

# Back of the Cup

A NEWSLETTER CONCERNING THE BUSINESS OF GOLF

## Special Report – Investigating Club Governance

### Introduction

The membership demand outcomes reported in the 2015 Golf Club National Participation Report saw a continuation of a nearly 20-year decline in membership numbers, a decline that has seen a 21% reduction in club members since the industry's demand peak in 1998. Over this same period, Australia's total population has moved in almost exactly the opposite direction, growing by 25%. No other two statistics better encapsulate nor more quickly frame the challenging environment that golf clubs are currently operating in.

Notwithstanding the importance of determining and acting upon the root cause or causes of this demand trend at the micro level, the ability of golf clubs to develop and effectively implement a sustainable long-term strategy is increasingly crucial for to maximise the chances of surviving and thriving into the modern 21st century world. Given this need, the practices that sit atop delivery of this requirement - effective club governance practices - and the directions and outcomes that flow from it, have never been more important.

As we circulate amongst clubs and in and out of Board rooms across the country, a regular conversation concerning the importance of effective governance to a club's long term success almost invariably always occurs. This discussion often includes the specific debate around the roles of Boards, the roles of sub-committees and the role of the Club manager.

In order to more formally measure and report on what we are hearing, we decided to undertake a market wide study, the outcomes to better inform the current governance realities within clubs around Australia. We invited over 220 Club managers nationally to participate in our research, representing clubs that collectively account for approximately 50% of the total club membership base in Australia. Overall a total of 98 responses were received, one of the strongest we've ever received, with this response rate demonstrating just how much of a hot issue club governance currently is.

It should be noted that in undertaking this research and preparing this report we are not purporting to be club governance experts. There are many technical and legal processes that are key components of governance and these are not our domain.

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What we have become adept at however is reading management and board behaviours, these behaviours giving us great insight into how Boards operate, how decisions are made, how Club manager's report, and the quality of relationships that generally exist. From these traits alone we can tell a lot about how effective its governance practices are, with these traits all being key to the successful implementation of the strategic planning work we do.

In setting up our survey we began with a self-assessment of management skillset, the quality of board member relationships generally held and how cyclical these relationships typically are. The survey then sought to identify the general basis for board member election (full re-election or rotation) and the typical factors/traits that lead to election. Moving through the process and looking to gain an insight into the continuity of decision making, the survey sought to establish whether board member induction processes were common and for those in executive positions, the level of past board experience held.

*"...A key desired outcome from this research was to establish the degree to which board duties and operations management overlapped ..."*

A key desired outcome from this research was to establish the degree to which board duties and operations management overlapped. Survey respondents were asked to identify the current focus of board behaviour (operational focused vs governance focused) and the degree to which general boundaries were respected

This section closed by identifying the degree of empowerment that club managers believe they should be given to deliver certain responsibilities versus the degree of empowerment that is actually provided. The survey then moved into some structural questions, seeking views on sub-committee numbers, frequency of meetings, and their overall role in defining boundaries and shaping club governance. The survey closed with two open ended questions, seeking comments about ways to improve governance practices.

In approaching this research GBAS was very mindful of its audience and a possible perceived skew in opinion. In surveying club managers, it is acknowledged that they offer one of the three potential perspectives on governance, with other perspectives possibly held by board members as well as club members. In offering anonymity in survey responses, we trust an objective view was returned, a view that when reflected upon can collectively improve club governance practices nationally.

We trust that this report and the findings within can help deliver better governance practices at your facility.

