



Australian Government
Australian Sports Commission

Governance Reform in Sport

June 2016

Introduction

The Australian Sports Commission (ASC) has recently completed an extensive national consultation and feedback process on next generation governance reform in Australian sport. Feedback was provided by both national (NSOs) and state sporting organisations (SSOs), State Department of Sports and Recreation (SDSRs) and other interested parties in the sport sector.

In total, almost 600 people attended forums around Australia, representing 235 sporting organisations and 31 other sports bodies. An additional 32 written submissions were received. The ASC found this process most valuable, providing “grass roots” perspectives on governance reform. The Commission thanks all participants for their involvement and contribution.

The ASC understands that the success and sustainability of Australian sport is based on a multi-level system, with the sport providers (NSOs, SSOs, associations and clubs) needing to work closely with all three tiers of Government for funding and facility development, as well as the private sector.

The more aligned these groups are, the better the outcome for Australian sport.

Next generation reform builds on the extensive governance improvement in Australian sport that has been led by the ASC over the past three years. Pleasingly, the cause of governance improvement has been embraced by sports and is already producing dividends for many. In some sports, this is already evident in their competitive and commercial performances.

These reforms have included changes to align sports with governance best practice in areas such as:

- Board chair elected by the Board not the members;
- performance evaluation processes for Boards;
- corporate rather than association structures;
- establishment of key Board committees including nominations, audit and risk;
- Board diversity and skill mix.

The ASC is strongly committed to continuing to lead the governance reform process for the future benefit of Australian sport.

Changing environment

The need for ongoing governance improvement is best considered in the context of the social, commercial and financial environment facing many sports today, namely:

- the growing importance of integrity, safety and duty of care responsibilities;
- increasingly lucrative commercial broadcast and media deals for the larger professional sports, which are placing smaller sports at a growing competitive disadvantage in the sports marketplace;
- a challenging and highly competitive sports sponsorship market, causing sponsors to focus increasingly on those sports with large broadcast audiences; and
- national economic pressures which mean that sports cannot rely on increased Government funding to bridge the revenue gap to remain competitive.

The ASC believes good governance, while not solely determinative of performance, is a key factor in the medium term success of sports. Good governance does not in itself guarantee success on the sports field, but its absence almost certainly guarantees failure.

The ASC also has a responsibility to the Australian public to ensure that sports organisations, which receive c\$120 million per year of taxpayer funding in the form of direct financial assistance grants from the ASC, comply with contemporary best practice governance standards. This is not a negotiable obligation.

The ASC notes that the State and Territory Departments of Sport and Recreation, which similarly provide extensive funding for Australian sport, also support continuous governance reform across the whole sports system in Australia.

Key themes to emerge

The ASC distributed a “white paper” for discussion in mid-2015 to promote debate on how Australian sport can continue to grow and succeed through ongoing governance reform.

The white paper concentrated on three areas for discussion:

- Voting structures and appropriately delineated roles of members, Boards and management;
- How the collection of member registration fees is best managed; and
- The need for sports to continuously evolve their governance for improved performance.

The objectives of these proposals were in essence:

- improving sports’ alignment and cohesion;
- improving sports’ revenue potential and efficient use of limited resources;
- clearly delineating the roles and responsibilities of the Board, to enable Boards to provide strategic leadership and direction;
- building trust in the system by creating voting procedures that provide a balance between the rights of the majority and the minority.

The ASC has listened closely to sector feedback on these proposals and considered it carefully in the context of its objectives in continuing governance reform.

It offers the following observations on this feedback.

Firstly, the consultation process underscored the passionate commitment of so many volunteers at the community level throughout Australia to the success of their local sports organisations. Australia is well served by its army of volunteers in local sport - in clubs, community and state organisations - which provides the critical foundation for sports’ success at the grass roots level. It is imperative that the search for improvement and national cohesion never causes sport to lose this vital connection with volunteers and local communities.

In this context, the ASC also accepts and understands that many investment and management decisions are best made by those closest to local communities and their sports, who have the clearest understanding of local needs, and who face the natural discipline of local accountability.

