thought”.

## **Club 16**

### *Board Meetings:*

Football is discussed first, and it takes the form of a report from the Football Manager and then the CEO report is considered. This covers every area of the club and the majority of the time is spent reviewing budgets, capital expenditure, and compliance issues (for example salary cap). There is limited football discussion. Board considers coach’s contract and the contracts of major players. Directors are instructed not to go direct to staff.

*Attendees:*

CEO, CFO, COO attend for the entire meeting, Football Manager and Coach attends for the football report and discussion. Other functional managers are invited in from time to time mainly to maintain communication with them and to deal with any serious issues.

*Board Debate:*

Dir<sub>2</sub> stated “*we get on together; you have got to be tight and not talk out of school*”. Dir<sub>4</sub> supported with “*I hope that this united board is our legacy. There is a high level of debate; there are a couple of members who have very definite views. I learnt in my first year as Chair not to stifle debate if there is an opportunity to talk through issues and come to consensus. The member can then see why he was one out. There has been no need for a vote since*”. Dir<sub>4</sub> added “*We will find a way to handle issues without a brawl at the board table. I would get a ring from a director or have advance discussions before it gets to be an issue of dissent*”. Dir<sub>3</sub> suggested that “*A strong Chair is important; you need to keep egos under control*”.

**Summary:**

It is clear from the above discussion and results, that overall, the board meetings of the AFL clubs are relatively formal and involve a planned agenda which is distributed and considered prior to each meeting. Points of difference tend to be the attendees, with the presence of the coach at each board meeting a significant variation. The duration of the meetings is also a differentiating factor, with the least time being two to two and a half hours and the longest spanning six hours. The agendas are comparable for each club which is unsurprising given they all compete in the one industry, however, there is a clear divide of emphasis on the basis of financial strength. The wealthy clubs tend to concentrate on infrastructure and facilities as well as the management of investments; while the financially stretched clubs focus the majority of their attention on the budget position.

The discussion on football is another point of difference. The differences in the amount of time allocated and the level of debate on football varies depending upon the level of corporatisation of the club. There are clearly clubs who see themselves

as a business and actively limit the amount of time spent on a detailed football debate, while it is also clear that the clubs where passion for the club is evident, the football discussion is much more prominent. Again unsurprisingly, the extended debate on the team's performance either limits the debate on more strategic issues or as is also evident, extends the duration of the meeting. Some clubs overcome this issue, by formally closing the meeting and then partaking in a social session where football is the major topic of discussion.

Forbes and Milliken (1999) presented arguments for and against cohesiveness, and those arguments are certainly raised and supported by the respondents' comments on board debate. While mix of expertise was seen as an important ingredient for an effective board, the next most cited desirable feature was unity, subsuming confidentiality. This is particularly an issue in such a high profile industry where there is a strong media contingent whose role in life is to seek a story. Dir<sub>4</sub>Club<sub>4</sub> stated "*Directors could give things away without even saying anything, a no comment, body language... journos [journalists] are on the lookout for any indication*". When probed on whether the desire for unity could lead to complacency or 'groupthink', there was significant commentary on the level of debate, indicating that overall, the directors of AFL clubs (often borne out of their passion) hold strong views and are certainly not shy about expounding them. The level of board debate was encouraging, given the fact that the majority of directors are appointed or invited, not independently elected. Invitation allows an incumbent board to select directors with whom they have some affinity and therefore has the potential for 'group think'. Conversely, invited directors could enjoy a level of trust which encourages active expression of opinion. While the level of debate was demonstrated to be 'rigorous', there was a unanimous view from all respondents that board unity was the most desirable outcome from the board meeting. Different views were accepted and even encouraged, but once a decision was made, it was expected that the board would demonstrate a united position.

### **Part Three: Board Tasks**

The discussion to this point focussed on how the AFL boards are structured and how they perform their role. The discussion now moves to what their tasks in fact, are.



Respondents were asked what they saw as the role of the board and what they saw as the role of the CEO. They were asked what involvement the board had in strategic planning, formal performance appraisal and perhaps most significantly, what they saw as the purpose or role of the football club itself, which should direct both board and management effort. It was clear from the responses that there was a high level of awareness of what boards should do, although there were some admissions that some clubs were not operating on that basis yet. It appeared that the level of board involvement was a function of the level of management experience or expertise. However, it was also clear that boards which had taken over after a club crisis, were much more 'hands on' in the initial stages and are slowly working to be in a position to delegate the 'hands on' role to management. There was evidence of a shift from 'a board of management' to 'a board of governance' over the majority of clubs with a couple of clubs still having a 'hands on role' through circumstances.

## **Role of the Board**

There was general agreement on the role of the board, and respondents were able to articulate what they should be. The first part of this section identifies the respondents' views on the role of the board, while the second part explores the relative importance of strategic planning and the formal management performance review process. Finally, this section examines the board's involvement in the Football Department. The following table categorises the responses into the most cited board roles.

One club included a statement on the role of the board in their annual report which indicated the role of directors was to: approve policy and set direction; work with and through the Chief Executive to implement this direction; be responsible for the compliance role; and monitor and supervise management; and finally influence future performance through strategy formulation and policy making.

**Table 6.8**  
**Role of the AFL Club Board**

<b>Role</b>	<b>Number of Responses</b>
Set Policy/Direction/Vision	25
Appoint CEO, Coach	15
Monitor/Review management performance	20
Ensure Financial Sustainability/Survival	13
Establish/Protect Culture, Values	12
Support/Work with management	10
Provide Structure for management	10
Use networks to get resources/sponsors	9
Approve Business Plan	7
Make Hard Decisions	3
Protect/Enhance Assets, Brand	3
Ensure compliance	7
Work with AFL	3
Challenge management	2
Appoint other senior staff	2
Set Business Plan	1
Manage Stakeholder expectations	1
Manage risk	1
Ensure succession plans are in place	1
Custodian of the game	1
Good corporate citizen	1

### *Role of the Board versus Role of the CEO*

All respondents indicated that the board was trying to distance itself from day to day involvement in the club, and the majority of clubs clearly saw the CEO's role as running the business. Dir<sub>4</sub>Club<sub>16</sub> saw the CEO role as *“reporting to the board with a minimum of board interference... responsible for all aspects of the club including football and is included on the football sub-committee”*. However, Dir<sub>3</sub>Club<sub>16</sub> stated *“Management runs business, board reviews and signs off, the board is still involved in more detail than I would like it to be... the involvement is passed off to be the peculiar thing about football. You can't go too far down commercial lines, it is an inefficient, immature, amateur industry”*. Dir<sub>3</sub>Club<sub>11</sub> partially agreed *“CEO is the man in the chair who runs the business within the policy set by the board”*. Dir<sub>4</sub>Club<sub>7</sub> indicated *“CEO drives business of the club and carries out the strategic plan which was presented to the board and endorsed. He is also responsible for the*

*culture of the administration, good or bad and this culture then becomes contagious throughout the club". Dir<sub>2</sub>Club<sub>4</sub> had a different view "It is not the CEO role to determine how to grow future business, the CEO has a finger in too many pies... would like to see the CEO work with the board to set strategy but that does not happen, perhaps the board is not visionary enough... they are locked into a traditional mindset, various members interfere with the accounting side. They have had too much power and this needs re-balancing". Dir<sub>2</sub>Club<sub>2</sub> stated 'It is not the AWB defence, but the board is only as good as the information they get. Management is responsible for that...Biggest difference between the club and corporation is that there is a staid, understated Chair and the CEO is the face of the company. In a footy club...directors have the love and passion for the club, CEO's are more transitory.'*

### *Public Face of the Club*

The spokesperson for the club is an important issue in the high profile nature of the industry. The clubs all had policies on who could speak on club matters with reasonable clarity over the issues each could address. The senior coach is seen as the major commentator on day to day football issues, by all clubs while the majority of clubs regarded the CEO as the key person for all other issues. The President would also comment on club matters and as Dir<sub>4</sub>Club<sub>11</sub> stated "*It is appropriate for the President to speak on policy or issues affecting members. The CEO and management are not here forever; to them it is a career. It is the President and directors who have the long term loyalty to the club*". Overall, one club uses the President as the public face; four clubs use the Coach; seven clubs use the CEO, two clubs share the responsibility between the CEO and Coach and two clubs use the coach and Chair. In a crisis, it is often the Chair who becomes the public face for two reasons articulated by Dir<sub>3</sub>Club<sub>10</sub> "*The CEO can be swamped by media and needs to deal with the underlying crisis...need the Chair to step up...the role of the Chair is important, a leading role.*"

### *Involvement in Strategy*

In terms of the board's involvement in strategy, there were three competing views. First, the board sets strategy and management implements it. Second, the board and

finally, management collaboratively set strategy and management implements it; and management formulates strategy for board input and consideration and once endorsed, implement it. There is support for all three positions, three clubs state that the board is responsible for setting strategy; six clubs jointly share the formulation of strategy and seven clubs require management to formulate the plan and then the board has some input into it. Dir<sub>4</sub>Club<sub>2</sub> gave some insight into the joint collaboration process within his club “...initiated by management based on constant feedback [on board direction] in the board meetings. The CEO can't attend board meetings for years and not understand the direction. The board has the ability, in fact the right, to challenge and then sign off. If the board is continually challenging and overriding management, then something has to give.”

### *Formal Management Performance Review*

All clubs formally review the performance of the CEO annually, while two clubs also have formal half year reviews and one club has an informal half year review. The CEO reviews are generally conducted by the President and/or Vice President, although three clubs conduct the review through their remuneration committees. It was interesting to note that several non Chair respondents did not know the terms of the CEOs or Coach's contracts. The issue of whether the club used performance based compensation for senior staff was raised, and some variations were found. Nine clubs had adopted some performance based component for both the coach and CEO, albeit at one club, this is at board discretion. One club provided a small incentive for the coach but none for the CEO, while another club only used incentives for the sales team. One club used incentives for the CEO but not the coach, while three clubs provided incentives for all or the majority of staff.

### *Board Self Evaluation*

It was clear from the responses that governance had become increasingly formalised and prominent as an issue. The respondents were asked to identify whether they employed any formal or informal board evaluation processes. The results again fell into three categories: formal evaluation using an evaluation instrument; informal evaluation based on Chair- director discussions; and no evaluation process. Five clubs used or had used a formal process, six clubs used an informal process and five

clubs did not self evaluate, or though three clubs were looking at adopting a formal process. Dir<sub>4</sub>Club<sub>1</sub> indicated that “... *is very demanding of his Board. He demands they get results in the areas they are working on. He could openly discuss a director’s failure to perform. The board is very open in discussion and no-one is afraid to point the finger*”.

## **Summary**

The respondents articulated a clear understanding of the roles of the board and indicated a common theme which was consistent with governance studies. The most commonly cited board roles were setting policy; monitoring and reviewing management; and key management appointments. There was a high level of understanding of the delineation of the board and CEO roles, although many respondents confessed that these were not always adhered to in practice. There were a variety of approaches to nominating the public face of the club and identification of clear policies on that aspect. The boards were generally involved in the formulation of strategy but to varying degrees. Few boards engaged in formal self evaluation. The level of understanding of the board’s role in the future indicated commitment to become a true board of governance.

## **Summary**

This chapter presented the results of the semi-structured face to face interviews with club directors and comprehensive document reviews in line with the parameters of the Governance-Performance Framework, concentrating on governance attributes. The legal structures differed between the clubs, and although the majority were member based associations, the more recent entrants to the competition had limited member involvement in their constitutions. The recruitment of directors was significantly deliberate through appointment and/or invitation with only eight directors independently nominating and elected. A key finding was that most directors were older than 56, had served at least two terms and were overwhelmingly male.

The driving force for recruitment was skill set, although this need not be functional expertise but general business acumen and complementary personalities. Financial expertise was the most frequently cited skill in the respondent sample and a key requirement of an effective board as determined by the respondents. There were some differences between the expertise of the respondent sample and that which was perceived as desirable, with marketing and legal expertise more desirable than the expertise currently represented by the sample. There was considerable debate about the virtue of football experience on the club boards, with most clubs requiring some football industry experience, although it need not be an ex player. Where it was thought advantageous to include an ex player, they were required to have other business skills as well. While it was anticipated that an elected board would compromise the mix of expertise, there was no evidence of this when the profiles of a fully invited sample were compared with an elected sample. However, election of directors tended to compromise cohesiveness.

In terms of board processes, there was evidence of considerable director effort, both in terms of time committed and expertise demonstrated. A review of meeting attendance indicated that directors were diligent, with 89 percent of directors missing two meetings or less. The operationalisation of the use of knowledge and skills was undertaken by consideration of the presence of sub-committees and respondent illustrations. There was considerable variance between the clubs with regard to committees. The most common committees were Finance and Football.

In order to determine the level of cohesiveness and board debate, a summary of responses was presented on a club by club basis covering the board meeting agenda, duration, attendees and some evidence of the nature of debate. The meetings were generally formal, although they varied significantly in duration. The amount of time devoted to football was a driver of duration, while the agenda items were often prioritised in line with the clubs' financial strength. The CEO was present at each meeting, although the attendance of the coach varied between clubs. The level of debate was operationalised from directors' volunteered comments. A sample of these have been included for each club and are presented verbatim except where the comment may be likely to identify the club, in which case the appropriate deletion

has been made. These comments indicate that there is a high level of debate occurring in AFL club boardrooms.

This chapter explored the respondents' understanding of the role of the board and the extent to which they actively managed or governed. Again, there was evidence through respondent comments, that there was significant progress in the delegation of operational issues to management, while there was still some level of involvement by the board in management issues. Directors were asked to articulate what they saw as the role of the board, and consequently identified twenty eight different tasks, which were then classified into seventeen roles. There was further examination of aspects of their tasks in setting strategy and monitoring performance with consideration of the public relations role of the club, which is an issue in this industry.

In summary, the respondents provided evidence of an explicit awareness of governance and demonstrated significant shifts from a 'traditional' management committee to a board of governance. There was a high level of agreement on the role of the board and general recognition of the respective roles of the board and management, although some clubs are still exhibiting a more 'hands on' approach. The responses also indicated, a high level of personal commitment from most directors, and while their involvement will increase their profile, there was unanimous agreement that directors should avoid media exposure.

The following chapter provides a comprehensive analysis of club performance, representing the last section of the governance-performance framework. The chapter adopts several of the theoretically informed measures discussed in chapter four. Two theoretical constructs, goal attainment approach and strategic constituency approach provides the context within which goals are presented and achievement against those goals measured. The clubs are ranked according to performance. Effectiveness criteria are developed and the study then concludes with an identification of effective and ineffective clubs which provides the cohorts for analysis of common governance attributes.

## **CHAPTER SEVEN**

### **RESULTS PART TWO: CLUB PERFORMANCE**

Chapter six presented the results of governance attributes for the sixteen AFL clubs in line with the Governance-Performance Framework. The respondent directors of the AFL clubs exhibited a good understanding of the role that the board and management play in the governance process and brought considerable expertise and commitment to their directorial roles. However, this immediately begs the question as to how their expertise and commitment impacted on the clubs' outcomes. As indicated previously, the purpose of their effort was not only to achieve board success, but also to achieve favourable club performance, however that may be defined.

In order, therefore, to establish a link between governance and organisational performance, a model for identification of effective/strong and ineffective/weak performance needs to be designed. Chapter four discussed several facets of performance and organisational effectiveness and they form the basis for performance determination of the AFL clubs. This chapter addresses the club performance issue from three perspectives. Firstly, the respondents' understanding of the underlying purpose of the club provides a context for the determination of performance goals. This concept was consistent with agency theory and forms the basis for the development of the mission, vision, policy direction, strategy formulation and finally, monitoring of performance, which were all board responsibilities commonly identified by the respondents. Secondly, the respondents' understanding of club goals was used to establish performance goals in line with goal attainment theory and compares the actual club performance against that goal. Finally, the chapter examines actual club performance against performance criteria determined from the literature and underpinned by strategic constituency theory. From the above data, clubs were ranked as either effective or ineffective.

#### **Club Context**

Hamil (1999) posed the question of English Premier League Clubs as to whether they were social or financial institutions. The increased commercialisation of AFL clubs



suggests that the social purpose of some clubs may have been compromised in the need to be financially sustainable. In that context, the respondents in this study were asked to identify the role or purpose of the football club, indicating some preference for social or commercial organisation. Respondents were then asked to identify what constituted success for their club thus providing broad performance goals. They generally provided an immediate response to the question regarding role of the club; however, it gave pause for thought for several respondents, which in itself was an interesting result. Most respondents were able to clearly articulate their understanding of the role; however there were only two clubs whose respondents all had a consistent articulation of that role. Some respondents confused the role of the club and the role of the board or management. There was often mention of the role of the club as being 'getting the team that was capable of winning a flag'. While the identified role or purpose of the club may well be a premiership, it was the role of the board or management, on behalf of the club, to assemble the team to achieve that goal. A further confusion was identified with the role cited by several respondents to 'ensure long term viability'. It was assumed that the role of these clubs was for some purpose other than ensuring their own survival; that would more appropriately be a board role. The underlying purpose of why these clubs was formed and continue to exist was not unanimously articulated.

The respondents' comments fell into three clear categories: firstly, to provide an emotional outlet, sense of identity, vicarious participation and success for members and supporters; secondly, to win premierships; and thirdly, to provide entertainment, value for money and be successful in the business of football. Recognition of community and the role the clubs play in society, was mentioned by a significant percentage of respondents, and it was this recognition which drives various community related strategies, and indicates a willingness to reclaim some of the lost sense of geographic community connections the traditional clubs once embraced.

There were however some respondents whose focus was clearly more commercial indicating the need to run the club as a business with the business being football. A sample of respondents' thoughts on the role of their club is presented below, within categories labelled social-centred; sport-centred; and business-centred, as adapted from Cousens (1997). While the respondents often cited several roles that the club

played, in most cases their response indicated a primary bias. Responses which recognised members and supporters’ passion and sense of belonging have been classified as social; responses which focussed on team performance and winning premierships were classified as sport; and responses which primarily focussed on the entertainment industry, value for money and commercial success were classified as business.

**Table 7.1 Role of the Club**

<b>Prime Role of the Club Respondents</b>	<b>Number of</b>
Social-centred	35
Sport-centred	14
Business-centred	3
No Response	2

In support of the view that AFL clubs are social centred, Dir<sub>2</sub>Club<sub>11</sub> stated *“The football club is ... part of a community, it generates passion. Previously people were part of a village, now in big cities there is a need to create that tribal need. Communities are family, job and sporting club. The club is the ‘social glue’ that gives a sense of community and provides hope to young people that goals can be achieved.”* A further insight was provided by Dir<sub>2</sub>Club<sub>15</sub> *“Role is to provide a sporting experience for those who haven’t experienced it.”* Dir<sub>3</sub>Club<sub>6</sub> stated *“On field success is the ability to deliver community outcomes, and deliver hope. Winning really helps that cause, there is a double dependency.”* A succinct comment from Dir<sub>2</sub>Club<sub>14</sub> summarised the role as *“To deliver to its members on their expectations”* which at least recognises the need for boards to understand those expectations.