## Investigating Club Governance

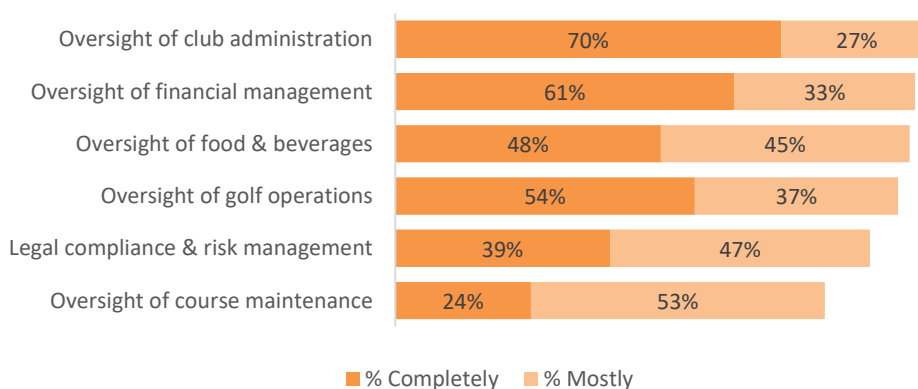
The following areas are addressed in this report:

- Management skillset
- Relationships
- Reasons for election
- Roles and responsibilities
- Direction of Board focus
- Board behaviour
- Board and management overlap
- The role of sub-committees

### Management skillset

In discussing governance and its effectiveness, it can firstly easily assumed that all of the necessary skills are present and it is simply the lack of appreciation or recognition of these skills that is the root of the issue. Whilst a club manager might not like the “over-involvement” of the board in, say financial management, if they readily admit that it isn’t a strength and they aren’t completely capable in that area, then in this case it is not unreasonable to conclude that “over-involvement” could indeed be warranted. In wanting to present a view that reflected skillset, we therefore first asked club managers to assess their own skillset. Like all questions, this was asked anonymously to encourage an honest assessment.

*Thinking about your own skills and knowledge, to what degree do you believe you are able to successfully fulfil the following roles?*



*“...Those with reported stable relationships over the course of their career were more likely to report higher quality existing relationships with the board chairperson and other board members ...”*

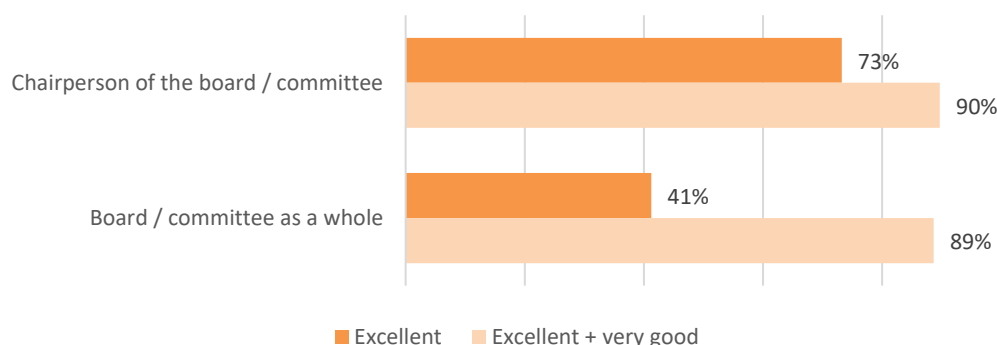
Perhaps not surprising it was found that club managers’ self-assessed strengths lay within overall administration and financial management, with the ability of managers to completely fulfil operational roles reducing to 24% for course maintenance. With legal compliance and risk management an increasing management responsibility, less than 50% stated that they had complete ability in this area.

## Relationships

Strong relationships between individuals are required for effective governance in any environment, and where movement in and out of the board room is reasonably regular, this is perhaps of even greater importance. In terms of the general relationship currently evident between the General Manager and the board, survey respondents indicated a positive view.

Nine out of 10 respondents indicated that their relationship with the chairperson of the board / committee was either excellent or good, while 90% indicated as such for the board / committee as a whole. A greater share of relationships with the chairperson were reported to be excellent compared to the board / committee as a whole.

*On a personal level, how would you rate your working relationship with the....*



In all cases, the quality of the relationships held had clear correlations to the degree of cyclicity reported. Those with reported stable relationships over the course of their career were more likely to report higher quality existing relationships with the board chairperson and other board members.