It is also clear to the ASC that many Australian sports are held back today from realising their full potential by a lack of trust between key stakeholders. Sometimes this manifests itself in a lack of trust between the national Board and state Boards, sometimes it is between state Boards themselves. Trust cannot be mandated by an external party in documentary governance principles, it has to be built and earned over time by behaviours between stakeholders in a sport; particularly by the demonstration, and receipt in return, of respect.

It is true, however, that organisational structures and governance processes can enhance or diminish trust.

Governance processes that are most conducive to building trust were a core objective of the ASC white paper.

Processes that give small states comfort that they cannot be marginalised in a national entity by larger states using the absolute power of a majority.

Processes that give all parties comfort that the reasonable will of the majority and the collective organisation cannot be frustrated by one or two jurisdictions exercising minority veto powers unreasonably and/or excessively.

Processes that empower national Boards to provide strategic leadership and which allow managements to get on with the job of running day to day operations and implement Board directed strategy, but which also respect and preserve the fundamental legal rights of the organisation’s members/owners.

Trust can also be damaged, and sub-optimal outcomes arise, by uncoordinated and competitive commercial tendering processes within a sport. In some sponsorship areas, the optimal outcome will be obtained by local organisations securing their own sponsors based on local commercial appeal. In many others - usually those with the largest dollar value associated with them - the best outcome will be obtained by the sport working together to offer sponsors a single whole-of-sport commercial product. At the ASC public forums, a strong practical example was provided; one sport with 93 different sponsorship agreements across 33 categories, including six separate agreements with one organisation alone, is likely to be leaving money on the table.

Continual governance improvement

Building trust and national cohesion, while improving sports' commercial and financial positions, are key objectives of the next stage of governance reform led by the ASC.

The ASC considers that these objectives can be achieved in a manner consistent with sector feedback in the consultation process by focusing on *behaviours, processes and supporting systems* that create *strong alignment and common interest*.

Generally aligned behaviours offer a substantial prospective dividend for sports, without the upheaval that would arise from mandated structural change such as the collapse of federated structures into unitary structures.

The Commission is proposing therefore that all sports now work towards adopting "unified whole-of-sport" aligned behaviours. A unified approach does not require change in organisational structure. However, it does require leaders within sports to demonstrate cohesive behaviours for the common good of the sport nationally, that are likely to enhance outcomes in the overall interest of the sport.

A key aim of a unified approach within each sport is to increase the trust and confidence across all levels of the sport from the NSO and SSO to associations and clubs. This can only be achieved if there are communication protocols established by each sport to ensure there is transparency and respect for all groups involved in the sport.

Key aligned behaviours of a unified approach include:

- **Strategy:** Whole-of-sport strategic plans with a common set of goals that are endorsed by all members and which provide for the sport to work towards the achievement of these goals in an effective, efficient and coordinated way. These plans should cover all areas from community participation to high performance, and provide flexibility for state member plans to address relevant local issues. The plans will ensure there are clear roles and responsibilities across the management of the whole sport, and will be responsive to both national and local needs;
- **Commercial:** Consistency in branding and commercial offerings within each sport, which will support commercial agreements allowing sports to negotiate and manage strategic assets more effectively. This will provide for certain protected sponsorship categories to be managed and offered for sale nationally, with transparency of benefits and service costs clear to all stakeholders and safeguards that state organisations will not be worse off as a result of this nationally aligned approach;
- **Financial management:** Nationally aligned financial systems whereby sports produce consolidated annual financial reports and which allow simpler and more transparent assessments of the performance and sustainability of the whole of the sport;
- **Digital and IT:** Digital alignment and data sharing to create aligned collection, management and analysis of data on a common database; and
- **Staff:** A consistent approach to workforce management leading to well-resourced people management systems providing greater opportunity to attract, retain and develop excellent staff for the sports.

A more detailed description of the key characteristics of a unified approach to aligned behaviours is provided in **Attachment A**, which also includes examples of sports that have successfully implemented each aligned behaviour.