For those respondents which identified sporting success as the primary role, Dir<sub>3</sub>Club<sub>4</sub>’s comments were precise and representative *“The role is to win a premiership, there is no other role.”* These views on the underlying purpose of the club provides context for the formulation of performance goals, identification of performance measures and determination of club effectiveness in achieving those goals.

## **AFL Club Performance: Goal Attainment Approach**

The link between club context and performance was articulated by Dir<sub>4</sub>Club<sub>2</sub> describing the different focus of a sport organisation “*the objectives are different in the commercial area, shareholders seek long term enhancement of wealth and the people issues are assumed to be satisfactory. In a footy club the long term objective is to maximise on field performance and the financial side is taken for granted.*”

This section identifies broad performance goals for each club; records actual performance against those goals; and within the theoretical context of goal attainment theory, classifies the clubs as effective or ineffective against their own self determined goals. While detailed key performance indicators (KPIs) were not discussed, respondents were asked to indicate what they regarded as successful performance and not surprising, similar responses were given. The responses indicated that both on field and off field goals were explicitly formulated and measured.

### **Off field Performance**

Off field goals were overwhelmingly defined in financial terms although the measures varied. The majority of clubs indicated that profitability was a key goal; although some respondents suggested that it was only important to the extent it ensured the renewal of infrastructure or gave a financial buffer in lean times. However, several respondents stated that it was not necessary to be profitable, ongoing financial neutrality was acceptable. There was a general trend to focus on increasing non football revenue, to provide long term financial sustainability, should on field performance falter. The goals were representative of the current situation of the club. The clubs which are currently receiving assistance from the AFL were generally aiming to be self sufficient within the next couple of years. Several clubs expressed a desire to reduce or eliminate debt. Further, many respondents identified financial sustainability as a key goal and as suggested by the more financially literate respondents, this can be operationalised as positive net assets. There were also regional differences in the ability of the clubs to generate revenue. In Western Australia and South Australia, there may be limited ability to generate sponsorship

revenue because those decisions were made by sponsor management headquartered on the east coast. However, this was partially offset with increased stadium revenue. In Queensland and New South Wales, sponsorship flows mainly to Rugby League although if companies choose AFL as its sponsorship option, the AFL club in each State has a monopoly. This situation was not enjoyed in Victoria, where ten clubs compete for members, attendances and sponsors.

While member satisfaction was routinely researched by most clubs, few respondents identified it as a measure of success. They assumed that achievement of the aforementioned measures and on field success would automatically underwrite member satisfaction. However, membership numbers were identified by several respondents as a key to driving revenue and therefore a performance goal. Further goals included positive image or reputation; compliance, particularly with the salary cap; and three respondents indicated staff turnover as an issue for clubs as a specific KPI. The aggregated off field goals are presented in Table 7.2. These performance goals are further examined and compared to actual performance on a club basis later in this chapter.

**Table 7.2 Off-Field Performance Goals**

<b>Measure</b>	<b>Number of responses</b>
<b>Financial</b>	
Profits	26
Positive Net Assets	20
Increased non football revenue	8
Reduced/No Debt	7
Breakeven	7
Positive cash flows	3

<b>Measures</b>	<b>Number of Responses</b>
<b>Non-Financial</b>	
Membership	15
Compliance	4
Competitive Facilities	4
Reputation/Image	3
Staff turnover	3
Attendances	3
TV Audience	2
Existence of a succession plan	1
Increased participation	1

In some cases, the respondents were very specific with respect to the desired performance. Dir<sub>4</sub>Club<sub>16</sub> stated *“Profit should be between five percent and ten percent of turnover. Five percent is needed to provide for facilities and costs increases, while anything over ten percent may indicate your pricing is too high and you may be sub-optimising long term profits.”* However, the majority of respondents did not provide a detailed definition of their goals or the measures used to monitor performance. The non-financial goals in some cases were determined through subjective performance indicators, although membership and attendances for example, can be objectively determined. The clubs expressed a focus on profits, net assets and memberships, while many of the other goals were assumed to drive those outcomes.

## **On Field Performance Goals**

It was anticipated that there would be little variation within one competition as to the appropriate on field performance measures, but there were some differences between respondents in terms of acceptable performance. Most respondents identified premiership success as their key objective but several identified that luck was needed to achieve that. Some drivers of that success were outside the control of the clubs in terms of injuries to key players, fixturing, crucial umpiring decisions in close games and the vagaries of the oval ball, among others. Therefore many respondents did not

require premierships as the ultimate performance measure but required regular finals participation, competitive performances and the occasional top four position; enabling a potential challenge for a premiership, as club success. Typically, these measures were provided by respondents who had identified the role of the club as social-centred.

The aggregated responses for on field success appears in Table 7.3

**Table 7.3 On Field Performance Goals**

<b>Measure</b>	<b>Number of Responses</b>
Regular Finals appearances	25
Premierships	20
Top six/top four	10
Competitive performance	7
Ladder position	5
Grand Finals	3
Player Retention	1

Ladder position at the end of the home and away season was included to indicate ladder position relative to expectations, given the available playing talent in any season. Grand final participation as a performance goal was an indication that the team was challenging for a premiership but may fail to do so through the aforementioned ‘luck’. The clubs that have enjoyed regular on field success have an expectation of continual finals participation, with three clubs identifying that they should play finals every year. Most clubs have a short and medium term target for finals, with regular finals appearances defined as participation for seven, eight or nine years out of ten. Within that goal, they have targets for top four or top six, some specifying a target of four or five years in the top four. Similarly, clubs who identified premierships as a performance goal had specific time frames: seven clubs targeted a premiership within three years; two clubs stated one premiership a decade was acceptable; one club targeted two in a decade; one club required one in six years;

and one club re-defined their objective to one every three to four years. Dir<sub>1</sub>Club<sub>1</sub> stated *“To be a sustainable top four club, was the original thinking. But ... have made us think that winning premierships is the focus now. If you are top four for five years in a row, you get no low draft picks so you need to get a flag, then quickly re-cycle to do it again, every three or four years. ...so hard to win, need to be ruthless to get there. There is a realistic need to re-build completely and quickly. We will challenge a lot of player allegiances with the membership.”*

### **Constraints on Performance**

While the clubs were responsible for their own performance outcomes, there are constraints on their ability to achieve effective performance. The idiosyncrasies of the AFL competition were identified by many of the respondents. Off field performance was influenced by the AFL in a number of ways: AFL equalisation strategies; and the AFL's own sponsorship arrangements which prohibit competing sponsors for the clubs; were two examples. The costs for the clubs in part are defined by the AFL in terms of player payments and an overall salary cap, with limited flexibility within that. Ground rationalisation has increased the cash outlay for many clubs, and the escalating costs associated with stadia have increased the break even attendances required. On the revenue side, broadcast revenues are the province of the AFL and the majority of the AFL surplus is distributed to all clubs equally.

On field performance was also affected by AFL policy including the imposition of the salary cap (although some concessions were made to two non Victorian clubs) which can often constrain the retention of quality players. The national draft gives access to new talent in inverse relationship to ladder position, penalising the more successful clubs and resulting in cyclical success or failure. Fixturing was another key issue for the clubs. It affected both on field and off field performance.

However, within those constraints, the clubs have entire discretion on other football and non football costs and player and facility development. It was clear that, as many of the costs were relatively fixed as either physical assets or player contractual arrangements, the main focus for the clubs was generation of revenue, which was

consistent with resource dependency theory. The economic relationship between the clubs and the AFL was described by Dir<sub>3</sub>Club<sub>6</sub> “*the clubs operate as capitalists within a socialist system.*” Dir<sub>2</sub>Club<sub>3</sub> added “*Success is discriminated against.*”

## **Comparative Club Performance**

This section examines the responses from each club, and compares actual performance with aggregated respondent defined performance goals. Actual on field performance measures and most financial measures were easily obtainable through AFL statistics and club annual reports, although some off field measures were not available from accessible sources. The only non-financial off field measures supported by the accessible data were membership and compliance. On field performance measures include finals participation and win/loss (as a proxy for competitive performance). Regular finals participation was defined as at least three out of five years. Competitive performance or win/loss was defined as greater than 50 percent. On field measures were obtained from the AFL statistician. Due to the various uncontrollable factors affecting performance, a five year time frame was deemed appropriate for analysis. In order to protect anonymity of the clubs, absolute figures were not divulged, but the number of years of finals participation and average (mean) win/loss ratio, if appropriate, were reported. From the year 2000 until 2004 inclusive, there have only been three teams to have won the premiership and five teams participating in the Grand Final, so these measures were not identified with any club number, instead, a comment on whether each club’s on field targets had been met, will be made.

Off field measures have been obtained from the club annual reports and the ICAA Annual Survey of AFL Club Financial Reports as indicated. Unfortunately, there was significant variation in the level of disclosure of key measures within the annual reports and membership was the only non-financial performance measure routinely reported. Again a five year time frame has been used with percentage changes quoted for financial performance and membership. Average (mean) club profit has also been reported where relevant.



**Table 7.4 Club Performance Versus**

**Respondent Defined Performance Goals**

<b>Club</b>	<b>Performance Goals</b>	<b>Actual Performance (Over Five Years)</b>	<b>Goals Met?</b>
<b>1</b>	Financial Sustainability	Increase 252% in Net Assets	Yes
	Competitive Performance	Win/Loss 50%	No
	Regular Finals Participation	2 out of 5 years	No
	Retain Members	Increase 42%	Exceeded
<b>2</b>	Profit or Breakeven	Average loss \$388k although profits in 2004	No
	Finals every year	3 out of 5 years	No
	Top 4 every 4 years	1 out of 5 years	No
	Improvement on last year	Improved financially, maintained on field	Yes
	Salary cap compliance Strong Balance Sheet	No breaches Negative Net Assets \$1,981	Yes No
<b>3</b>	Annual Profit or Breakeven	Average Profit \$275k Increase 365%	Exceeded
	Increase in non core revenue	Increase 44%	Yes
	Reduced Debt	Reduction 26%	Yes
	Member Satisfaction	Decrease 2% in Membership	No
<b>4</b>	Regular Finals	2 out of 5 years	No
<b>4</b>	Profits	Average loss \$1,432K	No
	Financial Sustainability	Decrease 231% in Net Assets	No
	Competitive Performance	Win/Loss 42%	No
	Consistent Finals	2 out of 5 years	No
	Premierships	Nil	No
<b>5</b>	Membership Growth	Increase 18%	Yes
<b>5</b>	Annual Profits or Breakeven	Average Loss \$678K	No
	No Debt	Increase 143%	No
	Increase Revenues	Increase 21%	Yes
	Member Satisfaction/Growth	Increase 1%	No
	Regular finals	1 out of 5 years	No
<b>6</b>	Profit	Average Loss \$980K	No
	No Debt	Increase 47%	No
	Membership Growth	Increase 7%	Yes
	Regular Finals	1 out of 5 years	No

<b>Club</b>	<b>Performance Goals</b>	<b>Actual Performance (Over Five Years)</b>	<b>Goals Met?</b>
<b>7</b>	Financial Sustainability	Increase 93% Net Assets	Yes
	Increase in non core revenues	Increase 35%	Yes
	Continual Finals	5 out of 5 years	Yes
	Premierships 2 in 10 years		Yes
<b>8</b>	Reasonable Profit per year	Average Profit \$828K	Yes
	Sustainable Balance Sheet	Increase 88% in Net Assets	Yes
	Competitive Performance	Win/Loss 51%	Yes
	Regular finals	3 out of 5 years	Yes
<b>9</b>	Profits	Increase 284% Profits last 2 years	Yes
	Increased non core revenues	Increase 86% of limited non core revenues	Yes
	Strong Asset Base	Decrease 136% in Net Assets	No
	Membership Growth	Increase 30%	Yes
	Regular Finals Compliance	1 out of 5 years No reported breaches	No Yes
<b>10</b>	Profit Increase	Increase of 70%	Yes
	Strong balance sheet	Positive net assets Increased by 188%	Yes
	Annual on field improvement	Increased win/loss each year	Yes
	Good citizenship	Some player issues	No
<b>11</b>	Profits	Average \$622K Decrease 91%	Yes
	Increase in non core revenues	No change*	No
	No Debt	Increase 27%	No
	Positive Net Assets	Increase 53%	Yes
	Membership Attendances	Increase 16% Not available	Yes
	Competitive Win/Loss	Win/Loss 48%	No
	AFL Compliance	No reported breaches	Yes
<b>12</b>	Profits most years	2 out of 5 years	No
	Positive Net assets	Decrease 613%	No
	Competitive Performance	Win/Loss 50%	Yes
<b>13</b>	Profits	Average \$68K Increase 131%	Yes
	Sustainable Cash Flows	Increase Net assets 12% Decrease Debt 21%	Yes
	Regular finals	4 out of 5 years	Yes
	Premierships		Yes

<b>Club</b>	<b>Performance Goals</b>	<b>Actual Performance (Over Five Years)</b>	<b>Goals Met?</b>
<b>14</b>	Upper Quartile Profits	Ranked 7th in 2004 Increase 1616%	No
	Upper Quartile Membership	Ranked 10 <sup>th</sup> in 2004 Increase 68%	No
	Regular finals	1 out of 5 years	No
	Regular top four	1 out of 5 years	No
<b>15</b>	Profits	Average -\$1073, profit in latest year, 76% decrease	Yes for 1 year
	Increased Revenues	Increase 31%	Yes
	No Debt	Increase 47%	No
	Positive Net Assets	Decrease 1094%	No
	Finals 7 out of 10 years (70%)	3 out of 5 years	No
	AFL Compliance	No recent breaches	Yes
<b>16</b>	Profits 5-10% of Revenue	Average \$1198K, Increase 358% Met target 3/4 years	Yes
	Solvency	Average Debt to Assets Ratio 62%	No
	Membership Growth	Increase 52%	Yes
	Finals 8 or 9 years out of 10	5 out of 5 years	Yes

\* Non core revenues available only for 2003 and 2004.

## **Discussion**

### *Off Field Performance*

#### *Profit:*

Thirteen of the clubs cited profits or breakeven as desired goals and of those eight clubs met that goal. However, Clubs 2 and 9 only became profitable in the last two years and had significant trading losses prior to that time. Although Club 11 had an adequate average profit, there was a decrease of 91 percent over the five year period. Club 15 had an average loss of \$1, 073, 000 over the period but achieved a small profit in 2004. Of the five clubs which did not meet their profit goal, Club 12 achieved a profit in the last two years recording 111 percent increase over the five years. The other four clubs had average losses ranging from \$164,800 to \$1,241,000 and all had significant percentage increases in their loss position over the five years, although Club 6 did have an improvement in their losses over the last two years.

#### *Net Assets:*

Net Assets represent members or owners funds and while there was no expectation for members to receive a dividend, accumulated members funds provide for future growth opportunities and facilities improvements. Eight clubs have negative net assets and all of those clubs had positive net assets in the year 2000, which demonstrates a worsening of their financial position and increases their potential for financial distress. Club 5 first recorded negative net assets in 2004, while the majority of the other clubs increased their negative position over the past three years. Nine clubs expressed a desire to be financially sustainable or have a good balance sheet position. Of those, five clubs met that goal and recorded continual positive net assets over the five years. The net asset position was improved by increases in assets, profits or reduction in debt, while it can be reduced by increased debt, losses or reduction in asset values. Of the four clubs which did not meet their net asset goal, Clubs 4, and 15 had negative net assets largely driven by significant increases in debt. Club 12 had both a reduction in assets and a relatively small increase in debt. Club 9 had reductions in assets which was the main contributor to the negative net asset position.

#### *Debt Reduction:*

As highlighted above, significant debt can imperil members' funds and lead to financial distress as alluded to in chapter one. Several clubs are recipients of AFL assistance to help with this position, but of the six clubs having a specific goal to reduce debt, three of those had increases in debt of between 33 percent and 47 percent. Club 11 increased debt by 27 percent but also increased its net assets by 53 percent, a positive movement in members funds as a result. Club 2 significantly reduced its debt in 2004 and has improved its net asset position accordingly.

#### *Increased non-core revenue:*

This item related to the necessity to reduce reliance on traditional means of revenue generation and encompasses commercial activities independent of football. These were largely represented at this stage by social or gaming venues and in some clubs, investment portfolios. The clubs were criticised by the ICAA (2003) for their failure to disclose detailed information on revenue and expense items and this item is still not routinely reported. Clubs 3, 7, 9, and 11 had a goal to improve this measure and

disclosed the figures, recording improvements of 44 percent, 35 percent, 86 percent, for the first three clubs respectively over the period. Club 11 had no increase in this measure.

#### *Membership:*

Nine clubs identified membership as a desirable performance outcome. This was either expressed as membership growth or increased member satisfaction. Percentage increase in membership has been used as a surrogate for member satisfaction. Three clubs failed to achieve their goal. Club 14 expressed its goal as being in the upper quartile. Its increase of 68 percent did not place it in the desired ranking. Club 3 suffered a marginal decline of 2 percent while Club 5 recorded only 1 percent increase. However, the percentage increase in membership should be compared among clubs cautiously, as several clubs have limits on their physical ground capacity and operate waiting lists and therefore do not have stated goals of improving membership.

#### *Compliance:*

This item was mentioned by only four clubs despite the fact that corporate compliance was required of all clubs, as part of directors' fiduciary duty and therefore may have been assumed by other respondents. This item referred to all compliance issues but specifically, AFL regulations, particularly with regard to adherence to the salary cap. Penalties for breaches have been severe in recent times with significant fines and exclusion from the national draft. The clubs who identified this goal all recorded no recent breaches of AFL regulations.

#### *On Field Performance*

##### *Competitive Performance (Win/Loss)*

Five clubs expressed an explicit goal to achieve a competitive performance. Three clubs, 1, 4, and 8 also desired regular finals appearances. Only Club 8 achieved a win/loss greater than 50 percent, while clubs 1 and 12 achieved just on 50 percent. Clubs 4 and 11 recorded win/loss in the high 40 percent. However, all these clubs played in finals for at least two of the five years.

### *Participation in the Competition Finals Series:*

This was unsurprisingly the most cited on field performance goal. Thirteen clubs identified a goal to regularly (or continually) play in finals. This goal recognised the luck needed to win the premiership, however the more successful clubs had explicit premiership time frames. Most clubs identified specific goals with regard to ladder position over the next three years, with nine clubs expressing an expectation to either win or challenge for a premiership in the next three years. All thirteen clubs with the stated objective had played in at least one finals series with the lowest participation being one out of five years (Club 2, Club 5, Club 6, Club 9, and Club 14); and the highest being five out of five.

Table 7.4 above measures organisational effectiveness for the AFL clubs using the goal attainment approach. Using broad goals, actual club performance indicates only four clubs met their self-defined goals; while five clubs met at least 50 percent of their goals; and five clubs failed to meet 50 percent of their goals. There were limitations in the data, both with the availability of relevant measures, and the overriding need to protect club anonymity. However additional insights can be drawn through further explanation and analysis.