Adding the election cycle to this analysis, contrary to what may have been expected, the overall quality of relationships are reported to be no different regardless of whether a rotation system or a full re-election system is in place. From the club manager's relationship perspective, it would appear that it pays to keep your eye on the future, being a good politician along the way.

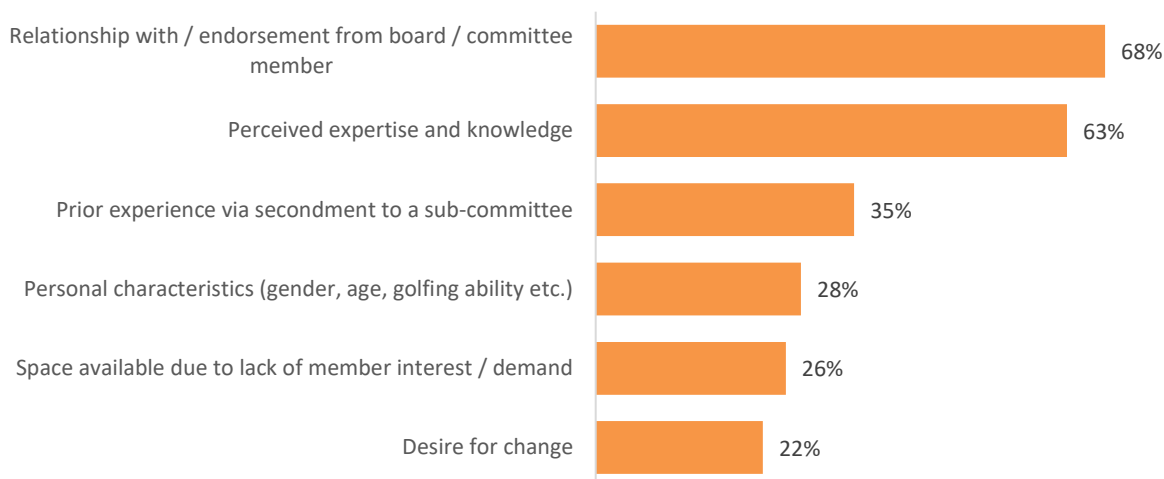
*"...Regardless of the reason for election, effective governance practices will be determined by way of their action (or inaction) and skillset..."*

## Why are the Directors the Directors?

Whilst corporate law sits above many local decisions, in club land, given the democratic principles that typically define their charter (and the increasing gender equality of all from a membership perspective), access to club board rooms typically have little restriction.

Our survey therefore sought to understand why the decision makers become the decision makers.

*What, in your view, are the main factors that lead to members from your club being elected to join the board / committee?*



It was found that existing relationships matter, along with perceived expertise and knowledge. For less than half of respondents, experience on a sub-committee was considered to be a main factor in a board member being elected, which is seen as a possible strategy that can be utilised to expose members to board functions prior to their election to the full board. In specifically probing prior experience for the executive officers, it was found that in most cases just over half had prior experience in a non-executive role. Approximately one in ten had no prior experience at all.

In a time where robust debate is required, what we don't know is whether the relationship / endorsement / expertise / knowledge is welcomed to challenge existing thinking and to generate robust debate or to ensure current thinking is continued to be supported without challenge. Regardless of the reason for election, or the level of prior experience had, effective governance practices will still be determined by way of their action (or inaction) and skillset.

In summary, whilst there will always therefore likely be a mix of reasons for board members being elected, the real challenge is to define and manage their focus.

## Director Roles and Responsibilities

As background to this challenge and elected responsibilities, we sought to first understand what formal processes were in place that outlined the requirements and expectations of a board role. Interestingly, most of this education currently comes after the election process.

Just under 40% of respondents indicated that they had some type of formal pre-election induction process that sets out the roles, expectations and legal responsibilities of board / committee members. For the 60% that didn't, this is almost akin to getting a job and then being told what it is that you actually have to do.