The ASC position on this is therefore:

Sports adopt unified whole-of-sport, aligned behaviours, irrespective of their governance structure, which include aligned strategic plans that contain the key objectives of the national plan and flexibility for state plans to address local issues, whole-of-sport financial reporting, development of integrated national databases, a consistent approach to workforce management and coordinated sponsorship offerings that maximise benefits for the sport including providing opportunities for key categories to be leveraged on a national basis.

National Financial Management Agreements

A key behavioural characteristic of national financial agreements is the adoption of aligned financial management systems, which should provide a whole-of-sport financial overview of each sport.

A number of sports have further developed their financial systems so that the collection of membership fees can be managed at a single point, which is coordinated at the national level. Technology now allows these fees to be easily and immediately distributed back to states, leagues, associations and clubs.

The financial agreements can be established to ensure appropriate safeguards for states to guarantee preservation and growth of their existing income streams. These agreements can benefit sports as a whole by reducing the costs of collecting fees, while building trust, national behaviours and a sense of common purpose. They are most relevant to sports that do not enjoy significant broadcast or sponsorship revenue streams. They are welcomed by the ASC and considered best practice. Again, they do not require a change in the legal structure of sports organisations.

The ASC position on this is therefore:

Sports work towards integrated national financial management arrangements and establish a path for their implementation within a reasonable time frame.

Voting rights

Feedback clearly identified there is a need to allow some flexibility for sports to adopt voting rights procedures suited to the individual characteristics of the sport. The ASC agrees with this.

There was general support for members' voting rights to be concentrated on key decisions such as: Board positions; changes to the constitution; significant changes to the core business of the organisation; and 'usual' business conducted at the AGM. This ensures, consistent with governance best practice as supported by the ASX and AICD, where applicable, that Boards and management are entrusted with the appropriate powers to provide strategic leadership to the organisation and manage it on behalf of the owners. The proper governance control for shareholders in an organisation they believe to be heading in the wrong direction is to change the Board.

As for voting systems, the ASC considers in general that 'one-member, one-vote' is the fairest and simplest system, but this may not reflect the membership in some cases. The system adopted by Rowing in 2013 is an example of how a sport can balance the contribution of members with an equitable recognition of voting rights. The structure, although proportional, does not allow a small minority of members to hold the voting power for the entire sport and so creates a fairer whole-of-sport decision making process.

The ASC understands that there will need to be some flexibility in how each sport finalises their voting rights based on issues such as their unique culture, membership distribution, business dynamic, growth potential, international structure, scale and sophistication.

However, all sports would be expected to maximise the fairness of their voting systems and ensure members' voting rights are concentrated on strategic governance, not management issues.

The ASC's position on this is therefore:

To broaden the current governance principles to address voting structures and rights of members, including:

- *concentrating members' voting rights on key issues and decisions such as Board positions; changes to the constitution; significant changes to the core business of the NSO; and 'usual business' conducted at the AGM; and*
- *implementing voting systems whereby a minority of members are unable to vote together to create a majority of votes in a poll.*

Conclusion

Many Australian sports today are making excellent improvements in their governance processes and are commended by ASC for this.

While this is the case, the ASC believes there is still a significant and important opportunity for further improvement for the long term benefit of their sports.

The ASC has identified in this paper a number of actions it believes sports should take to create better aligned organisations at national, state and (ultimately) club levels. This will result in sports adopting a unified approach based on a series of aligned behaviours, that are not dependent on specific governance structures of the sport.

By moving to a unified approach, sports will be able to address much of the misalignment present within the sector today and improve commercial outcomes. Most importantly in the long term, the ASC believes it will improve transparency and trust within sports. The ASC believes there is a high degree of willingness within the sector to pursue such an approach.

The ASC also supports the development of fair voting systems that provide fair representation and reflects the overall memberships of the sports.

The implementation of unified, aligned behaviours and fair voting systems should be implemented on a sport by sport basis to provide each sport with the time and support needed to establish the changes.