## **AFL Club Effectiveness: Goal Attainment Approach**

As discussed in chapter four, Robbins (1998) summarised the goal attainment approach to determining organisational effectiveness and its associated problems. He suggested that goals should be identifiable, understandable, consensual and capable of measurement of progress towards the goals. He also identified some problems with this approach: obtaining consensus from the key decision makers; prioritisation of short term and long term goals; and reconciliation of conflicting goals. However, it was a most prominent approach to determining effectiveness due to the goal seeking nature of most rational organisations. Application of this approach was appropriate for an evaluation of AFL clubs. The goals presented in Table 7.4 were obtained from key decision makers and although the aggregated goals were listed, the majority were consensual between the respondents. In the context of the AFL competition and to their key stakeholders, the goals would be

understandable and objective measures were available in most cases (albeit with the use of surrogate measures due to the reliance on publicly available data).

However, an overall rating of clubs as effective or ineffective was problematic given their self defined measures. While it was clear that only four clubs met all their goals, the number of goals varied between clubs, and there were interdependencies between the goals, for example Reduced Debt and Net Assets. Clearly only four clubs could be rated as effective under the goal attainment approach. Those clubs that achieved the majority of their goals but failed to meet all, illustrate the impact of potentially conflicting goals. Club 1 achieved substantial increases in Net Assets and Membership but failed to meet on field performance goals. Conversely, Club 15 (while not meeting their 70% participation in finals) played in three finals series over the period, potentially to the detriment of their financial situation.

A method for determining effective and ineffective clubs was required and has been defined as follows. Clubs which met all goals were classified as Effective; clubs which failed to meet 50 percent of their goals were classified as Ineffective, while clubs meeting greater than 50 percent of their goals were only effective if the goals they met were consistent with their social, sport or business purpose. An Effective/Ineffective Rating of the Clubs is shown in Table 7.5.

**Table 7.5 AFL Club Effectiveness Rating**  
**Goal Attainment Approach**

<b>Club</b>	<b>Rating</b>
1	Effective based on social purpose
2	Ineffective
3	Ineffective based on social purpose
4	Ineffective
5	Ineffective
6	Ineffective
7	Effective
8	Effective
9	Effective based on social purpose
10	Effective
11	Effective based on social purpose
12	Ineffective
13	Effective
14	Ineffective
15	Ineffective
16	Effective

**Note:** Effective based on social purpose indicates membership growth regardless of on field performance; effective based on sport performance based finals participation.

In summary, nine clubs were effective in meeting their broadly defined performance goals. Three clubs achieved or exceeded all of their goals while two clubs achieved 75 percent of their goals, and a further four clubs achieved between 50 percent and 75 percent of their goals. Further analysis was conducted in order to determine the performance outcomes on these clubs' stated purpose. If the goal underlying this key purpose was met, they were categorised as effective. In contrast, of the seven ineffective clubs, only one club was rated ineffective through its failure to meet the stated club purpose. One club failed to achieve any of its goals and three clubs failed to meet 75 percent of their broad goals.

As discussed in chapter four, a potential limitation of the goal attainment approach was the ability of a club to be deemed effective against sub optimal goals, while clubs which were performing strongly and have limited scope for improvement could conceivably be deemed ineffective.

## **AFL Club Performance: Strategic Constituency Approach**

Chapter four discussed several approaches to determining organisational effectiveness and goal attainment has been discussed above. An alternative approach was identified by Robbins (1998) and Slack (1997) and was considered to be more representative of the complex operating environment in which most organisations function. This approach considers the requirements of key stakeholders of the organisation and therefore supports stakeholder theory. As discussed in chapter two, Freeman (1984, p.26) defined stakeholders as "any group or individual who can affect or is affected by the achievement of the firm's objectives". Identification of the key stakeholders and determination of their performance criteria underlie this approach to performance evaluation. This approach focuses the efforts of the organisation decision makers on issues important to those who exercise influence over the organisation, but has its difficulties operationally. Performance measurement for several different stakeholders introduces administrative complexity and potentially political complexity with the requirement to reconcile the conflicting interests of key stakeholders.



Slack (1997) adapted Robbins (1998) to illustrate key stakeholders and their relative interests in a sports organisational context. He identified the key stakeholders as: owners; players; fans; community; media; national association; and sponsors. However, in the AFL context, members/owners; sponsors; players and staff; and the AFL could be considered key stakeholders and were certainly formed the basis of many of the respondents' comments. The organisational effectiveness literature presented in chapter four contains several potentially useful measures by which to record club performance and determine club effectiveness from a stakeholder perspective.

## **Balanced Scorecard**

Chapter four discussed performance measurement systems for a nonprofit or sports organisation and Speckbacher (2003) advocated the use of the Balanced Scorecard (Kaplan and Norton, 1992). The Balanced Scorecard is represented in Figure 4.2 and generally includes four perspectives. Firstly, Financial (representing shareholder objectives in the for profit arena; secondly, Customer, representing the service outcomes; thirdly, Internal Business Process, representing the efficiency and effectiveness of the organisation's key operational processes; and finally, Learning and Growth, representing the ability of the organisation to adapt and grow over the long term. The Balanced Scorecard was recommended by Speckbacher as an appropriate measurement system due to its ability to include non-financial performance measures which were often the focus of the nonprofit (or indeed as shown earlier in this chapter, sports organisations) and the fact that it illustrates the potential trade-offs management make to satisfy their various stakeholders. The four perspectives of the scorecard are adaptable to any organisation and should represent the operational and strategic environment of the industry in which they compete. The perspectives represent key stakeholders and are therefore consistent with the strategic constituency approach to organisational effectiveness.

As discussed earlier in this chapter, Slack (1997) suggested stakeholders of sports organisations were: owners; players; fans; community; media; national association; and sponsors. The AFL Club Scorecard focuses on key stakeholders of the club and

these have been determined as those providing the most significant funding sources and those who deliver the ‘service’. The key stakeholders were: members as a surrogate for owners; team as a surrogate for players; and sponsors. While the media, non-member supporters; the community; and the AFL were all stakeholders, it was not possible to obtain objective data supporting their interests. The key stakeholders and their interests are represented in Table 7.6.

**Table 7.6 Strategic Constituents Approach**

<b>Constituency or Stakeholder</b>	<b>Effectiveness Criteria</b>
Members	Competitive Performance; Profit; Financial Sustainability
Team	Adequate compensation; Competitive facilities, On field success
Sponsors	Media exposure; high attendance

Adapted from: Slack, T., (1997), *Understanding Sport Organisations: The application of organisation theory*, Champaign, IL: Human Kinetics.

Development of a Balanced Scorecard involves several steps. The first step was to determine key goals for each perspective; the second was to determine performance measure/s for each goal; the third was to set a target level of performance for each measure; the fourth was to record actual performance for each measure, and finally to take corrective action if the target was not met (Kaplan and Norton, 1992). Only three of these steps were completed for each AFL Club: Determine goals; determine performance measure/s for each goal; and record actual performance. The end result was an evaluation of effectiveness given the above stakeholders interests. Each club’s goals were defined and measured consistently in line with the Slack (1997) framework so club comparisons can be made.

*Determination of goals:*

*Financial Perspective:*

This perspective was aimed at owners (members) and respondents’ comments form the basis of financial goals. The majority of clubs seek profits in order to fund facilities and growth or to reduce debt. The literature also supports profit as a key measure (Smart and Wolfe, 2000; Brown, 2005). Solvency was an issue for some

clubs and was supported as a goal for AFL clubs by the discussion of club financial distress in chapter one.

*Customer Perspective:*

This perspective focuses on the satisfaction with the outcomes delivered by each club and therefore now considers members as supporters (customers) as well as sponsors' interests. Respondents' comments were clear that supporters wanted to see finals participation, or at the very least competitive performance. Sponsors clearly want exposure and on field success should hopefully drive both membership and a greater TV audience.

*Internal Business Process Perspective:*

This perspective addresses the efficiency of delivery of the service and the quality of that service. It evaluates the internal processes that are key to an organisation's success. The club's participation in finals was an important goal. However that must be achieved in a fiscally responsible way, and in the AFL the imposition of a salary cap constrains the extent to which clubs can use resources to achieve on field success. The key processes in a football club were: the preparation of the team (football department); the interaction with members (administration); and sales and marketing of sponsorship and corporate customers (marketing). These areas have been determined by a perusal of the key expense categories of clubs' annual reports. Provision of facilities was of interest to the team and was therefore also a key management function.

*Adaptability and Sustainability:*

This perspective is termed Learning and Growth in the original scorecard as developed by Kaplan and Norton (1992). However, the concept underlying this perspective is the long term adaptability and sustainability of the organisation and as this featured highly in respondents' desired goals, this area has been renamed accordingly. Goals already identified which would support this perspective were positive net assets, indicating the ability to improve technology, performance science and facilities and an increase in the percentage of non-core revenue, which gives the clubs a more sustainable revenue stream.

## **Definition of measures**

The organisational effectiveness literature for nonprofits and sports organisations has been invaluable in informing this study. The selected measures were recommended by many of the sources cited in chapter four and are presented in Table 7.7.

## **Discussion:**

A balanced scorecard approach was used to establish a four dimensional performance rating system by which the performance of clubs were evaluated and benchmarked. The definition of measures and discussion as to choice of measures were presented for each of the four dimensions.

### *Financial*

The financial perspective not surprisingly concentrates on financial measures based on the club annual reports. Fiscal performance as defined by Ritchie & Kolodinsky (2003) was a measure of the ability to generate revenue relative to the expenses incurred and was expressed as a percentage of total revenue to total expenses. Revenue Efficiency was a measure proposed by Gerrard (2005) when assessing the value of English Premier League teams. He used average attendance as the denominator but as this data was not easily accessible, membership numbers have been used as a proxy. The measure represents the dollar of revenue earned per member, given membership as a driver for attendances; merchandise sales; and attraction for sponsors and was calculated as average revenue divided by average membership . Asset turnover as proposed by Herzlinger (1994) represents the ability of the assets of the club to generate revenues and was a standard financial ratio calculated by total revenue divided by total assets. Interpretation of this ratio needs care. While there was no benchmark as such, abnormally low numbers could indicate low revenues relative to high assets. This was not an immediate cause for concern as it is anticipated by some clubs that investment in assets will generate revenue streams in the future. An abnormally high ratio could indicate either high revenues or more disturbingly, a failure to invest in facilities and revenue generating assets. Solvency was a key concern for organisations and therefore Liquidity has been included as a measure. This has been determined by Herzlinger (1994) as the

dollar of assets available for every dollar of debt (liabilities). This is also a standard financial ratio calculated as total assets divided by total liabilities.

### *Customer*

The customer perspective was less problematic, although percentage growth in membership numbers and percentage growth in sponsorship revenue have been used as proxies for satisfaction. In some clubs, sponsorship revenue has been combined with overall corporate or marketing revenue and every attempt has been made to use a consistent base for club comparison. The number of finals played has been included as a proxy for desired member and supporter outcomes.

### *Internal Business Process*

Internal business process measures are indicators of how customer outcomes are delivered and therefore win/loss was an appropriate driver of finals participation. The cost of achieving on field success was represented by resource efficiency which considers the dollars of expense incurred per winning game. Gerrard used wages as a measure but this expense item was not separately disclosed in annual reports and there total expenses have been used as a proxy. The ability to generate revenue was identified as an ongoing issue for clubs and was represented by the percentage of revenue growth.

### *Sustainability*

Adaptability and Sustainability measures were adapted from Herzlinger (1994) and Foster and Bradach (2005). Herzlinger stated that nonprofits should not sacrifice long term goals for short term success and proposed inflation adjusted net assets as a measure of the maintenance of capital. However, due to the relatively low inflation rates currently and the complexity involved in this calculation, a simplified measure of book net assets has been used. She also proposed a measure pertinent to an organisation's sustainability which was the over reliance on any one funding source. In this context, the most significant funding source in the club's total revenue was determined and calculated as a percentage of that total revenue. High percentages indicate potential risk of reliance on one funding source. Herzlinger suggested that revenue should be spread over numerous categories to minimise risk. Finally, earned income has been included and refers to the item identified by several respondents as

non-core revenue that is revenue generated from non football related activities. Foster and Bradach (2005) suggest that this may provide a buffer for organisations when their traditional funding was scarce and therefore enhance ongoing viability. Refer to Appendix five for a detailed definition and calculation of each measure.

**Table 7.7: AFL Club Balanced Scorecard  
Goals and Measures**

<b>Financial Perspective</b>	
<b>Goals:</b>	<b>Measures:</b>
Profit	Operating Profit Fiscal performance (Ritchie and Kolodinsky, 2003) Revenue Efficiency (Gerrard, 2005) Asset Turnover (Herzlinger, 1994)
Solvency	Liquidity Ratio (Herzlinger, 1994)
<b>Customer Perspective</b>	
<b>Goals:</b>	<b>Measures:</b>
Finals Participation	Finals played
Member Satisfaction	Percentage growth in membership
Sponsor satisfaction	Percentage growth in sponsorship
<b>Internal Business Process</b>	
<b>Goals:</b>	<b>Measures:</b>
Competitive performance	Win/Loss (Smart and Wolfe, 2000; Haas, 2003)
Efficient use of resources	Resource Efficiency (Gerrard, 2005)
Revenue generation	Revenue Growth
<b>Adaptability and Sustainability</b>	
<b>Goals:</b>	<b>Measures:</b>
Long term survival	Increase in Net Assets (Herzlinger, 1994) Revenue Risk (Herzlinger, 1994) Increase in Earned Income (Foster & Bradach, 2005)
Competitive facilities	Growth in Physical Assets

## **Club Balanced Scorecards**

A Balanced Scorecard was developed for each club, showing key performance outcomes on each of the perspectives discussed above.

### **Club 1**

#### *Financial:*

The club was performed well on financial indicators and profits were realised in four of the five years. Profit increased by 1,036 percent over the period with a commensurate increase in fiscal performance from 1.005 dollars of revenue to expense in 2000 to 1.034 in 2004. Dollars of revenue generated per member increased by 28 percent over the period. Asset turnover decreased slightly, due to an increase in assets rather than a drop in revenue but liquidity increased significantly reflecting relatively low levels of debt.

#### *Customer:*

The club participated in the finals for two of the five years and played a total of six finals games. Membership increased significantly (42 percent) over the period but with only a marginal increase in 2003/4. Sponsorship revenue decreased marginally.

#### *Internal Business Process:*

The results on this perspective were sub optimal with an increase in expenses of 77 percent with the majority of the increases occurring in 2003/4. The club was ranked the highest cost per home and away game played and ranked eleventh in the resource efficiency for each game won. Win/loss ratio averaged 50 percent over the period.

#### *Sustainability:*

The club reported a significant (252 percent) increase in net assets over the five years, with a reasonable level of non-core revenue of 14.23 percent of total revenue over the period. There is no threat to the club's viability on the basis of this performance.

## **Club 2**

### *Financial:*

The club reported a substantial profit increase in 2004, redressing the losses incurred in the earlier two years, resulting in a profit increase of 505 percent over the period. Fiscal performance improved accordingly from 1.007 in 2000 to 1.039 in 2004. Revenue dollars per member increased by 39.8 percent, due to a 20 percent increase in revenue but also a 13.8 percent fall in members. Asset turnover improved by 109 percent due to both increased revenue and decreased assets. The decrease in assets was evident in the liquidity ratio which fell by 32.51 percent.

### *Customer:*

The club participated in the finals for three years, playing a total of five final games, however membership decreased slightly by 13.8 percent. The club also had a slight decrease in sponsorship of 5.95 percent.

### *Internal Business Process:*

Resource efficiency improved by 16.5 percent and the club ranks seventh in terms of average dollars of expense per winning game. Expenses increased by a moderate 16.9 percent. Win/loss averaged 53 percent over the period.

### *Sustainability:*

There was a substantial decline in net assets in the order of 113 percent and the club reported no material non-core revenues. In terms of ongoing viability, the club has some measures in its favour: strong profitability increase; decreasing cost per game; and reasonable win/loss performance. Although there was a significant membership decline this was bolstered by a 22 percent increase in the 2004.

## **Club 3**

### *Financial:*

Profit increased by 365 percent. Revenue efficiency increased by 38 percent and the club was ranked fourth for this measure. There was improvement in both asset turnover and liquidity.



*Customer:*

The club participated in two final series in the five years, and played four finals games. Membership decreased by two percent although sponsorship revenue declined by 10 percent.

*Internal Business Process:*

The club maintained its resource efficiency with no appreciable movement in expenses per winning game, ranking the club eighth in average resource efficiency. Total expenses increased by 33 percent, marginally less than the increase in revenue. This increase was mitigated by an increase in win/loss. The win/loss over the period was however less than 50 percent.

*Sustainability:*

The club recorded an increase (35 percent) in net assets and was one of several clubs to continually report positive net assets for each of the five years. Non-core revenue represented 19 percent of total revenue for the period. The club's financial strength appears satisfactory with ongoing profits, ability to generate revenues from a relatively small membership base and a sustained positive net asset position. The only concern was the level of debt but this has been reduced over the period.

**Club 4**

*Financial:*

Profit has decreased by 63 percent with a significant profit reducing to just over breakeven in 2004. However, revenue efficiency fell 25 percent over the period, due to a membership increase of 18 percent. Revenue has not grown in line with this increase. Asset turnover has improved significantly and was impacted by a lower asset base in 2004. Liquidity ratio was reduced for the same reason.

*Customer:*

The club participated in a two finals series during the period. However, this did not appear to deter members, whose numbers grew by 18 percent. Sponsorship revenues were not separately disclosed in the annual report for this club and therefore were not available.

*Internal Business Process:*

There was an improvement in resource efficiency of 13 percent with the club now ranked in the middle of the table for expenses per game. Win/loss fluctuated markedly over the five years but the club was generally uncompetitive.

*Sustainability:*

There was a decline of 73 percent in net assets due to an abnormal write off in 2004. The club therefore currently has significantly negative net assets but a balance sheet that was not overvalued. Non-core revenue represents 12 percent of the total revenue reported for the period. The ongoing viability of the club was not resolved; the club has reversed losses and has a substantial membership base and improving competitive performance. However, the level of debt is a concern giving poor liquidity.

**Club 5**

*Financial:*

There has been a significant decline in profitability (243 percent) over the period, resulting in a worsening fiscal performance. Revenue efficiency improved by 19.8 percent due mainly to an increase in revenue as the membership base remained relatively constant. Asset turnover declined due to a higher asset base (increase of 56 percent), and the liquidity ratio fell with increased debt.

*Customer:*

The club participated in one finals series playing a total of three finals games and membership stagnated at 1 percent growth. However, sponsorship revenues increased by 18 percent over the period.

*Internal Business Process:*

Resource efficiency ranked the club in the bottom quartile due to average low games won. Win/loss decreased significantly over the period.