That said, only 70% stated that they have a formal post-election induction process for new board members. For the 30% that don't (assuming they don't have a pre-

*"...Whilst there will always therefore likely be a mix of reasons for board members being elected, the real challenge is to define and manage their focus..."*



election process) this is akin to being told that you you’ve just been given a job but it is up to you to find out what it is and then what you need to do.



As backup to these processes, approximately 70% reported having a policy manual in place.

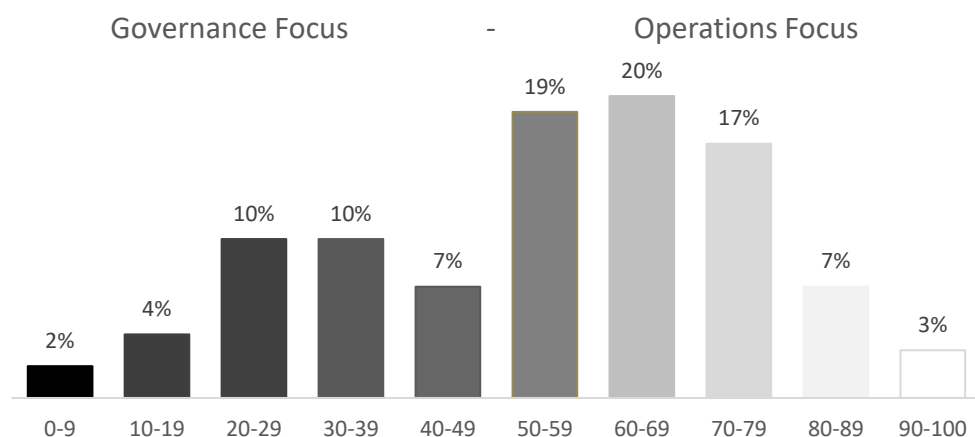
## What’s the Focus?

The key issue that we are generally seeing and hearing about from a governance perspective in the current environment is whether the behavioural mindset is governance orientated strategic governance or a management orientated mindset.

To understand where it is that these two views are meeting, using a scale of 0 to 100, respondents were asked to identify what mindset their board’s actions typically reflected. 0 equalled a governance-focused committee, where focus was purely on strategic issues with (potentially) long term implications. At the other end of the scale 100 equalled a management committee, where focus was on operational issues with both short and long term implications.

With a median score outcome of 54, we found that there is currently a slight lean towards a more operational focus for boards Whilst one in five clubs reported a score that reflected the presence of a strong governance mindset (0 to 30), one in four reported a strong operational mindset (70 to 100) with a further 20% between 60 & 70, as illustrated below.

*“...Where there is no black and white, then there is grey. This is where confusion can occur in terms of where the boundaries are and to what extent boards and management are expected to be involved in certain decisions. ...”*