The ASC will engage with the sector and its partners to provide further detailed direction, through publications of expectations for sports in relation to achieving these governance reforms, including a timetable for adoption. The ASC will commence work initially with key Olympic and Commonwealth Games sports to support them adopting the changes. Others sports will also be encouraged to begin work on the changes with formal implementation to be finalised in time.

The ASC wishes to thank all who contributed to the consultation process. Once again, it has demonstrated clearly the dedication and passionate commitment of so many in the Australian sports sector, especially unpaid volunteers, to the continued success of Australian sport.

Attachment A

Alignment Behaviours	What does success look like?	How do sports get there?	Who is doing it well?
Strategy	<ul style="list-style-type: none"> Strategic plans for the whole sport that contain the key objectives of the national plan, with flexibility for state plans to address local emphases and needs. All parties with clear roles and responsibilities being accountable against the plan. Regular evaluation, monitoring and reporting to all parties on the performance against the plan. Partnership approach to stakeholder relationships, including across the three tiers of Government. 	<ul style="list-style-type: none"> Whole-of-sport engagement through planning process. NSO and all Members sign off on whole of sport strategy. Commitment to improve governance across all levels of the sport. Agreement to resourcing imperatives with all parties involved in the sport. 	Swimming Australia , is operating with an aligned strategy across, high performance, participation and commercial operations throughout their federated structure.
Commercial	<ul style="list-style-type: none"> Branding consistency across the sports. Agreed collective asset exploitation programs that provide opportunities for some sponsorship categories to be leveraged nationally. Shared financial outcomes, with an underlying principle states can be no worse off. Brand integrity in the marketplace for the sport with agreed sub-brands for products. Transparency in the rights and obligations to the sport, including costs and benefits of all commercial arrangements. 	<ul style="list-style-type: none"> Audit of commercial assets across the sport. Audit of existing agreements across the sport. Development of an overarching commercial framework identifying whole-of-sport properties with exclusivity, and other properties states can sell in line with the framework. 	Netball Australia has been able to create a commercial framework for the entire sport. This framework involves bundling local, state and national assets into a consolidated commercial strategy enabling the sport to leverage these assets, maximising the value for brands and the entire sport.
Financial Management	<ul style="list-style-type: none"> National aligned financial systems that allow a whole-of-sport financial overview of the sport, to support transparency, viability and sustainability assessments of the sport. Alignment of financial years, forecasting and budget performance reporting. Shared financial resources and systems. 	<ul style="list-style-type: none"> Implementation plan developed to transition the sport towards a nationally aligned financial system. Potential development of consolidated financial accounts showing the position of the whole-of-sport. Alignment of financial years, forecasting and budget performance reporting and analysis. 	Triathlon Australia has implemented a financial management framework which enables financial collaboration between national and state entities. This framework enables the entire sport to operate on the same system, generate consolidated reports and target financial investment into aligned objectives.
Digital and IT	<ul style="list-style-type: none"> Integrated national database of all sport participants, including active and passive participants, competing and recreational members, officials and volunteers, to inform strategy development and service provision. Common platforms, database, and decision rights through supporting MoUs. Aligned collection, distribution and analysis of data. 	<ul style="list-style-type: none"> Development of a whole-of-sport digital and IT strategy. Identification of preferred platforms, and migration onto these platforms. MoU developed for NSO to manage systems for states. Creation of protocols on access to the database within the sport, including agreements on who can contact database members 	Tennis Australia has undertaken a detailed process to realign its digital systems to both create greater efficiencies for the sport and enable it to leverage the many new technologies across the business including marketing, publication, aggregation, data sharing and fan engagement.
Staff	<ul style="list-style-type: none"> A consistent people management system with shared processes and policies providing an aligned workforce. 	<ul style="list-style-type: none"> Assessment of current HR systems (including leave management, payroll etc.) and policies across the sport. Identification of preferred system and policies, which are then agreed to across the sport. Alignment of all roles (and associated responsibilities) across the sport to the whole-of-sport strategic plan. 	Golf and Sailing have addressed operational inefficiencies by building a framework that will be consistent in the recruitment, retention and development of people as well implementing coordinated underlying support systems and policies across their entire sports.