*Sustainability:*

Net Assets reduced by 150 percent and was reported as marginally negative in 2004. Non-core revenue represented 27 percent of total. The sustainability of the club was

problematic, given the profit and revenue efficiency. However, the club has had positive net assets for four of the five years. Win/loss has been an issue, although the membership base has remained constant. A high level of debt was a concern.

## **Club 6**

### *Financial:*

There has been a significant decrease in profitability and resource efficiency. The club has incurred a loss in all but the first year however the loss was reduced by 60 percent over the period. Revenue efficiency has improved by 8.7 percent; asset turnover has increased (47 percent) due to a decrease in assets. The major concern was the level of debt which has resulted in a worsening liquidity ratio (46 percent).

### *Customer:*

The club participated in one finals series during the period playing one finals game. Membership increased by 7 percent. Sponsorship increased however, by 19.8 percent.

### *Internal Business Process:*

The declining profitability has resulted in an effort to contain costs with an increase in expenses of 21 percent. However, the low number of winning games resulted in poor resource efficiency and the club was ranked in the bottom quartile. Win/loss declined significantly and was well under 50 percent.

### *Sustainability:*

Net Assets decreased by 1323 percent and the club has had a negative net asset position for four out of the five years. Assets fell significantly between 2001 and 2002, together with an increase in debt. Non-core revenue was 14 percent of total revenue partially offsetting a fall in membership revenues. The low membership base and poor win/loss were the main concerns for the club as was the level of debt. However, costs were generally being contained and other sources of revenue were strengthening.

## **Club 7**

### *Financial:*

Although the club was trading profitably and has a strong net asset position, the profit has decreased by 59 percent over the five year period, due mainly to a slight increase (14 percent) in expenses and small (8 percent) revenue growth. Revenue efficiency has remained constant at \$610 per member and the club was ranked in the lowest quartile on this measure. Asset turnover has decreased due to a substantial increase in assets in 2004, which should generate future revenue streams. The liquidity ratio rose and was over \$4.36 of assets for each dollar of liabilities.

### *Customer:*

The club participated in the finals for each year of the period, playing a total of 12 finals games. There was modest membership growth of 8 percent on a relatively high base. Sponsorship increased by 4.4 percent.

### *Internal Business Process:*

The resource efficiency decreased due to a fall in the number of games won, but on average, the club was ranked highest on this measure. Win/loss reduced significantly over the period but was still well over 50 percent.

### *Sustainability:*

Net assets increased over the period (93 percent) due to significant increase in assets in 2004. Non-core revenue was 4 percent of the total. The club has maintained its profitability over the period and has obviously invested in future growth with the increase in the asset base. Win/loss and resource efficiency were both high and with strong membership and relatively little debt, the club was in a sustainable position.

## **Club 8**

### *Financial:*

The profits have increased by 193 percent resulting in an increase in fiscal performance, which ranks the club first on this measure. Revenue efficiency has increased by 22 percent but was ranked in the lowest quartile. Asset turnover has decreased over the period due to a 65 percent increase in assets over the period.

Liquidity ratio has increased commensurate with assets, and again, ranks the club top on this measure.

*Customer:*

The club participated in three finals series and played six games. Membership increased slightly but was the percentage increase was in the third quartile. Sponsorship revenue fell by 20 percent over the past three years.

*Internal Business process:*

Resource efficiency reduced from \$1,675,000 per win to \$2,381,000 due to an increase in expenses by 26 percent. Win/loss averaged 51 percent but fell significantly in 2004.

*Sustainability:*

Net Assets increased by 88 percent in line with the significant investment in 2002 and 2003. There was little debt in the balance sheet and the club enjoys the second highest net assets position. Non-core revenue represents only 3 percent of the total revenue. This club was one of the strongest financially and has a healthy membership. It was efficient in its costs per game and has an adequate win/loss over the period, with finals participation in three of the years. The club has a strong balance sheet and there were no concerns over its sustainability.

**Club 9**

*Financial:*

The club has reversed significant losses in 2000 to 2002 by 284 percent to a healthy profit in 2003 and 2004. Average fiscal performance was ranked in the third quartile overall but was now positive and ranked second in 2004. Revenue efficiency increased (13 percent) and this measure places the club in the third quartile but was despite a significant in membership. Asset turnover has increased by 103 percent due to a large increase in revenue in 2004. Assets have actually decreased but so has debt with a reduction of six percent over the five years.

*Customer:*

The club participated in one finals series playing one game. However, membership increased by 30 percent over the period. Sponsorship decreased by 20 percent over the last three years.

*Internal Business Process:*

The club ranked tenth on average for resource efficiency. Win/loss improved to 52 percent for the most recent three years, indicating on field improvement but averages 40 percent over the past five years.

*Sustainability:*

Net assets were negative and fell 136 percent. Significant debt was incurred and retired during the period. Non-core revenue however was insignificant at 0.9 percent. In terms of long term viability, the club are moving in the right direction with an improved profit position, increasingly competitive performance (with a drop in 2004) and growing membership. The club still has negative net assets but was improving its performance.

**Club 10**

*Financial:*

Profits have increased by 70 percent and the club has reported profits for each of the five years. Fiscal performance has increased accordingly and the club was ranked fourth on average. Revenue efficiency has increased by 27 percent although it was in the lowest quartile for this measure. Asset turnover has decreased with 166 percent increase in assets over the period. Liquidity ratio has increased with the increase in assets.

*Customer:*

The club participated in three finals series, playing a total of three games. Membership increased by 5.1 percent and sponsorship increased 3 percent.

*Internal Business Process:*

There was a decrease in resource efficiency and the expenses per winning game for the club and was consistently one of the least well performed and was ranked the

highest cost per win on average. The club was competitive over the latter stages period with a win/loss of 55 percent but overall had a win/loss of 43 percent.

*Sustainability:*

Net Assets increased by 188 percent and were positive for each year while debt also increased significantly. Non-core revenue was insignificant at 0.93 percent. Increasing profits, high membership, positive and increasing net assets combined with recent competitive win/loss augur well for the club in terms of financial sustainability.

**Club 11**

*Financial:*

The club experienced 80 percent decrease in profits, with a significant profit in 2002 reduced to a marginal profit in 2003 and 2004. In terms of revenue dollars per member, the club has had an increase of 31.7 percent and was ranked eighth on average over the period. Asset turnover was stable and liquidity has increased marginally.

*Customer:*

The club participated in the finals for two years playing five games. Membership increased by 16 percent over the period and sponsorship increased 8.5 percent over the past three years.

*Internal business Process:*

There was an increase in expenses of 57 percent and average expenses per win places the club in the third quartile. Win/loss was competitive from 2000 to 2003 but reduced significantly in 2004 and was 48 percent overall.

*Sustainability:*

Net Assets increased by 75 percent due to an increase in assets greater than a small increase in debt. Non-core revenue was 17 percent of total revenue. Financially the club was in a satisfactory position with profits in each year, although profit has decreased. The costs per game were relatively high and recent on field performance could be improved. Membership increased and there was a strong balance sheet.

## **Club 12**

### *Financial:*

The club has had positive movements in all but one financial measure. The club reversed significant losses and increased its profit in 2004. Overall profit increased by 111 percent. Revenue per member also increased and ranked the club in the third quartile on this measure. Asset turnover increased on average to 3.5 due mainly to the club's decrease in assets and significant increase in revenue. Liquidity was adversely affected by the decrease in assets and a small increase in debt.

### *Customer:*

The club participated in two finals series and played four games. Membership increased 5 percent and sponsorship increased 16 percent.

### *Internal Business Process:*

The club was ranked fifth overall on resource efficiency over the period and win/loss was 50.4 percent over the period. Total expenses increased 29 percent.

### *Sustainability:*

Net Assets decreased by 613 percent and has been negative for each of the most recent three years. Debt increased (19 percent) but assets decreased by 37 percent. Non-core revenue was marginal at 1.8 percent of total revenue. In terms of financial viability, profits have increased, revenue efficiency improved, membership increased marginally and the club was efficient in terms of cost containment. However, the net asset position was poor, although debt was being reduced in recent years. The balance sheet was not strong.

## **Club 13**

### *Financial:*

The club was consistently profitable for four of the five years and there was a percentage decrease of 60 percent over that time. Revenue efficiency was the second lowest in the competition. Asset turnover was over one but has increased marginally due to a decrease in the asset base in 2004. Liquidity has increased due to a reduction in debt and assets.



*Customer:*

The club's on field performance was excellent in four of the five years, having participated in finals for four of the five years for a total of eleven finals games. Membership was relatively high and has remained constant over the period. Sponsorship was only available for 2004, so no increase was able to be determined.

*Internal Business Process:*

Resource efficiency was high and ranked second due to high win/loss ratio. Win/loss was highly competitive and ranked in the upper quartile.

*Sustainability:*

Net Assets remained positive and increased by 12 percent. Assets decreased slightly and debt also decreased. Non-core revenue was not disclosed. Strong membership and on field performance, together with increasing net assets and consistent profitability should ensure that the club remains viable.

**Club 14**

*Financial:*

The club reversed a substantial loss in 2003 and increased the profit in 2004 by 53 percent leading to an increased fiscal performance. However, on average, it ranked lowest on this measure. Revenue efficiency decreased and the club was ranked eleventh in revenue per member due mainly to a greater than proportionate increase in members. Asset turnover has increased due to the relatively low asset base. Liquidity has worsened and was only .55 indicating a high level of debt to the level of assets.

*Customer:*

The club participated in the finals in one year, playing three games. Membership increased substantially (68 percent) over the period although sponsorship decreased 32 percent.

*Internal business Process:*

Expense per winning game ranks the club in the third quartile due to the poor on field performance over the five years. Win/loss improved over the period but on average was less than 50 percent.

*Sustainability:*

There was a significant decrease (420 percent) in net assets, and the measure has been negative for four of the five years. Debt has increased by 39 percent. Non-core revenue represents 8.3 percent of total revenue. In terms of viability, profits have increased, membership increase was strong, there was competitive on field performance, however the balance sheet was a concern with a low level of assets and recently improved but still negative net assets.

**Club 15**

*Financial:*

The club reported substantial losses in 2001, 2002 and 2003 but recorded a small profit in 2004. Overall there was a decline in profit of 75 percent over the five years. Average revenue efficiency placed the club second, although this was due to low membership. Asset turnover increased due to the low level of assets. Liquidity reduced and was extremely low, the lowest in the rankings.

*Customer:*

The club participated in three finals series, for a total of six games. Membership increased by 39 percent although sponsorship decreased by 25 percent for the last three years.

*Internal Business Process:*

Expenses per win ranked the club on average sixth overall. Win/loss was competitive for most years but was poor in 2003 and therefore resulted in a win/loss of 50 percent over the period.

*Sustainability:*

Net assets were negative for four of the five years, and worsened significantly due to a large increase in debt. Non-core income was strong at 18 percent. Viability was

problematic. The balance sheet was not strong, although the significant losses have been improved. There have been increases in membership although the revenue per member decreased in line with the increase. The level of debt was the major concern.

### **Club 16 (analysis based on four years)**

#### *Financial:*

Profitability has increased by 358 percent and the club was ranked third on average in fiscal performance. Revenue per member was ranked top overall on average for the five years. Asset turnover has decreased marginally due to a large investment in assets in 2004. Liquidity has increased substantially through this asset increase.

#### *Customer:*

The club has participated in the finals every year and played a total of 13 games. Membership increased by 69 percent although sponsorship decreased by 20.7 percent.

#### *Internal business Process:*

The club ranks in the top quartile for average resource efficiency due to its high win/loss. Win/loss indicates a very successful on field performance.

#### *Sustainability:*

Net assets have increased by 656 percent due to the significant investment in assets and a moderate increase in debt. The club has a strong balance sheet. Non-core revenue was low at 2.7 percent of total revenue. The club appears sustainable with strong profitability, strong membership growth, strong on field performance and a strong net asset position.

## **Relative Club Performance**

Relative club performance has been determined on nine of the fifteen key measures presented in Table 7.7 for the period 2000 to 2004 inclusive, to determine a relative ranking. The following measures were excluded: profits and finals played; average growth in sponsorship, physical assets, revenue risk, and increase in earned income. Actual profits were excluded because disclosure of these figures would enable identification of the club and therefore compromise anonymity. This was also a factor for exclusion of number of finals played particularly given the concentration of teams contesting the finals series over the time period. Average growth in sponsorship, physical assets, revenue risk and earned income were excluded due to the lack of disclosure in some club reports which prohibited comparability. The remaining measures were assessed to still represent the key stakeholders and data were disclosed and comparable for all clubs. The measures were reported within each of the four perspectives of the Balanced Scorecard. The rankings are shown in Tables 7.8 – 7.11.

### **Performance Ranking Analysis**

#### *Financial Perspective*

The financial results have been calculated as an average result over the five year period.

#### *Fiscal Performance:*

This measure was a rating of profitability based on the ratio of revenue to expenses, and clubs 8, 7, 16 and 10 appear in the upper quartile for the five year average performance. Their profitability indexes range from 1.036 to 1.05. Clubs 8 and 16 have consistently been in the upper quartile for each year of the period 2002 to 2004. Clubs 11 and 7 had significant profits in 2002 but had a decline of 92 percent and 60 percent respectively between 2002 and 2003. Club 7 had a significant reduction in marketing revenues, while club 11 had a general increase in operating expenses across several categories over the period. Of the worst performing clubs, only club

6 has appeared in the lower quartile for each of the three years 2002-2004, mainly due to a significant increase in football revenues. Clubs 5 and 15 both had disappointing profit performances over the period, due to escalating costs. The bottom quartile comprises clubs 14, 6, 15, 12 with profitability indexes ranging from .93 to .95.

#### *Revenue Efficiency:*

Reflecting an ability to generate revenue dollars for each member, assuming comparative revenues, clubs with low membership bases obviously fare better on this measure. However, the relatively low membership base indicates efficiency in obtaining other funding sources. Clubs 3 and 16 were the only clubs to be recorded in the highest level of revenue efficiency consistently over the period, although the top quartile on the average five year performance comprises clubs 16, 15, 6, and 3. Clubs 3 and 16 achieved high revenues while Club 16 also recorded increases in membership numbers. Club 2 was second and fourth highest in 2003 and 2004 respectively however, ranked fifth on average over the five years as a result of poor results from 2000 to 2002. They did however, increase membership over the entire period. The worst performing clubs all have high membership numbers, but this measure potentially indicates failure to effectively leverage this membership.

#### *Asset Turnover:*

Asset turnover as proposed by Herzlinger (1994) is a standard financial ratio which measures the ability to generate revenue from the asset base. The measure can be impacted by changes in either revenue or assets and clubs with high assets may be disadvantaged in the short term. Assets represent an investment in the club and should generate revenues in the future. Clubs 15, 14, 2, and 1 comprise the upper quartile for the five year average, a function of high revenues and low asset bases. Clubs 13, 7, 9, 3 comprise the bottom quartile with high assets the primary reason.

#### *Liquidity:*

Ranking on this measure was problematic, although it does highlight differences in the asset position of the clubs. The upper quartile was populated by Club 8 (the most consistently highly ranked in this measure), Club 7, Club 11 and Club 10. Clubs 7

and 8 have minor reliance on debt and strong cash reserves as well as significant investments in physical assets. Clubs 10 and 11 have strong cash reserves although Club 10 reports insignificant physical assets value. Four clubs dominate the lowest quartile for each year: Clubs 6, 12, 14 and 15 which all have significant levels of debt.

The comparative results are shown in table 7.8.

**Table 7.8 Relative Ranking on Financial Performance**

<b>Ranking</b>	<b>Fiscal Performance</b>	<b>Revenue Efficiency</b>	<b>Asset Turnover</b>	<b>Liquidity</b>
1	Club 8	Club 16	Club 15	Club 8
2	Club 7	Club 15	Club 14	Club 7
3	Club 16	Club 6	Club 2	Club 11
4	Club 10	Club 3	Club 1	Club 10
5	Club 1	Club 4	Club 12	Club 13
6	Club 11	Club 2	Club 5	Club 3
7	Club 4	Club 5	Club 6	Club 1
8	Club 3	Club 11	Club 16	Club 16
9	Club 13	Club 12	Club 10	Club 4
10	Club 2	Club 1	Club 11	Club 5
11	Club 5	Club 14	Club 8	Club 2
12	Club 9	Club 9	Club 3	Club 9
13	Club 12	Club 10	Club 9	Club 12
14	Club 15	Club 7	Club 7	Club 6
15	Club 6	Club 13	Club 13	Club 14
16	Club 14	Club 8	Club 4	Club 15

### *Customer Perspective*

#### *Membership Increase:*

Twelve clubs recorded membership percentage increases of five percent or greater over the five year period, while two clubs remained stagnant. Two clubs recorded membership losses. The percentage increases ranged from 68 percent for Club 14 to

5 percent for Clubs 10 and 12. Membership decreases ranged from 2 percent for Club 3 to 13.8 percent for Club 2. There was no evident trend over the period for any of the clubs, refer to the following table.

**Table 7.9 Relative Ranking on Customer Performance**

<b>Ranking</b>	<b>% Membership Increase</b>
1	Club 14
2	Club 16
3	Club 1
4	Club 15
5	Club 9
6	Club 4
7	Club 11
8	Club 7
9	Club 6
10	Club 8
11	Club 10
12	Club 12
13	Club 13
14	Club 5
15	Club 3
16	Club 2

*Internal Business Process Perspective*

*Resource Efficiency:*

With regard to the return on expenses, in terms of sporting outcomes, Clubs 7, 13, 16, and 8 had the best resource efficiency per winning game including finals. The lowest quartile was populated by clubs 4, 10, 5, and 6. The range of expenses per winning game ranged from a low of \$1,251,413 to a high of \$4,511,118.

Comparison with the relative win loss ratio for the period indicates whether the issue was lack of wins or high expenses. Clubs 1, 2, and 10 indicated a high ratio of expenses relative to their win/loss ratio and could be deemed inefficient. Clubs 8, 12, 5, 3, 9 and 14 all exhibited relative efficiency with ranking on expenses better than their win/loss ranking. Club 10 was able to offset some of these cost with revenues as evidenced by a reasonable ranking in Fiscal Performance, however, Club 1 had only middling profitability and Club 2 had poor profitability. In terms of

dollars expended per win, and given the mandated level of player salaries, the poorer performed clubs were the costliest. Club 5 was the only club to consistently appear in the lowest quartile over the period.

**Table 7.10: Relative Ranking on Internal Business Process**

<b>Ranking</b>	<b>Resource Efficiency</b>	<b>Win/Loss Ratio</b>
1	Club 7	Club 16
2	Club 13	Club 7
3	Club 8	Club 13
4	Club 16	Club 2
5	Club 4	Club 8
6	Club 12	Club 12
7	Club 15	Club 15
8	Club 2	Club 1
9	Club 3	Club 3
10	Club 11	Club 11
11	Club 9	Club 10
12	Club 1	Club 4
13	Club 14	Club 5
14	Club 6	Club 9
15	Club 5	Club 6
16	Club 10	Club 14

*Win/Loss Ratio:*

On field performance for the period has been calculated as the number of games won as a percentage of number of games played (including finals). Finals participation was somewhat polarised and dominated by three clubs for the period; likewise only four clubs could be considered uncompetitive over the period with poor win/loss ratios for the five years.