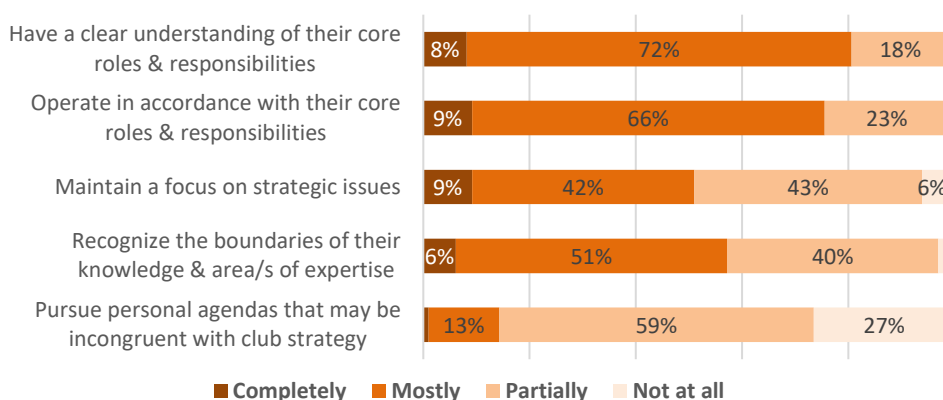


Whilst grey is the mid-point, it shouldn't automatically be seen as a poor place to be. Being there however requires clarity in decision making and understanding respective roles and responsibilities. Where this is lacking confusion can occur in terms of where the boundaries are and to what extent boards and management are expected to be involved in certain decisions. As one club manager recently commented to me, "...I don't mind what they are, just as long as they tell me and don't pass the buck when convenient..."

## What Behaviour is Evident?

In probing the higher level intent of board members, we asked a question concerning general behaviour. Firstly, we found that there is general consensus that for the most part, board members do understand their roles and operate in accordance with them.

*In your opinion, to what degree do (members of) the Board / Committee at your club...*



What we found is generally the weakness in behaviour exists is an inability to maintain focus on strategic issues, recognising knowledge boundaries and pursuing perceived personal agendas. A strong, often referenced plan, supported by a strong chairperson and well set out agenda will help improve these weaknesses.

## Where are Boards and Management Overlapping?

With a lean towards operational thinking, there must therefore be an overlap in board and management actions. So where is it?

In establishing where this overlap may exist, it must be first acknowledged that the structure of golf clubs and the tasks that need to be undertaken require a close working relationship between boards and management. At some clubs, given restrictions on the level of internal resourcing available, there can be operational duties required of board members. Whilst a need, these duties also help to enhance member comradery, relationships and assist in the development of club culture.

At well-resourced clubs, these duties may be limited to peripheral tasks such as assisting with the management of club representative teams or overseeing competition prize announcements whilst for less well-resourced clubs, board

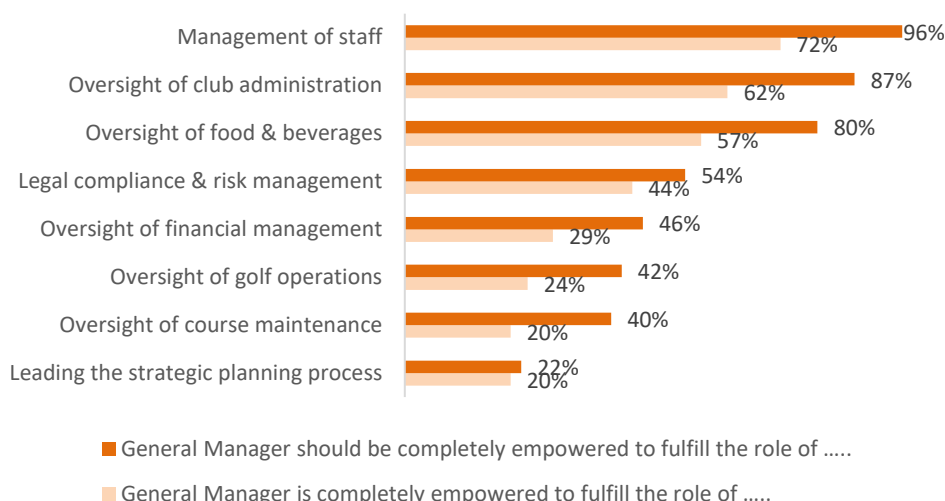
*"...As these requirements will likely always exist, a clear process, establishing roles and responsibilities, with clearly defined boundaries will help guide behaviour ..."*

members may be required to deliver more administrative duties such as day-to-day financial management and competition processing. As these requirements will likely always exist, a clear process, establishing roles and responsibilities, with clearly defined boundaries will help guide behaviour in these instances.

In an attempt to answer this question, the survey asked Club Managers to what degree they should be empowered to oversee a number of aspects of club management. Any degree to which they feel they should not empowered effectively identifies the level/amount of desired Board input in these areas.