*Adaptability and Sustainability Perspective*

*Net Asset Increase*

Increase in positive net assets (members’/owners’ funds) has been determined by Herzlinger (1994) as an indicator of the ability to grow and self sustain over the longer term. Overall, eight clubs improved their net asset position and all had



positive net assets at the end of the period. Eight clubs recorded decreases in net assets and all had negative net assets at the end of the period, although Club 4 and Club 5 had recorded positive net assets for two years out of three and four out of five years respectively. Club 6 suffered the greatest decline and Club 1 recorded the highest increase. Clubs 7 and 8 have the strongest balance sheets and this was consistent with their rankings on Liquidity.

*Revenue growth:*

The ability to sustain the club long term will largely depend on revenue growth (Herzlinger, 1994) particularly with ongoing increases in expenditures. All clubs increased their revenue over the period with increases ranging from 8 to 83 percent. The club ranking are presented below.

**Table 7.11: Relative Ranking on Sustainability Performance**

<b>Ranking</b>	<b>% Net Asset Increase</b>	<b>% Revenue Growth</b>
1	Club 16	Club 1
2	Club 1	Club 11
3	Club 10	Club 9
4	Club 7	Club 14
5	Club 8	Club 16
6	Club 11	Club 12
7	Club 3	Club 13
8	Club 13	Club 3
9	Club 9	Club 10
10	Club 5	Club 15
11	Club 2	Club 8
12	Club 4	Club 5
13	Club 14	Club 2
14	Club 12	Club 6
15	Club 15	Club 7
16	Club 6	Club 4

### **Overall Effectiveness Rating**

As defined earlier in this chapter, effectiveness is the extent to which the goals of the organisation have been met. In section one of this chapter actual club performance was recorded against the self-defined goals of the respondents for each club. The second section recorded club performance against goals and measures derived from

the literature, and ranked each of the clubs on their performance (from best performed to worst performed) in each of the measures. This section evaluates the clubs against the benchmark goals formulated in the balanced scorecard and determines which clubs were effective or ineffective. It firstly examines the relative performance through rankings on key measures and secondly, it presents a summarised effectiveness scorecard for each club. Finally, it determines whether the club was effective or not.

In assessing the club rankings on the nine measures included in Tables 7.8 – 7.11, Club 16 was deemed the best performed club. This club was ranked in the upper quartile for each of six measures (fiscal performance; revenue efficiency; membership increase; resource efficiency; win/loss ratio and increase in net assets). The club achieved only mid range performance on asset turnover, liquidity, and revenue growth. Another top performer was Club 7 which achieved top quartile rankings in five of nine measures and was somewhat constrained in revenue growth as it was already recording a high relative revenue. Club 1 was successful in its ability to increase revenue, primarily lead by strong membership increases but was less successful in profitability and on field measures.

In terms of the least well performed club, Club 6 was ranked in the lowest quartile for six of the nine measures (fiscal performance; liquidity; resource efficiency; win/loss ratio; net assets increase; and revenue growth. Clubs 5 and 14 were represented in the bottom quartile on three and four measures respectively.

## **Effectiveness – Strategic Constituency Approach**

The clubs have been assessed on their performance against the goals identified in Table 7.7. A determination of effective or ineffective has been established on objective criteria based on the performance summarised above. The measures have been collapsed into six key success areas and the list of the objective criteria for each goal is presented in Table 7.12.

The clubs have been rated as effective or ineffective on the aforementioned criteria and the results are shown in Table 7.13. This table illustrates some of the inherent

conflicts mentioned in the literature as it shows trade offs for some clubs between resource efficiency and competitive performance with nine clubs experiencing either a high level of expenses and high win/loss or low level of expenses and low win/loss.

**Table 7.12 Effectiveness Criteria**  
**Strategic Constituency Approach**

<b>Goals</b>	<b>Effective</b>	<b>Ineffective</b>
<b>Financial</b>		
Profit	Fiscal performance > 1	Fiscal Performance < 1
Solvency	Liquidity > 1	Liquidity < 1
<b>Customer</b>		
Member Growth	Increase in membership	Decrease in membership
<b>Internal Business Process</b>		
Efficient use of resources	Ranked in upper quartiles of Resource efficiency	Ranked in lower quartiles of Resource efficiency
Competitive Performance	Win/loss ratio > 50%	Win/loss ≤ 50%
<b>Sustainability</b>		
Long term survival	Increase in net assets	Decrease in net assets

### *Discussion*

Four clubs rated as effective on all the above parameters (Clubs 7, 8, 13, 16). Clubs 1, 10, and 11 were all effective on off field measures but were rated as ineffective for resource efficiency and win/loss indicating a trade off between those two aspects of performance. Club 2 was rated as effective for on field performance, but rated as ineffective against all other aspects. Eight clubs had a consistent rating of effectiveness or ineffectiveness between membership and on field performance. Of the eight clubs that had different ratings, one club had effective on field performance but ineffective membership growth. The remaining seven clubs had membership growth regardless of win/loss performance. Eight clubs rated as effective on four or more of the six goals. Three clubs rated as ineffective on five goals of the six goals (Clubs 6, 9, and 14) while a further three clubs (Clubs 2, 5, and 15) were rated as ineffective on four or more goals. There were two clubs however, which rated as effective on three measures and ineffective on three. A summary of effective versus ineffective overall is shown in Table 7.14.

**Table 7.13 AFL Club Effectiveness**  
**Strategic Constituency Approach**

	<b>Financial Profit</b>	<b>Solvency</b>	<b>Customer Members</b>	<b>Internal Business</b>		<b>Sustainability Survival</b>
				<b>Efficiency</b>	<b>Performance</b>	
Club 1	Effective	Effective	Effective	Ineffective	Ineffective	Effective
Club 2	Ineffective	Ineffective	Ineffective	Effective	Effective	Ineffective
Club 3	Effective	Effective	Ineffective	Ineffective	Ineffective	Effective
Club 4	Effective	Effective	Effective	Effective	Ineffective	Ineffective
Club 5	Ineffective	Effective	Effective	Ineffective	Ineffective	Ineffective
Club 6	Ineffective	Ineffective	Effective	Ineffective	Ineffective	Ineffective
Club 7	Effective	Effective	Effective	Effective	Effective	Effective
Club 8	Effective	Effective	Effective	Effective	Effective	Effective
Club 9	Ineffective	Ineffective	Effective	Ineffective	Ineffective	Ineffective
Club 10	Effective	Effective	Effective	Ineffective	Ineffective	Effective
Club 11	Effective	Effective	Effective	Ineffective	Ineffective	Effective
Club 12	Ineffective	Ineffective	Effective	Effective	Effective	Ineffective
Club 13	Effective	Effective	Effective	Effective	Effective	Effective
Club 14	Ineffective	Ineffective	Effective	Ineffective	Ineffective	Ineffective
Club 15	Ineffective	Ineffective	Effective	Effective	Ineffective	Ineffective
Club 16	Effective	Effective	Effective	Effective	Effective	Effective

**Table 7.14 AFL Club Effectiveness Rating**  
**Strategic Constituency Approach**

<b>Effective Clubs</b>	<b>Ineffective Clubs</b>
Club 1	Club 2
Club 4	Club 3
Club 7	Club 5
Club 8	Club 6
Club 10	Club 9
Club 11	Club 12
Club 13	Club 14
Club 16	Club 15

The above rating of the clubs begs the question to what extent does the strong performance of some clubs and the weak performance of others against commonly determined goals, compare to their performance against their self-determined goals? Further, the pivotal question is whether the ultimate determination of effectiveness can be explained by their systems of governance? Do, for example, all the high performers share a common set of governance traits? Conversely, do all the low performers have an absence of these traits, or indeed possess common set of negative traits?

**Dual Effectiveness Rating (Goal Attainment and Strategic Constituency)**

The following analysis will use the results of both the goal attainment approach and strategic constituency approach to construct a composite effectiveness rating. The basis for analysis of common governance attributes was undertaken in line with Herman and Renz (1998) which stratified highly effective and low effectiveness organisations for further analysis. In order to determine the highly effective and ineffective cohorts for assessment of governance attributes, comparison was undertaken between the effectiveness ratings under the strategic constituency approach above and goal attainment approach presented in Table 7.5. Some ratings differed between the methods. Nine clubs out of the population of sixteen clubs rated as effective under goal attainment, although four of those were qualified in that

performance did not indicate overall effectiveness. The goal attainment effectiveness rating was obtained through alignment of the effective performance measures with the club purpose. Under the strategic constituency approach, all clubs were subjected to the same goals and measures and the whole population was examined through document reviews.

Only seven clubs were found to be effective under both methodologies and similarly, four clubs were found to be ineffective without qualification under both methods. Clubs 1, 2, and 9 were rated differently under each method. Club 1 was rated effective under strategic constituency mainly due to good financial performance. Under goal attainment achievement on only 50 percent of its goals rendered it ineffective. Club 2 rated effective under its self defined goals, but achieved effectiveness on only two of the six objective measures, illustrating a key limitation of evaluation against self defined, potentially sub optimal goals. Club 9 was rated effective under goal attainment due to its increase in membership indicating success in its social purpose however its negative net assets resulted in an ineffective rating under strategic constituency.

The highly effective cohort was selected on the basis of clubs in the top quartile under both methods in terms of percentage of goals met. The ineffective cohort was chosen on the basis of bottom quartile performance under the two methods. Where there were ties in the number of goals achieved, reference was made to the relative rankings in the strategic constituency measures due to its greater objectivity, with the higher or lower ranking clubs selected in the appropriate cohort. These cohorts form the basis of the analysis of common governance attributes.

The quartile rankings under each method and the selected cohorts are shown in Table 7.15.

**Table 7.15 Quartile Rankings of Effectiveness**

<b>Goal Attainment</b>		<b>Strategic Constituency</b>		<b>Final Quartile Rankings</b>	
<b>Ranking</b>		<b>Ranking</b>		<b>Selected Cohorts</b>	
Club 7	100%	Club 7	100%	Club 7	100%
Club 8	100%	Club 8	100%	Club 8	100%
Club 13	100%	Club 13	100%	Club 13	100%
Club 10	75%	Club 16	100%	Club 16	90%
Club 16	75%	Club 1	67%		
Club 2	67%	Club 10	67%		
Club 9	67%	Club 11	67%		
Club 3	60%	Club 3	50%		
Club 11	57%	Club 4	50%		
Club 1	50%	Club 12	50%		
Club 15	50%	Club 2	33%		
Club 12	33%	Club 5	33%		
Club 4	33%	Club 15	33%	Club 2	33%
Club 6	25%	Club 6	17%	Club 5	27%
Club 5	20%	Club 9	17%	Club 6	20%
Club 14	0%	Club 14	17%	Club 14	10%

The above table identified the selected cohorts for further analysis and these have been defined as highly effective and highly ineffective. While clubs have generally improved on many of the measures over the period, table 7.15 indicates an obvious stratification of clubs and highlights the potential for a best practice approach to governance or alternatively, a failure of key governance mechanisms. The following chapter examines the selected clubs for common governance attributes presented in accordance with the governance-performance framework.

## Summary

This chapter examined the performance of AFL clubs under two theoretical constructs: goal attainment theory and strategic constituency theory. The chapter first considered the overall purpose or role of the club which should form the basis for formulation of specific goals, management actions and performance measures. The respondents' comments on the role of the club were classified on the basis of social purpose, based on comments focussing on members emotions; on a sport purpose, based on defined on field goals; and on a business purpose, when the focus was clearly on commercial outcomes. Goal attainment theory was used to determine broad performance goals as discussed by the respondents. Club performance was determined for each club for the relevant goals and the clubs were then rated as to whether the goals or majority of goals had been met.

The organisational performance literature formed the basis for the second section of the chapter, and discussed the strategic constituency approach which assisted in determining the key constituents (stakeholders) for the clubs (Slack, 1997), and in determining what their interests would be. The balanced scorecard developed by Kaplan and Norton (1992) and recommended by Speckbacher (2003), was used to categorise goals and measures for the clubs. Measures were adapted from the literature (Foster and Bradach, 2005; Gerrard, 2005; Herzlinger, 1994; Ritchie and Kolodinsky, 2003; Smart and Wolfe, 2000) and aligned with the various goals.

Club performance was then determined, and clubs ranked on key measures to demonstrate comparative performance. A narrative scorecard was developed for each club based on the detailed measures in Appendix five. The clubs were then rated as effective or ineffective on each of the key goals, and an overall effectiveness rating was determined. Eight clubs were deemed to be effective with Clubs 7, 8, and 13 rated as effective against each goal under both approaches.

A composite ranking was obtained and clubs stratified as highly effective or highly ineffective and these clubs formed the cohorts for best practice analysis.



Chapter eight therefore, concludes this study with an analysis of the governance attributes of the highly effective and highly ineffective clubs in an attempt to determine a best practice governance mechanism. The chapter summarises the key aspects of the study and discusses the limitations, many of which involve the limited disclosure in the club annual reports.

## **CHAPTER EIGHT**

### **GOVERNANCE-PERFORMANCE LINKS**

As indicated in chapter one, the aim of this study is to critically examine the links between governance aspects of AFL clubs and club performance. This involved ranking the performance of clubs on the basis of their effectiveness and identifying any common governance attributes shared by effective clubs. The governance attributes were discussed in chapter six, while the effectiveness ratings and performance rankings were presented in chapter seven. This chapter now analyses the relationship between governance and organisational performance. The chapter compares and contrasts the governance attributes, roles, and practices of highly effective clubs with those of ineffective clubs. It then discusses the implications for theory and practice; the limitations of the study; and issues to be considered for further research.

#### **Governance Attributes of Highly Effective and Highly Ineffective Clubs**

##### **Board Characteristics**

The governance attributes for the four highly effective clubs and four highly ineffective clubs are discussed in accordance with the Governance-Performance Framework, developed in chapter five and the results presented in chapter six. The number of respondents interviewed for effective clubs was fifteen. The number of respondents for ineffective clubs was also fifteen.

As stated in chapter six, three sections of the model comprising eight governance aspects are used to summarise the governance attributes for each effective club and provide a basis for evaluation. The following section compares board characteristics of effective and ineffective clubs. It commences with the legal framework within which the clubs operate.

### *Legal Framework:*

Three of the four highly effective clubs are companies limited by guarantee and they have some provision for members to nominate and elect directors. The fourth club is a company limited by shares and guarantee and is owned by a State league. The owner allows the club board to operate autonomously, but appoints the directors on the basis of the skills required, as advised by the Chair and board. One club has a board of seven, one has eight, and the last two clubs have a board of ten.

Three of the four highly ineffective clubs are also limited by guarantee while the fourth is limited by shares and guarantee and are therefore all member based clubs. The board size for each club is seven, eight, and two clubs have nine.

The two cohorts have common legal frameworks, similar board sizes, and similar ownership. Only one highly effective club has a different ownership structure. In other words, there is no clear relationship between legal structure and club effectiveness.

### *Board Recruitment:*

Two of the highly effective clubs recruited through independent nomination, one club recruited exclusively by appointment and the remaining club utilised a mix of appointed and elected positions. Of the twelve respondents representing these clubs, all had some prior involvement with the club prior to board appointment. One club has a qualifying period of two years before members can vote. Generally, the board terms are three years, although one club uses two year terms.

Of the fifteen respondents interviewed from ineffective clubs, fourteen were invited or appointed either to fill a casual vacancy or to form part of a ticket to challenge the incumbent board. The remaining respondent was the only independent nominee. The constitution allows for member nominations and election, although this is actively discouraged in two of the clubs. All the clubs had three year board terms.

The major difference between the cohorts was the recruitment method, where the highly ineffective clubs overwhelmingly recruited by invitation in contrast to the

highly effective clubs which reported a mix of independent nomination and formal appointment.

### *Board Demography*

All highly effective clubs except one, had fifty percent of the respondents aged 36+ or 46+. The fourth club has thirty percent of respondents aged less than 40 years of age. In terms of board tenure, only two of the fifteen respondents had served for less than five years. The majority of the directors for each of the clubs had been stable for a period exceeding five years. All of the effective clubs had respondents with some finance expertise. Three of the clubs had marketing expertise, while legal was included on the board of the two of the clubs. General business acumen was also prevalent with a preference for entrepreneurial skills. All of the clubs had an ex-player on the board. All of the respondents had passion for the club or the game and this was evident in director behaviour or expressed by them as desirable as a director characteristic.

On the other hand, the age profile of the respondents from ineffective clubs was significantly older with only three respondents or twenty percent aged less than fifty years. Three of the clubs had marketing expertise, all clubs had more than one respondent with finance expertise, two clubs had football expertise, and two clubs had legal expertise. The skills profile was not significantly different to the highly effective clubs, although there was a dearth of entrepreneurial expertise. Tenure was a further point of difference. Of the fifteen respondents, only six had served five years or longer, compared with thirteen of the effective club respondents.

## **Board Processes**

### *Director Effort*

It is simplistic to measure director effort solely in terms of hours spent in board meetings, but this is where the key decisions are made and where the effectiveness of the board emerges. The highly effective clubs had various numbers of board meetings per year ranging from eleven, fourteen, fifteen, and sixteen. Similarly there was no commonality with regard to the number of committees within each board. Two of the clubs have in excess four sub committees, one club is re-introducing a football committee and the remaining club does not have standing sub committees, but

convenes project based committees as needed. The duration of the board meeting was typically 3 hours, although two clubs reported four to five hours. Board meeting attendance also varied. This extended time would also include a break for dinner and personal discussion. Four of the clubs had over 70 percent of directors attending all meetings.

In terms of time committed by each of the respondents, the President or Chair of each of the clubs generally committed 20 to 25 hours per week, although two clubs reported less than 10 hours. Time commitment by other respondents varied. Three of the clubs' respondents averaged three hours per week, while the other three reported five to fifteen hours per week.

Probing on the level of board debate elicited similar responses, although one of the respondents thought that cohesiveness was compromised by independent directors elected. The Chair was critical in guiding debate and keeping egos in check in all but one club which suggested that there were no egos on the board. All respondents identified robust debate as a feature of the board, and there was evidence of cohesiveness in four of the five clubs.

The number of board meetings for each of the ineffective clubs was: eight, eleven; twelve and thirteen. While the duration of the meeting varied, the total formal time spent on board matters was similar. One club's duration was four to five hours long, the second club had a duration of two to three hours, and the third club had three hours with a mid-month catch up for two hours during the season.

Three of the ineffective clubs convened four standing sub committees; two of the clubs had a football sub committee while the remaining club had recently disbanded this sub committee. The fourth club convened issues-based committees. In terms of meeting attendance, one club did not disclose meeting attendance in their annual report. One of the clubs had only one director attend every meeting, although all but one of the other directors only missed one meeting. The other director missed two. The remaining club had 65 percent of their board attend all meetings (or miss one).