In the graph below, reflecting self-assessed skillsets, we illustrate the degree to which club managers believe they should be fully empowered to fulfil the designated tasks and the degree to which they believe they actually are fully empowered.

*“...What we find is an average overlap of 20% in operational areas ...”*



What we find is an average overlap (or decreased empowerment) of 20% in operational areas, with less overlap evident in legal compliance processes and leadership of the strategic planning process.

This graph is sorted in order of desired empowerment to management. Were Club managers to ask Board members to take a step back, this is the order in which they'd ask.

## The Role of Sub-committees

In our discussions with Club managers, it had been suggested that the way that sub-committees function may help to explain why some club boards can't help but adopt an operational focus.

Sub-committees are by nature a forum where more micro, operational issues are brought to the attention of club management, often by sub-committee members who are also members of the Board. If board members are required to continue to have some level of involvement in operational issues, it can't be a surprise for these operational discussions to easily find their way into the board meeting forum.



Seeking to test this view, survey respondents were firstly asked to identify how many sub-committees they have, their view on this number and how often they meet monthly.

Across all responding clubs, the average number of sub-committees reported was 5.3, generating an average of 6 meetings per month.

*“...Clubs that reported that they had too many sub-committees didn’t generally report that there was a tendency towards more of a management committee focus by boards ...”*

When asked whether the club has too many sub-committees, the responses were somewhat correlated to the number of sub-committees reported. For clubs with five or less sub-committees in operation, 84% of respondents believed that the number of sub-committees is ‘about right’. However for clubs with more than five sub-committees, this ‘about right’ score dropped to 38%.

View on # Sub-committees	Number of Sub-committees			Total
	Less than 3	3 to 5	More than 5	
The number of sub-committees we have is about right	86%	73%	38%	60%
We have too many sub-committees	0%	28%	59%	37%
We have too few sub-committees	14%	0%	3%	3%

Given this view, is there a link between the number of sub-committees present and the way in which a Board functions?

Clubs that reported that they had too many sub-committees didn’t generally report that there was a tendency towards more of a management committee focus by boards. Those that reported too few sub-committees also didn’t indicate that there was more of a governance driven approach by Boards.

If it is not necessarily the number of absolute sub-committees that exist, nor the frequency of meetings held that influence the direction of the lean (i.e. governance or management focus), could it just be Club management’s view of the role they think sub-committees generally play?

Looking for insight around this, respondents were asked to indicate their view regarding the general role that sub-committees play.

At the bottom end of the scale used (0 to 100) was the view that sub-committees fulfil a vital role of bringing operational issues to the attention of management, and the time spent discussing such issues constitutes an important function of the Board.

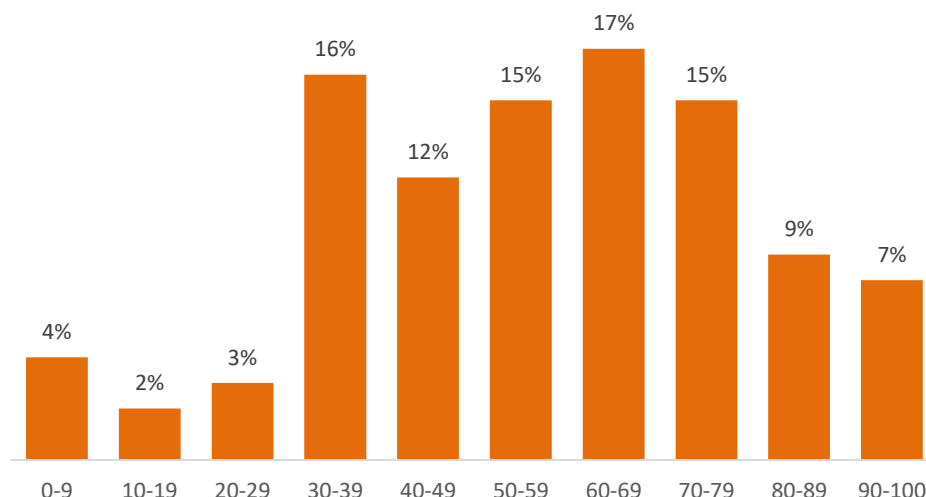
At the other end of the scale the counter view was presented, that being that the presence of sub-committees serves to focus the attention of the Board on short-term, operational issues and thus diverts attention away from important strategic issues with long-term implications.

With a median score outcome of 57 recorded, there was a slight lean to the latter statement as illustrated in the distribution of scores below.

*Sub-committees fulfil a vital role of bringing operational issues to the attention of management, and the time spent discussing such issues constitutes an important function of the board / committee.*

*Sub-committees serve to focus the attention of the board / committee on short-term, operational issues and thus diverts attention away from important strategic issues with long-term implications.*

*"...it would appear that the issue at hand regarding sub-committees is how to appropriately deal with the outcomes that flow from them, not just the number that exist, nor their meeting frequency"*



Only 10% of respondents reported a score that strongly supported (0-30) the left side statement above. 30% (70-100) held an equally strong, opposite view supporting the right side statement.

If we assume that this view is held because of actual realities being experienced, then it would appear that the issue at hand regarding sub-committees is how to appropriately deal with the outcomes that flow from them, not just the number that exist, nor their meeting frequency.

## Conclusions

Current industry realities would suggest that there is a heightened need for those in charge of club governance to steer their clubs in a direction that optimizes future club performance. In this report we have outlined the self-assessed skillset that is present within club management. Greater strength is evident in overall administration and financial management, with less strength evident in legal compliance/risk management and oversight of course maintenance practices.

Relationships between club managers and boards were found to be generally very good. Perhaps surprisingly, we found that the quality of relationships held are reported to be no different regardless of whether a rotation system is in place or a full re-election system is in place. If there is an issue in this area, this response suggests that it is the people involved, not the process of how they got there, that is most relevant.

Given the level of democracy and access to the boardroom that exists, getting into these roles typically comes through existing relationships and perceived expertise and knowledge. In this regard our survey found that there is quite possibly a lack of

advanced knowledge and under-preparedness regarding the requirements and expectations of a board role, with most education currently coming after the election process. For some there is no education process other than learning on the job.

In framing this research, we sought to understand where board thinking and actions currently sit. Is the mindset purely strategic governance or is it purely management orientated? We found that there is currently a slight lean towards a more operational focus than a strategic focus for club boards. Whilst we found that there is general consensus that, for the most part, boards do understand their roles and operate in accordance with them, the main weakness evident is an inability to maintain a constant enough focus on the right issues, recognising knowledge boundaries and pursuing personal agendas along the way. This weakness helps to explain the 'operational lean' currently evident in board actions.

How great is this lean? We found that an average overlap (or decreased empowerment) of 20% exists. Were club managers to ask board members to take a step back, the priority areas would staff management, club administration and food and beverage operations. Conversely, board input into leading the strategic planning process is highly welcomed.

Does the presence and role of sub-committees help to explain why some club boards can't help but adopt an operational focus? There was no clear correlation between this view (and the number of sub-committees present) and the degree of operational focus taken by the board / committee. It appears then that the management challenge is how to appropriately deal with the outcomes that flow from sub-committees, allowing boards to remain strategic in their thinking.

In closing, we note one comment received in the survey. *"...Golf clubs can be emotional places with lots of activity and varying opinions and it is a difficult task to keep Committee/Board members purely focused on strategic issues..."*

The statement perhaps best frames the club corporate governance challenge that exists. Whilst emotion can be hard to avoid, the challenge is to set that apart from good, robust and well referenced planning to ensure that it doesn't get in the way of good decision making.