The time committed by the President or Chair of each ineffective club varied. One President had reduced the amount of time in the last year, and now committed six to seven hours per week. One club's President has reduced his time but would be in the order of 20 hours, while the other President would commit a similar time. The other directors' time commitment varied with one club's respondents reporting approximately five hours per week; one club – five hours for two of the respondents and three hours for the last respondent; and the final club's respondents reported four to seven hours. One club indicated that all directors had been given a role to work with management on specific issues, so it is assumed that they have some 'hands on' role. The remaining club reported approximately two to three hours per week. Board debate in the ineffective clubs was described variously as 'healthy, robust, rigorous' but all respondents agreed that issues were challenged, debated and resolved. The role of the Chair was again critical, with two clubs' respondents indicating strong respect for the Chair and the other club describing the need for 'unselfish' leadership.

In summary, director effort did not vary significantly between effective and ineffective clubs. Similarities included meeting duration, time committed, sub committees and level of debate. The only obvious difference centred on meeting frequency. In highly effective clubs it was higher with a range of 11 to 16 meetings per annum. In contrast the meeting frequency of ineffective clubs, ranged from 8 to 13 per annum.

## **Board Tasks**

All of the highly effective clubs identified similar board roles, although the only role identified by every respondent from all four clubs was the appointment of the senior staff, specifically the CEO and senior coach. Dir<sub>2</sub>Club<sub>13</sub> stated "*the key role is the appointment of the CEO that is the key appointment; he is responsible for the operations of the club in its entirety.*" It was therefore interesting to note that all clubs had long serving CEOs. It is also interesting to note that respondents of the highly effective clubs considered the social and emotional needs of their members when discussing the role of the club itself.

The key board tasks identified by the respondents from effective clubs were: establish policy direction, set strategic vision, review management performance, protect or enhance brand, and generate sponsorship.

The ineffective clubs' identification of key board roles was varied. Two of the clubs were outwardly focussed, having concentrated on tasks such as: representing stakeholders, protecting members' interest, providing direction, establishing mission/values. One club identified ensuring survival as the key role of the board. One club was focussed internally, with the key roles identified as: providing structure for management, approving and monitoring the business plan, and reviewing management performance. This club also identified the generation of sponsors as a key task. Only one respondent explicitly identified the appointment of the CEO as a key board task. This of course, may have been an assumed board task for other respondents, but it is significant that every respondent from effective clubs discussed CEO appointment without prompting.

The role of the club was not unanimously described by the respondents within two of the ineffective clubs. In only one club did each respondent describe the role of the club as providing a social outlet for members. The other two clubs had a fifty-fifty divide between social purpose (for members) and sport purpose (win premierships).

There were distinct differences between the cohorts on this governance aspect. The respondents from the highly effective clubs typically exhibited agreement on club purpose whereas there were mixed purposes identified within the ineffective club boards. The role of the board as driving strategy was more strongly cited from highly effective club respondents. A key point of difference was the board role in appointing the CEO which was front of mind for highly effective club respondents, but was virtually ignored by ineffective clubs.

### **Common Governance Attributes**

Only a few common governance attributes disclosed in this study were shared by the highly effective clubs. The presence of a younger director was a common thread, with 50 percent of every effective club's respondents aged less than 50 years of age.

A further common aspect was the tenure of the directors; the majority of respondents in effective clubs had served on the board for five years or longer. The majority of these respondents also recognised the need for passion for the club or the game, and finance, marketing and legal were commonly desired skills. However, the clubs all had differing recruitment processes and different demographics of board members.

The coach attended board meetings to present the football report and field questions in all but one of the effective clubs. The average duration of the board meeting was three hours for effective clubs with evidence from a majority of respondents' comments, of strong leadership from the Chair. The board meetings varied however, in number and duration with differing number of agenda items and attendees.

Finally, all respondents from effective clubs identified a common board task: the appointment of the CEO and Coach. However, as two clubs had two coaches over the period of this study, it was the tenure of the CEO which was the common element.

The commonalities of ineffective clubs were also significant. Typically, the boards of the ineffective clubs are older and meet less frequently. Two of the clubs had longer meetings of longer duration but the other two clubs were similar to the highly effective clubs. All but one of the respondents had been invited onto the board, although all of the clubs' boards are subject to regular challenges. The tenure of directors is less, with only five directors serving five years or longer. The time commitment of the ordinary director was approximately two hours longer per week for three of the clubs than for directors of effective clubs, indicating a potential more 'hands on' approach. The roles of the board varied, as did the role of the club, which was only consistently expressed within one club. In terms of board tasks, two of the clubs exhibited a more outward focus while one club focussed on internal issues and one was in transition. Only one respondent from an ineffective club identified the role of appointing the CEO. Co-incidentally all of the ineffective clubs had two CEOs during the five year period, one club with two CEOs of relatively short tenure. The findings in Table 8.1 highlight the common governance features of the two cohorts.



**Table 8.1 Common Governance Attributes  
Highly Effective and Ineffective Clubs**

Attribute	Effective Clubs(4)	Ineffective Clubs(4)
50% of respondents under 50 years of age	Four	Nil
Board tenure generally 5 years or longer	All	Nil
Passion for the club as a desirable attribute	All	Two
Meeting duration of 3 hours	Four	Two
Evidence of strong leadership	All	Two
Appointment of CEO as key board task	All	One (one response)
CEO tenure five years or longer	Four	Nil
Understanding and agreement of club context	Four	Two

It should be noted that each club had one respondent less than 50 years of age, but this did not constitute 50 percent of the sample. As stated above, only one of the ineffective clubs expressed a consistent articulation of the role of the club. The other clubs provided mixed responses. Only one of the ineffective clubs mentioned the desirability of passion for the club. It should also be noted that there is interdependency between performance, and board and CEO tenure. It could be assumed that a well performed club is unlikely to agitate for change of senior management or the board. In contrast, it could be argued that clubs which are poorly performed will be continually challenged.

A comment from Dir<sub>4</sub>Club<sub>16</sub> is relevant to this evaluation “*One thing that differentiates old clubs from new is that they have old constitutions, bogged down with history, engage in old roles, include past players who have too much influence. The new clubs have no baggage from the past and can start being more professional.*”

This distinction between old and new clubs and how their longevity might impact on governance and board practices is an interesting one. 'Old' clubs are defined as the eleven Victorian based clubs which participated in the competition prior to the introduction of the first of the 'new' clubs in 1987. Interestingly, only one of the four highly effective clubs is an 'old' club, while the other three are 'new' clubs, those which have joined the VFL/AFL since 1987. Moreover, no new club has been represented in the ineffective club sample.

In conclusion, this study has highlighted a number of important features of AFL club governance. First it has shown that AFL clubs have many similar board attributes. Second, many clubs have improved their governance processes over the past few years. Finally, while most aspects of board operations do not seem to be the determining factor for club performance, there are a number of governance attributes that are associated with effective performance on one hand and ineffective performance on the other.

## Concluding Comments

This study began by reviewing the governance literature particularly in the nonprofit and sport area. It also discussed several organisational theories which influenced both the prescriptive and empirical governance studies, and informed the conceptual model developed to analyse the respondent data. In general many of the features of board composition, processes and tasks found within the results have confirmed key aspects of the literature review.

It is initially instructive to refer to Cousins (1997) and determine the degree to which the AFL clubs conform to either a sport-centred or business-centred organisation. The comments from respondents together with the discussion within their annual reports, indicate a combination archetype, with a heavier orientation to the business-centred archetype. While clubs did exhibit some variation, the results enable a hybrid organisation type to be constructed and this is shown in Table 8.2.

**Table 8.2 AFL Club Archetype Features**

	<b>Feature</b>	<b>Archetype</b>
<b>Institutional Values:</b>		
Orientation	Focus on sport	Sport-centred
Domain	Focus on sport industry	Sport-centred
Principles of organising	Formal strategic planning	Business-centred
Criteria of effectiveness	Either member or sport outcomes	Sport-centred
<b>Organisational structure:</b>		
Specialisation	Professional functional management employed.	Business-centred
Standardisation	Formal operations	Business-centred
Centralisation	Both centralised and decentralised decision making were represented.	Sport/Business

The above table illustrates the dichotomy identified by several respondents, which says that while the AFL club is a business, it also operates in a unique industry. Respondents commented on the role of passion and emotion in AFL both in terms of their own decision making, but also within their key constituency. Many saw their

role as ensuring ongoing survival of the club in order to provide a sense of purpose for their members. However, they were also challenged by economic realities and the difficulty in commercialising a small business which is subjected to significant public scrutiny. It was clear that board composition was based on business skills, either specific such as finance or football industry knowledge, or generic business acumen. Their operations were becoming more formal but some clubs were still struggling to fully corporatise. There was evidence of professional management, but several respondents identified weekly scrutiny of the industry as a key point of difference between a business entity and a sport organisation.

## **Implications for Theory**

The results of this study have important implications for organisational theory. Chapter two commenced with a discussion of key organisational theories underlying governance. The study demonstrates support for all of these theories in varying degrees, which are summarised below.

As expected, agency theory was heavily supported by the respondents' identification of roles of the board as monitoring of management and the focus on mission. This support was strengthened by the description of the board meeting and consideration of a typical board agenda, which involved a comprehensive review of monthly performance. Focus on mission was also well illustrated by the respondents' awareness and articulation of the role or purpose of the club.

Stewardship Theory was marginally supported, in that there was general agreement about the delineation of the roles of the board and management. However, this was not universal with some clubs (Club 4 and Club 5) displaying a more hands on approach. There was however, an identified role of the board to provide structure for management and set overall policy, a feature of agency theory. The extent to which management was intrinsically rewarded was not explored in this study at any depth, although the issue of performance based compensation for the CEO and Coach was mooted. Several clubs committed to performance incentives, although there was no unanimity in its application.

Stakeholder Theory was also supported in that key stakeholders were identified by many respondents and the terminology ‘stakeholder’ was prevalent as a club focus. Clearly, members and sponsors as key stakeholders were the objects of many of the respondents’ discussions, particularly relating to the role of the board, and key success measures. The AFL as a stakeholder was also mentioned by some respondents, but in the context of unfair influences and the need to mitigate them. One key stakeholder not mentioned by the majority of respondents was the playing group and this was surprising, although potentially driven by the desire to minimise the board’s involvement in the football department. Stakeholder Theory was also a key factor influencing the choice of multiple constituency theory as a performance model.

Resource Dependency Theory was as well supported as Agency Theory and it could be argued these two theories with their associated features, framed the key activities undertaken by the club boards. Resource dependency was illustrated in two ways. Firstly, there was clear evidence of director involvement in club activities and provision of resources and specialised expertise. This was reinforced by the majority of comments identifying a desirable skill set, in part to assist management when called upon.

Secondly, the provision of contacts and effective networking as a source of revenue was identified by most respondents as a key feature of an effective board. While no attempt was made in this study to identify or rate the prestige of directors and any one club board, there was a perception expressed by some respondents that a higher profile could bring in higher revenues.

Institutional Theory enjoyed some marginal support but was not a clear driver of board behaviour. There was evidence of isomorphism particularly by Clubs 8, 13 and 14. There was also a focus in some clubs on compliance, particularly with regard to adherence to the AFL salary cap, obviously a focus where there had been penalties applied for non-conformance in the past. Legal issues were also evident with many respondents identifying legal expertise as increasingly desirable due to the increased corporate complexity under which the clubs now operated. Risk management was identified as an issue by some respondents.

In terms of organisational performance, both goal attainment and strategic constituency theories were utilised and found to be operationally viable. The validity of the results under these theories will be discussed under the limitations section of this chapter.

### *Summary and Critical Review:*

The evidence from this study suggested that Agency Theory was the pre-dominant driver of board process. The meetings were strongly driven by the need for management oversight, and although the respondents identified setting strategy as a key board role and several clubs used the board meeting for strategic discussion, the primary activities actually undertaken was to review performance. The description of Club<sub>3</sub>'s meeting was certainly representative of the majority of clubs and has an Agency Theory bias:

There is a set agenda covering all Key Performance Indicators (KPIs) including result of games; business operations, major projects, media and public relations and finance. They received reports from department heads about all areas of the business. Football includes information on injuries, player development, training opportunities. They discuss events, coteries, sponsorship, and membership routinely. They are made aware of media coverage, player appearances, community work etc. Both Dir<sub>1</sub> and Dir<sub>2</sub> indicated that they spent considerable time on numbers, although finance issues were already the subject of sub committee activity, with recommendations going to the full board.

Resource Dependency theory was also significant in driving board behaviour and tasks. However, the use of the board as a resource was not unanimous and tended to be most prevalent in the highly ineffective clubs, which for reasons of financial constraints tended to use directors for essentially management responsibilities. There was one club (Club 1) which generated significant corporate support from board member leverage. The results indicated that Resource Dependency Theory was perhaps under-utilised, particularly in consideration of the emphasis on driving non-core revenues. This under-utilisation could also be tied to the inherent financial bias on the majority of club boards and the under representation of entrepreneurial and marketing skills.

However, mimetic isomorphism as a subset of Institutional Theory was evident. There were significant similarities in the type of candidates sought for board positions; significant replication of the descriptions of the board meetings, although the duration was often a point of difference. This is not surprising as many of the respondents acknowledged their familiarity with other clubs and other club directors during the data collection process and saw each other regularly at AFL wide forums. The issues facing the competition and the industry were common to all.

There was no compelling support for any other organisational theory, although as stated in the previous discussion, all were represented in the results.

## **Implications for Governance Models and Frames**

This section evaluates the governance attributes of AFL clubs against the various models of governance discussed in chapters two and three. It is clear from the results discussed in this chapter, that the AFL clubs were committed to moving to a board of governance as recommend by Houle (1997). In all clubs, there was evidence from respondents that conceptually, there was a clear distinction between the role of the board and the role of management. However, it is also evident that some clubs blurred this delineation and directors of some clubs actively worked with management on specific issues. There were reasons cited for this: *“operations were under performing and the board tended to manage the club themselves”* (Dir<sub>3</sub>Club<sub>6</sub>). Dir<sub>1</sub>Club<sub>1</sub> suggested *“It is completely wrong that directors do the job that full time staff should do ... more and more we are assuming a corporate board, it is in between at the moment. There is a big difference between the board and the President, who is particularly hands on. He needs to be fully aware of what is going on”*.

The results offered support for Houle’s (1997) prescribed focus on diversity of board composition, particularly with regard to skills, which he suggested should encompass: personnel policy, financial management; investment; public relations; fundraising; legal; and political contacts. The club boards’ demography indicates that there is diversity in the age of respondents, a reasonable balance overall of short and long tenure, however there was little diversity on gender, with the majority of respondents

and club directors being male. In terms of prescribed skills, only financial management was universally found on club boards. Public relations (media); legal and marketing were under represented in the respondent sample, while personnel policy experience was only exhibited by one respondent and identified as a desirable skill by only two respondents.

The respondent views confirmed Hodgkin's (1998) consideration of the inclusion of corporate executives on nonprofit boards and validated the points of difference between the organisations which could cause discomfort for that executive. The points of difference identified were: nonprofits did not have a focus solely on financial performance; accountability to owners was problematic; director's dealings were subject to more scrutiny in a nonprofit; and the nonprofit demanded a higher level of communication with constituents. All of these issues were supported by the results. The majority of directors clearly identified the supremacy of members' interests and sporting performance as a focus for the club, but all recognised the need for ongoing financial viability. There is no doubt that interaction with members was demanding, with many directors expressing constant contact with members, while many discussed their role on match day to host sponsors. Dir<sub>4</sub>Club<sub>1</sub> expressed this well "*new directors are amazed at the passion and fanaticism of the supporters, but they grow to understand this. It makes them [the directors] feel much more responsible.*" Directors' dealings with the nonprofit organisation as reported in an annual report was not considered an issue, however, directors enjoy a high profile while on the board of an AFL club and are constantly subjected to scrutiny from the media. This issue was raised by several respondents, particularly in regard to the need for board confidentiality. However, the major point of difference for the corporate executive was the role emotion played both for members and in decision making at the board table. Passion and emotion were routinely mentioned as a key difference, occasionally impacting rational decision making, to the extent that one club prohibited passionate supporters serving on the board. Dir<sub>2</sub>Club<sub>2</sub> stated '*Emotion affects decision making, don't make decisions after a bad loss.*'

There were elements of AFL club governance which both supported and contradicted Alexander and Weiner (1998). Their study examined the applicability of a corporate model of governance to nonprofits. The corporate model was determined to have a



smaller board, less diversity and limited tenure, as opposed to the nonprofit board which was larger, more diverse and had unlimited tenure fostering continuity and maintenance of the tradition of the organisation. The study established that the better performing hospitals tended to adopt a corporate board which was deemed to facilitate a streamlined, focussed strategic decision making process.

While the club board size was comparable to a corporate board (identified to be between six and twelve directors for listed companies, Barut, Foreman and Richardson, 2003), there was significant diversity in terms of age and skills, although not gender. Only one club has limited tenure and the results above indicate that clubs with longer serving directors have exhibited superior performance. The corporate sized board has not necessarily fostered more streamlined decision making as many of the lesser performed clubs also have between eight and twelve directors.

The results of this study with regard to board recruitment, discussed aspects of the dilemma raised in Brown's (2002) study of inclusive boards (defined as including stakeholder representation). His assumed organisation objectives were to provide oversight of management and to raise funds. His two case studies illustrated the outcomes of inclusion or exclusion of stakeholders. Within AFL clubs, there was little stakeholder (the key stakeholder defined as a 'grassroots' member) representation on AFL boards, although many of the directors were elected by grassroots members. While there were many independently elected directors, the majority of these had some relationship with the club prior to nomination. The two 'grassroots' directors interviewed had found it difficult in terms of absorbing the complexity of issues and the time commitments required. Networking and the provision of fundraising contacts was seen as a critical board characteristic and this may lend support to the first of Brown's findings that boards did not need stakeholder directors, but could facilitate stakeholder outcomes through communication with them.

This issue of member election was raised by respondents and their views generally supported Friedman and Phillips (2004). The authors suggested that there were two problems with election: members may not have the time or flexibility to participate, and the organisation may not have the required expertise in their membership. The

organisation may require a skill set that may be compromised or sub optimal in a group of electees. This was evident from respondents' comments particularly, where they felt ex players were elected due to their popularity with the membership, regardless of the skills they had to offer.

The processes of the board were presented in line with the governance-performance model with significant input from Forbes and Milliken (1999). However the views of the role of the board and key board processes were the focus of much of the nonprofit literature discussed in chapter two.

There was support in the findings for the Policy Governance model developed by Carver (1997) among others. There were several director comments, regarding the level of debate and the over allocation of time spent discussing football, which support his view that the board is likely to have less discipline than the individual. His focus on policy and setting direction rather than structure was identified overwhelmingly as a board role, although some clubs (Club 5 as an example), also identified a key board role as providing a structure for management.