In shaping this desired outcome, whilst club managers can't control the election process, nor can they select the people, they can learn to develop good relationships, they can pro-actively communicate (educate), they can become more skilled, they can become more referenced, they can push to enhance election processes and by way of their actions, they can prove capability.

In demonstrating capability, delineation of and harmony between management and board responsibilities should be achievable, enhancing the governance practices and club outcomes that follow.

*"...Were club managers to ask board members to take a step back, the priority areas would staff management, club administration and food and beverage operations..."*

## Respondent comments

We received a number of comments about how governance can be improved. Many comments proposed more active recruitment of people deemed appropriate with others noting/promoting the need for formal governance training.

Outlined below are some of these comments received and ideas provided.

*A strong educational introduction is required and ideally candidates should be identified and encouraged to contribute, initially via an area of specific expertise on a sub-committee for example. The strength of the sub-committees is crucial to allowing an effective board to focus on the strategic and governance imperatives.*

*Develop self-assessment tools for boards to grade and benchmark their own performance, with an annual performance review of effectiveness.*

*An executive led by the GM (including Treasurer / President / Captain) shortlist a number of people whom they feel have the skills to be selected for the board and speak to them individually prior to their nominations being completed. The same principal above can also be used to facilitate the governance side of the Club.*

*Descriptions of responsibilities and roles of directors presented prior to election time would be beneficial - many directors achieve Board positions without full understanding of the implications / requirements of being a director even if it is a NFP golf club. Expertise and knowledge base and also level of Director engagement impacts on the outcomes of Board meetings. External facilitated governance training / evaluation would be useful for the Board at the commencement of each rotation and also mid-term to assess effectiveness. Governance still presents a hurdle due to lack Board member interest or awareness.*

*It is imperative that a club has a strong & well communicated Director (pre-nomination) process. Where appropriate a meeting should occur between the Director Candidate, Chairperson & CEO/GM. The said meeting is not about ensuring mutual alignment of thinking, but more about ensuring appropriate disclosures occur, understanding of key objectives exist & operational workings are known.*

*While you don't want to influence the voting area it's worth encouraging members with skills and personality types suitable to the Board to consider nomination. The best thing we have done in recent years is the new board members induction. It's an eye-opener for them and helps build a good relationship with them from the start.*

*Directors should and generally do provide important and timely feedback about operational matters but pandering to issues at the expense of achieving the longer term strategic objective is counter-productive. I strongly advocate for a smaller Board and more expansive/inclusive sub-committees which are not dominated by Directors. Committees also only meet when there is something to meet about. The usual necessities of a clear agenda for discussions and preparation is to be encouraged. I am not an advocate for raising important matters in general business with the expectation of a resolution there and then, this is lazy and leads to ill informed decision making.*

*It is pleasing to see the industry focusing on this issue. It could and should be expanded further into the general management level to identify in a broad sense (and perhaps even specifically) the skill gaps that exist at a senior management level which in turn will focus the training and development program for the industry. This is particularly the case as it appears that a number of new appointments are made directly from lower levels within the industry where the depth and breadth of skills and knowledge may not have been developed sufficiently eg finance and accounting qualifications.*

## About Golf Business Advisory Services (GBAS)



Jeff Blunden  
Managing Director of GBAS

Golf Business Advisory Services (GBAS) is a specialist independent advisory company providing dedicated, professional advice around the business of golf within the Asia Pacific region. Offering unrivalled experience and industry insight, our approach is grounded in research with a belief that data analysis always reveals the insights required to drive your business.

With unrivalled depth and breadth of experience, GBAS has serviced an enviable and broad client base over the past 15 years, with completed engagements spanning the full spectrum of the industry.

Specialist services offered by GBAS include:

- Strategic planning
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- Board presentations
- Consumer and market research
- Feasibility studies
- Asset oversight
- Due diligence
- Asset valuation
- Expert witness services

If you have a need in the golf industry GBAS is able to provide you with all of the necessary knowledge and experience required to help ensure you achieve your goals.

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