There was evidence that AFL club boards conformed to Jansen and Kilpatrick (2004) recommendations. The majority of respondents identified mission/values and strategic direction (or similar concepts) as a key role of the board. In terms of procedural efficiency, the majority of respondents identified structured board meetings, with a formal agenda distributed prior to the meeting, allowing appropriate preparation. While some clubs suggested that the time available for preparation could be improved, they also identified that constant communication with each other meant there were no surprises. Adherence to the agenda was generally performed well, although several respondents identified that football often occupied too much of the discussion.

Oversight of management was the key agenda item on the majority of club board meeting agendas. Generally this was a highly structured process with the CEO presenting his report or other managers reporting as necessary. Much of the discussion was focussed on exception reporting consistent with Jansen and Kilpatrick's recommendation. The function which was not routinely undertaken by

many of the club boards was the process of self evaluation. Four boards had adopted a formal process while the majority of the clubs had some informal evaluation consisting of a one on one discussion between the President and the director. Three clubs did not identify any process for self evaluation.

There was also support for the roles articulated in the Miller-Milleson (2003) paper: determining mission and purpose; strategic planning; fiscal control; evaluate CEO; raise money; enhance image; and ensure legal compliance. There was however, little emphasis on managing risk and the identified role of overseeing programs and services was seen to be the role of management.

The roles of the amateur sports board identified by Inglis (1997) were significantly represented by respondent comments and the results in chapter six. However three roles were identified as management responsibilities: annual budget allocations; hiring decisions on senior paid professional staff (other than CEO); and involvement in developing and helping to deliver programs and services.

The roles Brown (2005) presented, based on Chait, Holland and Taylor (1991), also enjoyed support in the study results. There was evidence of a high level of contextual awareness in the respondent sample. The respondents understood the role of the board and that the majority of them could articulate the role of the organisation, indicating some level of educational process within the board. Cohesiveness was expressed by the majority of the respondents as a desirable board attribute and their comments indicated that this existed in most boards, providing some support for the interpersonal role of the board. The analytical dimension was supported through the inclusion of directors with different functional skills but also through the desire expressed by some respondents to focus on behaviours and personal characteristics as well as a skill set. The directors understood their constituents and many actively communicated with them and lastly, there was a general recognition that the board had the role in setting the vision and direction for the club.

Nicholson and Kiel (2004) provided insight into the process of the board by identifying its intellectual nature. The dimensions of human capital (individual skills and industry knowledge); social capital (external and internal relationships of the

board); structural capital (the administrative processes driving board procedures); and the cultural capital (the motivation and values of directors) were all discussed at length in the results of respondent interviews. There was some support for their premise that there was a potential trade-off between board and management performance, with the discussion on club effectiveness identifying that some boards tended to compensate for deficient management.

However, the Forbes and Milliken (1999) hypotheses in Table 2.4 were not fully supported by this study. As this study did not undertake an analysis of board performance, some hypotheses cannot be validated or refuted. However, it was clear from respondent comments and organisational performance that it was possible to have both a cohesive board and high levels of cognitive conflict. Many respondents attested to the often heated board debates and the fact that they would then socialise together and provide a united front to the membership. There was no evidence of a negative correlation between effort norms (director effort) and board size as predicted by the authors. There was also no evidence from respondent comments that board tenure negatively impacted cognitive conflict. The longest serving boards all exhibited graphic accounts of robust debate. The positive relationship predicted between job related diversity and cognitive conflict and board size, is supported *prima facie*, although would warrant further investigation. There was support for the prediction of a positive link between tenure and cohesiveness, but there is also slight support for increased meeting frequency and cohesiveness as indicated by the earlier discussion on common aspects of effective clubs.

There was evidence of both task and social cohesion within AFL club boards, which supported the claims of Doherty & Carron (2003), although there were comments that independently elected directors would not enhance cohesion. One factor which could be supported was the length of meetings and cohesion, albeit with a negative relationship. Clubs which demonstrated the longest meeting duration also exhibited signs of division and frustration. However the cohesion issue was not explored at length in this study.

The results also supported the findings of Cuskelly, McIntyre and Boag (1998). The time commitment was significant for most AFL directors and meeting attendance was

generally excellent. There was no evidence however, that occupational prestige impacted attendance, although the results confirmed that meeting attendance was not the key predictor of commitment. The motivations of directors of AFL clubs were not specifically explored in this study, but many respondents offered comments supporting the finding that altruism was most significantly linked with commitment.

The results supported the study by Doherty, Patterson & Van Dussell (2004). Although the average committee size is significantly smaller for AFL clubs than their sample, respondent comments demonstrated existence of all group norms identified by the authors. There were illustrations of all task norms and both social norms, in contrast to the Doherty, Patterson & Van Dussell study, which reported evidence of all task norms but only social interaction as an exhibited social norm.

In regard to identification and prioritisation of key success factors, Dawson (1993) presented results of a study into Australian football clubs, including some AFL clubs. The success factors ranked as critical by highly successful clubs in the Dawson study were all discussed at least peripherally, by the respondents to this study. The significant departure from Dawson was the negotiation of player contracts. This study identified that respondents had little involvement in the football department, and virtually no involvement in contract negotiations which were handled by the CEO and/or the Football Manager and/or the senior coach. In many cases directors were never advised of individual player contracts.

The results indicated that AFL clubs, independent of government intervention, although perhaps not independent of the governing body, were moving at various speeds towards a board of governance. This is consistent with the progression of voluntary sport organisations through a governance archetype hierarchy identified by Amis, Slack & Hinings (2004). With regard to the archetypes discussed in chapter three, none of the clubs could be categorised as 'Kitchen Table', with the majority of the clubs conforming to a definition of 'Boardroom' and moving rapidly towards 'Executive office'. Two clubs already conform to a definition of 'executive office' while all clubs are more evolved, due to the level of paid professional staff, than 'boardroom' suggests.

This level of governance sophistication is consistent with the recommendations of the ASC Governance Principles. On many aspects, the clubs met the ASC recommended best practice. However, risk management and compliance were under represented as key issues for the club boards in contravention of Principles 3 and 4. While there was evidence of recognition of members' interests in the respondent data, there was little evidence that these issues explicitly flowed through to the strategic plan, other than as potential revenue sources.

The involvement of the board in strategic planning is consistent with Shilbury (1994), and indicated that it had evolved into formal professionally conducted exercise and was prominent in respondent comments. While clubs had different strategic priorities, there was evidence of a formal process underlying those priorities.

Finally, the results of this study supported the results of Capling and Marjoribanks (2002) and Marjoribanks and Capling (2004), who noted the prevalence of networks within clubs (between the President and CEO; the board and various operational areas of the club; and supporters) and these were all demonstrated by respondents' comments. Capling and Marjoribanks suggested that Presidents were the public face of clubs, but this study found a policy of delineated spokespeople at each club, depending on the issue to be addressed. With regards to their claims that clubs were keen to identify 'core values', this was supported. The respondents had clear ideas on the role or purpose of the club, and identified members as a focus. While the relationship with the AFL was not explicitly explored, several respondents expressed views on the relationship and identified the need to improve the relationship.

Marjoribanks and Capling (2004) explored the expertise of the club management; the leaders' (CEO and President) views on the purpose of the club; and how they characterised their relationship with the AFL. In this study, the respondents claimed there was a high level of professional management expertise within the club and their role had changed as a result. Even those clubs that still operated with hands-on input from the board, expressed a desire to move to a board of governance.

### *Summary and Critical Review*

The above discussed the extent to which the features of these models were utilised and found that the models were significantly represented by the results. There were however, differences which could be deemed to be industry specific, such as the issues of profile and passion. The results reflected aspects of all models and therefore could not be aligned with any one best practice. The majority of clubs conformed to the Policy Governance Model (Carver, 1997) in terms of the board's role in setting strategic vision, however, the majority of respondents tended to adopt the Traditional Model (Houle, 1997) for board composition in that they actively sought a mix of expertise, much of which was explicitly recommended by Houle.

One interesting finding was that there was virtually no support for the Executive Centred Model (Herman and Heimovics, 1990b). The respondents generally saw the board as the key driver of the club, and although some clubs had joint management-board strategic planning, the board was the key decision making body.

A review of the structural-process models showed that there were implicit ingredients of the Nicholson and Kiel (2004) model, particularly with regard to board intellectual capital and board dynamics in the results but overall, the clubs more closely operated within the process model of Forbes and Milliken (1999).

It was therefore instructive to further analyse highly effective and highly ineffective clubs to explore the adoption of any one model within those cohorts. While there were no overwhelming predilections by any of the clubs, some general statements could be made.

Highly effective clubs more closely aligned with the Nicholson and Kiel (2004) model, albeit marginally. They identified the importance of the CEO and were cognisant of operating at a more strategic level. Their focus was utilising board expertise to leverage contacts and non-core revenue. This was an unsurprising outcome. The freedom from financial concerns allowed a more reflective, intellectual review.

The highly ineffective clubs were operating within a process model such as Forbes and Milliken (1999) but showed more aspects of the Traditional Model as they were

still progressing from a management committee. Again, this is an unsurprising result. Financial concerns dominate and the scarcity of resources necessitated a more ‘hands on’ approach than the respondents themselves saw as desirable.

The key issue is how the clubs evolve into the more cognitive model and the main learning from the highly effective clubs in this regard is the critical appointment of the CEO.

## **Implications for Practice**

This study confirms that over the last twenty years, the governance of AFL clubs has evolved into an explicit, formalised and generally effective process. Characterised by a balanced mix of expertise, recognition of the underlying purpose of the clubs, and strong leadership, there is evidence that most clubs are in the process of moving from a board of management to a genuine board of governance. There is significant business and football expertise on most boards and the composition is becoming increasingly deliberate. Specific skills, behaviours and influences are actively sought, and increasingly evaluated and replaced as necessary.

The diverse mix of skills and backgrounds has facilitated robust debate, while the previous lack of confidentiality exhibited on some boards has been addressed with a focus on unity. The level of debate, while extensive in some clubs, has nevertheless facilitated unity, as all members have the opportunity to contribute and argue their case rigorously. It was anticipated that, given the business credentials of the respondents, there would be a good understanding of the relative roles of the board and the club management and this was confirmed.

The majority of respondents expressed unquestioned passion for their club and this was demonstrated by the level of effort they expended. The responses indicated effort beyond personal rewards. The governance models and literature discussed in chapters



two and three were supported in practice, which indicates that the club boards are working towards a best practice model.

It was initially anticipated that out of this study one best governance practice leading to superior performance, would emerge, which could then be replicated by all clubs. However, there were few obvious governance attributes which could be said to underpin superior performance. A number of results, however, highlight both desirable and deficient practices and may therefore provide some guide to future practice. In particular, stability of the board and CEO is a key to superior performance, and results in reduced director effort as a further outcome. This stability does not compromise cognitive conflict, but is difficult to achieve under the constitutions of the majority of the clubs.

However, conventional wisdom regarding board recruitment, represented by a tendency to recruit through invitation does not appear to have any positive correlation with performance. While board elections are not popular for cost reasons and the potential destabilising effect, there is no evidence to suggest that independently nominated directors are less effective than invitees. Several skills which were identified as desirable were under represented in the respondent sample and these included marketing, legal, and the ability to leverage contacts. However, as discussed earlier in this chapter, marketing may have been seen as more a management function than a board function.

Finally, many of the measures used in this study are useful for both the evaluation of club performance and the assessment of clubs for competitive assistance. It is to be hoped that presentation and discussion surrounding the measures should also lead to more consistent reporting in club documents in the future.

## **Governance Guidelines**

Despite the lack of common governance attributes in effective clubs, the insights gained from the study could usefully be distilled into some key guidelines for club governance. The variety of responses and the different approaches to board composition, process and roles have highlighted some practices that could be easily

replicated notwithstanding the often tenuous links to superior performance. These will be discussed below and summarised in Table 8.3.

*Recruitment:*

Director recruitment was handled significantly differently among the clubs. Some clubs allowed for member election and actively sought to keep unqualified candidates off the board, usually by giving the potential challengers a committee or advisory role. One club regularly holds a member forum, with director attendance, thus providing access for members to air their grievances. This was effective in not only highlighting problems, but also providing solutions. A regular forum for members to challenge and question the board and receive direct communication from club leadership may minimise potential future challenges.

A further initiative would be to provide a comprehensive pack of directors' duties and liabilities to candidates with a nomination form. The onerous responsibility may dissuade many grassroots supporters from mounting an expensive and ultimately unsuccessful challenge.

Some clubs also considered a short list of board candidates, and engaged a personnel firm to conduct interviews. While in one club this process took three months, it removes the potential for incumbents to 'stack the board' and to engage well credentialed people who have been objectively assessed.

*Presence of knowledge and skills*

Finance expertise was prominent in the respondent sample and provides a basis for effective financial oversight. The generation of revenues and the growing requirement to earn non-football related income, is now a critical success factor and the lack of marketing and entrepreneurial presence on the board could be seen as a key limitation. While marketing expertise can be delegated to management, entrepreneurial skills may facilitate innovation. While not always comfortable personalities to have on a board (Club 14), they can provide much needed lateral thinking.

While the inclusion of a woman on club boards is often cited as necessary to represent the club's female members, the effectiveness of this representation is as yet untested.

The more compelling reason is the different perspective that women bring to the board table as identified by Dir<sub>2</sub>Club<sub>11</sub> in chapter six.

Football industry expertise would appear from the majority of respondents to be an essential ingredient, providing the candidates have other business skills to complement their football knowledge. It was not thought necessary to have been an ex player, however, there is a trend to recruiting recently retired players who better understand the modern game and have professional or business credentials.

Use of networks and contacts was cited by most respondents as essential and the literature argued the more prestigious the board or directors, the greater the ability to raise funds.

Human resources expertise was cited by very few respondents as essential, but some clubs identified significant churn in their non-football staff, which is both costly and ineffective. A director, who has expertise in organisation behaviour or psychology, may complement the skill base.

Some respondents did not subscribe to the need for particular functional expertise, other than perhaps finance. They suggested that the in line with the strategic role of the board, general business experience and knowledge as well personal characteristics, such as trustworthiness, integrity, ability to think laterally among others were more important than functional ability.

As stated earlier in this chapter, most respondents and those associated with highly effective clubs, required passion for the club from their co-directors. This passion underpinned director effort and facilitated empathy with their member constituents. Respondents alluded to the fact that after all, it was a football club in contrast to a rational corporate environment.

### *Board Demography*

Respondents acknowledged in several instances that they had an ageing board and that this was a concern. The need to recruit younger directors is apparent from respondent comments on the need to engage in board renewal, but would also

facilitate relationships with a younger membership and a younger management and coaching team.

Stability of tenure was desirable, with some more recently appointed directors stating that one year on the board was needed to understand the complexity of the issues and to start to become effective. Two year terms limits this effectiveness. The issue of limited tenure was raised with mixed responses. Only one club has limited tenure of three terms (nine years) and would be classed as both a cohesive board and an effective club. It forces the need to constantly renew and appeared to have no impact on the task or social attraction of the board.

### *Board Process*

The board meeting agendas were very similar and the main points of difference were the attendees and duration of the meetings. However, the respondents themselves see their role as a strategic one and it was acknowledged by several respondents, that they got 'bogged down' in operational aspects. Some clubs did not have the coach attend regularly and the football director or football manager presented the football report. The thrice-yearly appearance of the coach mitigates a concentration on football issues and keeps the meeting at a strategic level.

Several respondents admitted to engaging in time consuming discussion on football during the meeting. Other clubs handled this with a rigorous meeting process, formal closure of the meeting, and then convened for an organised social forum where the vagaries of the weekend's performance could be discussed uninhibited.

The mean meeting duration was two and a half to three hours. Most respondents stated that this was adequate if the meetings were formally run, well chaired and focussed on strategic issues. The most common means of decision making was by consensus. Three of the four highly effective clubs held meetings in excess of once per month.

An invitation to other management to attend the board meetings two or three times per year maintains a relationship with them.

### *Board Tasks*

Key board tasks were overwhelmingly identified as monitoring and setting policy and strategy. Therefore any shift to ‘hands on expertise’ will camouflage deficiencies in management. While several clubs have cost reduction strategies, compensating for under resourced management activities may be counter productive due to the intermittent nature of the director’s availability. The highly effective clubs all identified the key board task as appointment of the CEO and senior coach and all had stability in CEO tenure over the period.

The nonprofit literature discusses the need for effective constituent communication, but the results of this study show it to be a neglected task for club boards, other than the President or Chair, who provide a report to members in the club periodical and the formal accounting at the Annual General Meeting. The literature suggests that some transparency and communication between the board and members is essential (Friedman & Phillips, 2004; ASC, 2002) and could be fostered by the member forum discussed above.

When aggregated, the above discussion provides a set of guidelines by which board process can be strengthened and made generally more time efficient. These are summarised in the following table.

### **Table 8.3 Governance Guidelines**

<b>Recruitment</b>	<b>Skills</b>	<b>Demography</b>	<b>Board Process</b>	<b>Board Tasks</b>
Means of appointment (invitation, election, appointment) is irrelevant in terms of cohesion and effectiveness.	Ensure finance expertise is represented.	Recruit younger directors	Limit normal meeting duration to two to three hours	Set strategic direction
Short list Candidates before formal interview process	Football experience also essential. - Preferably a recently retired player with other business credentials.	Abolish two year terms and extend to three years.	Engage in a social forum after meeting to discuss football and other issues	Develop network to produce contacts
	Target entrepreneurial skills in order to generate non-core revenue	Limit tenure for nine years which ensures renewal but leverages expertise.	Prepare a formal agenda	Ensure effective oversight
	Demand passion for the club and members	Attract women to bring different perspectives	Employ consensus decision making	Communicate with members – Conduct a regular members’ forum to air issues
	Knowledge of organisation behaviour		Leave your egos at home.	
	Marketing		Appoint a strong Chair	
	Prestige			

The above table presents a synopsis of ‘best practices’ which can be used to stimulate analysis and refinement of club governance practice.

## **Limitations**

The results of this study should be treated with caution. There are several limitations to any research effort of this magnitude. This section now presents those limitations with regard to the respondent sample, research instrument, data collection and researcher analysis.

Firstly, the use of grounded theory as a methodology has its inherent weaknesses. It could be accused of building a series of themes and not progressing to the construction of a ‘theory’, which would be an inherent risk in any inductive methodology (Holt, 2005). The iterative process was compromised by the need to capture data when respondents were available and therefore adequate time for

reflection or analysis was not available. The resultant framework was therefore derived towards the end of the process rather than developed and refined during the process as new data was collected.

The second limitation was the use of a sample of club directors rather than interviewing the entire board. Although all AFL clubs were included in the study, the randomly selected respondents may not be representative of the views of the board in its entirety. It is hoped that this limitation was mitigated through the inclusion of the President or Chair in the respondent sample, due to the influence the Chair has on board culture, values and operations. However, clearly the potential for sample bias exists.

Thirdly, the main data collection instrument, a semi-structured face to face interview, was compromised in six occasions, through administration over the telephone. The interview times were identical, but may have suffered from a lack of rapport, that existed in the majority of the interviews. A further potential limitation was the timing of the interviews which were conducted over a period of twelve months, and the nature of the semi-structured interview, with the provision of deeper probing of issues raised, may have contributed to inconsistencies in the results.

A fourth limitation was the relatively narrow definition of performance and the assumptions underlying both the choice of performance measures and the determination of effectiveness. Although the use of the Balanced Scorecard approach provided for a range of measures, a different set of conclusions may have resulted from different combinations and weightings of performance.

Availability of data constrained the analysis for relative club rankings and necessitated an abbreviation of the possible measures used. The AFL club constitutions were initially sourced but were not forthcoming from all clubs, therefore compromising the comparability of the results. Examination of the constitutions collected showed only the formal boundaries within which there was great operational diversity. As the purpose of the study was to identify actual practice and determine if a benchmark best practice existed, the constitution held little relevance.

The identification of common governance attributes was problematic in that there is interdependency between success and tenure of management and the board. There was no indication whether stability of management and the board lead to effectiveness or the continued success allowed the board and management to remain unchallenged. This was highlighted with reference to the ineffective clubs which had regular turnover of management and directors, presumably due to their lack of success and the need to take corrective action.

Finally, in any qualitative research there is the potential for researcher bias. As stated in chapter five, the researcher sensitivity was derived from business expertise and previous publications on governance, but more significantly from the experience of avidly following an AFL club. While many of the respondents were known to me by reputation, there was no personal knowledge of any of the respondents. In terms of potential prejudices and predilections to my own club, this was perhaps evident in the reverse. There was a tendency to question more closely the responses of those directors and certainly a tendency to be more rigorous in determination of club performance. However, these negative biases were overcome on editing and review. While, this sensitivity was a potential limitation, it was also a strength. The interview process was richer for the shared interest and the researcher's ability to comment on issues of concern to all in the AFL industry.

## **Implications for Further Research**

### **AFL**

The study comprehensively identified a range of governance attributes, and revealed relevant performance measures for the determination of firstly, club performance and then a rating of effectiveness. The data was rich and provided scope for significant further study. Its strength was the detailed and unique insights into the AFL, which was identified in chapter one as the pre-eminent sports league in Australia. There are several areas which were significant in this study which would foster further research into the AFL.

#### **1. Age and Tenure of Directors**



The results indicated that the majority of AFL club directors were over 56 years of age, although it was noted that the highly effective clubs had a slightly younger age profile. The degree to which age influences board performance is worthy of further exploration. Similarly, the highly effective clubs were characterised by stable boards. The results indicated that exactly 50 percent of the respondents had served five years or longer, while 50 percent had served less with 17 respondents serving less than two years. The tenure on highly ineffective boards was considerably less but this is not surprising, at least one club had a board revolution after disastrous on and off field performance. The extent to which tenure drives or impedes performance, and the issue of limited tenure is worthy of further enquiry.

## **2. The use of Sub-Committees**

The extent to which clubs employed sub-committees as part of the board process was an interesting finding. There were indications of mimetic isomorphism in the results but the use of sub-committees provided a diverse number of responses. The reasons for this variation again is worthy of attention.

## **3. Examination of Board Cohesion**

The results yielded several examples of cohesion on club boards however the high level of stated cohesion was not tested. While, it is not surprising that club directors should exhibit such cohesion as the majority share a passion for the club. However, the historical divisions on some boards mitigate this finding and should be further explored.

## **4. The Board's Role in Strategic Planning**

The board's role in strategic planning and the variety of responses in that regard again bear further interest. Although the respondents significantly supported that a fundamental role of the board was setting strategic direction, the diversity of responses on their actual participation in strategy development suggests possible further investigation. This would extend the work of Shilbury (1994) which first explored the use of strategic planning in AFL clubs.

Other areas worthy of further analysis are the relationships between the board and management; further evidence of corporatisation; the extent to which particular skills

are used and sought; compliance and risk management; and ongoing performance rankings. A series of hypothesised relationships between particular governance attributes and performance measures could be constructed and tested. The following examples distilled from respondent comments illustrate this potential.

### **Hypothesis**

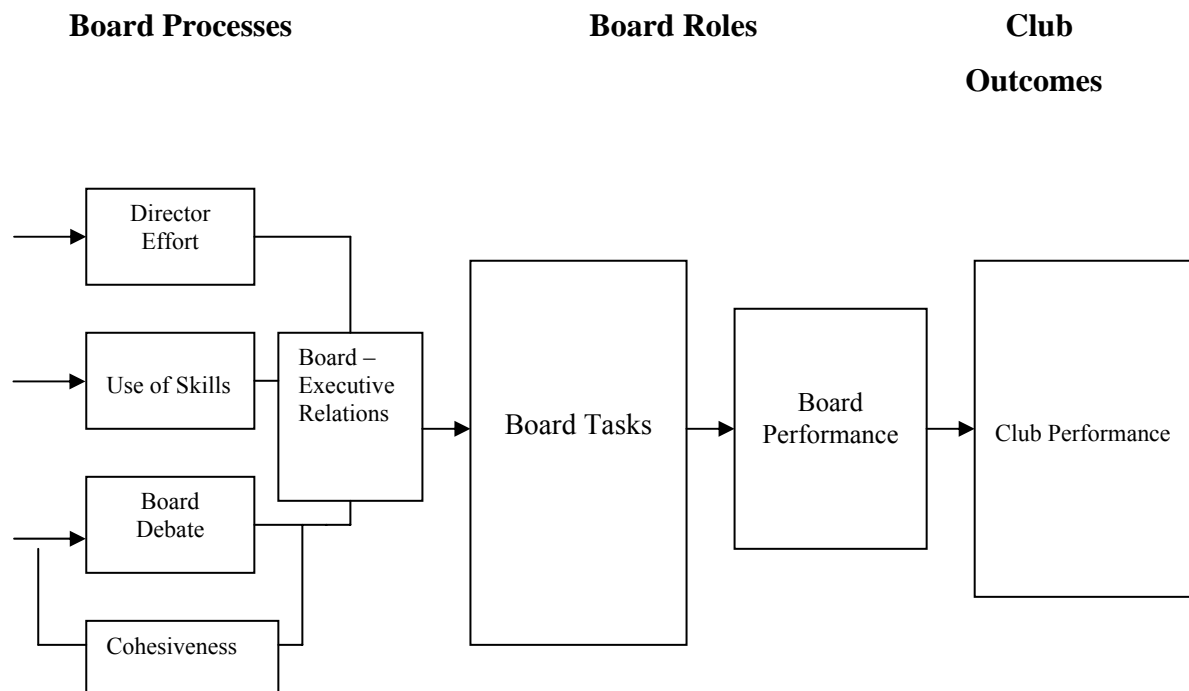
1. Prestige and well connectedness of the board leads to increased sponsorship.
2. Based on the premise that clubs are social centred organisations, member inclusive processes increases member satisfaction
3. Presence of entrepreneurial skills on the board leads to increased non core revenue.

The respondents indicated a trend to board evaluation and this could also prove a fertile ground for further analysis. Several of the board evaluation tools that were reviewed in this study would lend themselves to this analysis. As many of the clubs are in the process of introducing board evaluation processes, this analysis would need to be considered a year or two in the future.

### **Extension of the Governance-Performance Framework**

The governance-performance framework provided a rigorous context for this study and could easily be utilised for the study of other sport organisations. The methodology could be applied to other professional sports, particularly with the introduction of the A League soccer competition. The framework would necessitate however, the ability to obtain the financial information from the sports organisations and may therefore be compromised for clubs that are not required to report their financial results.

The framework itself could be extended to consider the Board-Management relationship and the issue of board performance which were features of much of the literature. A proposed addition to the model is represented below:



**Figure 8.1 Extension to Governance-Performance Framework**

### **Contributions of this study**

This study is significant in several ways. The key contribution is the design of a comprehensive governance-performance framework, building on the work of earlier researchers in the nonprofit area. The framework is robust in that it encompasses the key characteristics of governance identified in the expansive literature review and, as the study has shown can be easily operationalised for future empirical research.

The framework also provided the linkages between governance aspects inherent in the respondents’ comments but which were, at best, only implicitly connected by the respondents themselves. These linkages were powerfully supported by the data as the following statements illustrate.

**The linkage between director selection and board processes (particularly cohesion):**

With regards to board recruitment, Dir<sub>3</sub>Club<sub>10</sub> suggested that “*collectively [the board should] have enough wisdom... good peripheral vision and the ability to steer the entity through bumps*” Dir<sub>2</sub>Club<sub>15</sub> stated that “*You need to recruit directors who have*

*time to participate; there were some directors who had a profile and wanted to do things but did not have time". Dir<sub>4</sub> added "Board debate is measured but robust. I am not sure if pure democracy is good in footy clubs, depends on the intellect and character of the people. Dir<sub>2</sub> stated "the board should be united and agreed on strategic direction, agreeing to take a position of support...the level of analysis is good to great. Board debate is healthy when issues relate to cross discipline." Dir<sub>4</sub>Club<sub>7</sub> stated that the "Election process does not encourage cohesiveness". Dir<sub>2</sub> stated "Looking for people to stimulate and challenge... don't want them to be accepting."*

### **The linkage between board process and board tasks:**

Dir<sub>1</sub>Club<sub>4</sub> stated *"It is different to what I thought it might be. We are focussed on strategic, long term stuff. I thought we would have a lot more discussion on football and operational issues."* The majority of clubs indicated that the first items on the board agenda were the scrutiny of performance reports. Dir<sub>4</sub>Club<sub>3</sub> *"Finance sub-committee meets before the board meeting and makes recommendations to the board"*. Dir<sub>1</sub>Club<sub>5</sub> *"The role of the football sub committee is to report on how footy department is performing, the board advisor who is a member of that sub committee will also give a report"*

### **The linkage between board processes, tasks and performance:**

Dir<sub>3</sub> stated *"the coach submits himself to questioning on tactics and player management"*. Dir<sub>4</sub> indicated *"there is usually a director only session first. This could last anywhere between 15 minutes to one and a half hours to free up discussion on management sensitive issues"* Dir<sub>3</sub>Club<sub>3</sub> comments are representative of the role of the board in driving performance: *"Overseeing direction of the club; developing culture, protect history and integrity; appoint the CEO to manage policy; set strategy – short term, medium term and long term. The role is to develop a transparent methodology and make decisions with participation of key stakeholders including the playing group, sponsors, supporters and support staff. Look at the strategy for the coach – Premiership in three years is part of the business plan, 3 year rolling plan."*

Dir<sub>2</sub>Club<sub>2</sub> stated “*It is not the AWB defence, but the board is only as good as the information they get. Management is responsible for that...Biggest difference between the club and corporation is that there is a staid, understated Chair and the CEO is the face of the company. In a footy club...directors have the love and passion for the club, CEO’s are more transitory.*”

Secondly, this is the first broad-based study of all AFL clubs in terms of their specific board processes, composition, and perceptions of the board function. The directors’ comments in particular provide many insights into the complexity of governance of an AFL club and the continual trade-offs clubs are forced to confront, particularly with respect to the balance between on-field and off-field performance.

Thirdly, this is the first study to provide a comprehensive examination of club performance, utilising many of the measures emerging from the literature. The study used only objectively derived, theoretically informed performance measures available from public sources as an initial benchmark from which to evaluate effectiveness.

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**APPENDIX 1**  
**Letter of Introduction**

**(Please note that this letter is only available in hard copy)**

**APPENDIX 2**  
**Request for Interview**

**(Please note that this Request is only available in hard copy)**



**APPENDIX 3**  
**Club Respondent Data**

**This is only available in hard copy**



## **APPENDIX 4**

### **Respondent Semi-Structured Interview Questionnaire**

<b>Board Member Semi-structured Interview Questionnaire</b>
<p><b>Background:</b> Explain the nature of the research. This is part of a PhD thesis and is attempting to identify governance processes for each AFL club and examine any link between those processes and club performance.</p>
<p><b>Nomination Process:</b></p> <ol style="list-style-type: none"> <li>1. How did you come to be a board member?</li> <li>2. Was there a formal recruitment process?</li> <li>3. Did you have any previous involvement with the club?</li> <li>4. Were you involved in a coterie?</li> <li>5. What is your understanding of the normal board recruitment process?</li> <li>6. How does the club handle independent challenges?</li> <li>7. What is the normal term?</li> <li>8. What particular expertise do you bring to the club?</li> </ol>
<p><b>Board operations:</b></p> <ol style="list-style-type: none"> <li>9. What is the role of the club board?</li> <li>10. What is the role of the CEO?</li> <li>11. Who is the public face of the club?</li> <li>12. Which decisions are routinely considered by the board?</li> <li>13. Describe a normal board agenda?</li> <li>14. Does the board have any committees?</li> <li>15. What is the duration of a board meeting?</li> <li>16. How much time is spent on football?</li> <li>17. How much time do you spend on board matters per week?</li> <li>18. What is the involvement of the board in strategy?</li> <li>19. What involvement if any, does the board have in the football department?</li> </ol>
<p><b>Board Performance:</b></p> <ol style="list-style-type: none"> <li>20. What is the key role of the football club?</li> <li>21. How often do you formally review management performance?</li> <li>22. Do you have performance based compensation?</li> <li>23. In your opinion, what are the features of an effective club board?</li> <li>24. How does the club measure success?</li> <li>25. Do you have any board performance measures in place?</li> <li>26. What is your age?</li> <li>27. Which industry are you involved in.</li> </ol>

In addition, respondents were recorded as to gender, working/retired.

**APPENDIX 5**  
**Respondent Consent Form**

## **Consent Form for Subjects Involved in Research**

### **INFORMATION TO PARTICIPANTS:**

We would like to invite you to be a part of a study into the evaluation of corporate governance processes in the Australian Football League Clubs. This project is attempting to identify the processes undertaken by the directors of football clubs and evaluate if there is any link between the board processes undertaken by each of the clubs and the performance of the football club. There are several aspects to the project. The first is identification of the processes that directors of football clubs undertake. The second aspect is to determine members' definitions of performance. A link will then be drawn between the inputs to performance (board processes) and the outcomes (actual performance). Each club will be evaluated and thus some basis of comparison will result. It is hoped that the results will establish a best practice benchmark for the boards of football clubs. Each club will have a separate code so the clubs will remain anonymous. No names will be quoted in the results of the study as the purpose is to establish common processes within each club and aggregate data will be the focus of the research. All responses will remain confidential and secure.

### **CERTIFICATION BY SUBJECT**

I Dalton Gooding  
Of West Coast Eagles Football Club

certify that I am at least 18 years old\* and that I am voluntarily giving my consent to participate in the study entitled: Corporate Governance in AFL Clubs: A Critical Evaluation

being conducted at Victoria University of Technology by: Julie Foreman

I certify that the objectives of the study, together with any risks and safeguards associated with the procedures listed hereunder to be carried out in the research, have been fully explained to me by:

**Julie Foreman**

and that I freely consent to participation involving the use on me of these procedures.

**Procedures:**

Semi-structured face to face interview.

I certify that I have had the opportunity to have any questions answered and that I understand that I can withdraw from this study at any time and that this withdrawal will not jeopardise me in any way.

I have been informed that the information I provide will be kept confidential.

Signed: ..... }

Witness other than the researcher: } **Date:** .....

.....}

Any queries about your participation in this project may be directed to the researcher (Name: Julie Foreman ph. 9429 0002 ). If you have any queries or complaints about the way you have been treated, you may contact the Secretary, University Human Research Ethics Committee, Victoria University of Technology, PO Box 14428 MCMC, Melbourne, 8001 (telephone no: 03-9688 4710).

**APPENDIX 6**  
**Document Analysis List**

<b>Document Analysis:</b>
The following items were scrutinised for each club:
Annual Report Data for each of five years specifically
Statement of Financial Performance
Statement of Financial Position
Directors' Report
Directors' Meeting Attendance
Notes to the Accounts
Related Parties transactions
The Age, Herald Sun, Australian, West Australian Newspapers from 1996 - 2005
AFL club win/loss/draw statistics 2000 - 2004
AFL Club board agendas

## **APPENDIX 7**

### **Final Codes**



## Final Codes and sub codes

<b>Board Recruitment</b>	How appointed	Invited
		Appointed
		Ticket
		Independent
	Prior involvement	Subcommittee
		Advisory group
		Family
		Past player
		Supporter/coterie
		None
	Nomination Process	Board term
		Election process
		Eligibility
	Expertise	Financial
		Football
		General Business Acumen
		Legal
		Marketing
		Board experience
	Desirable board features	Mix of skills
		Unity
Networks		
Confidentiality		
Robust discussion		
Integrity		
Personal characteristics		
<b>Board Operations</b>	Board Roles	Policy/Direction
		Monitor management
		Protect members' interests
		Appoint key staff
		Raise funds
		Role of CEO
		Public face
		Board meetings
	Duration	
	Attendees	
	Committees	
	Director commitment	Time spent
		Expertise demonstrated

<b>Performance</b>	Role of club	Win premierships
		Part of Member's lives
		Community
	Formal review process	Monthly
		Six monthly/Annual
	Performance based compensation	CEO/coach
		Other staff
	Club success factors	Profits
		Long term sustainability
Premierships		
Finals participation		
Member satisfaction		
Board self evaluation	Formal	
	Informal	
	None	

## **APPENDIX 8**

### **Definition of Performance Measures**

### Definition of Performance Measures:

Measure	Item (s)	Definition of measure	Calculation
Profit Increase	Operating profit	Percentage increase over five years	$(\text{Profit 2004} - \text{Profit 2000}) / \text{Profit 2000}$ .
Revenue Growth	Total revenue	Percentage increase over five years	$(\text{Revenue 2004} - \text{Revenue 2000}) / \text{Revenue 2000}$
Non-core revenue	Non operating revenue	Non operating revenue as a percentage of total revenue	non-operating revenue/total revenue
Fiscal Performance	Profit Index	Five year Average Profit index	Average revenue/average expenses
Revenue efficiency	Total revenue membership	Dollar of revenue per member	Average revenue/average membership
Asset Turnover	Total Revenue Total Assets	Dollar of revenue generated by dollar investment in assets	Average revenue/Average assets
Liquidity	Total Assets Total Liabilities	Dollar of assets per dollar owed	Average assets/average liabilities
Resource efficiency	Operating expenses Games won	Dollar of expense per winning game	Average expenses/Average winning games
Win/loss	Games won Games played	Winning ratio	Total games won (5 years)/total games played
Member satisfaction	Membership	Membership increase over five years	$(\text{Membership 2004} - \text{Membership 2000}) / \text{Membership 2000}$
Finals participation	Finals played	Participation over five years	Number of years in finals Number of finals games played
Net Asset Increase	Total Equity/Member Funds Positive/Negative	Percentage increase over five years	$(\text{Net Assets 2004} - \text{Net Assets 2000}) / \text{Net Assets 2000}$

**Average = simple average over five years.**

**APPENDIX 9**  
**Ethics Approval**

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