CORPORATE GOVERNANCE ISSUES IN A PROFESSIONAL SPORT

AUTHOR: JULIE A. FOREMAN

AFFILIATION: School of Business, Swinburne University of Technology
John Street, Hawthorn, 3122, Victoria, Australia.
PHONE: + 61 3 9214 8461 EMAIL: jforeman@swin.edu.au
ABSTRACT

Corporate governance has been receiving global interest in the business world with the publication of several authoritative statements of governance principles. The term refers to the relationship between the board, management and owners. Australian professional sporting organisations are companies subject to Australian Company Law and as such share many of the requirements for good corporate governance. Consideration of governance in sport can be justified due to the increasing levels of corporatisation of sport and the complex issues surrounding ownership. The paper undertakes a detailed discussion of the Australian Football League clubs’ governance issues and consideration is made of the appropriate corporate governance model by which to evaluate the effectiveness of that governance. Stakeholder theory is seen as a viable framework for analysis and a hypothetical stakeholder map for an AFL club is constructed.

Key words: corporate governance; sport; AFL; stakeholder theory.
INTRODUCTION

The Australian Sports Business

The sports industry in Australia is big business. The industry in total contributes $7.9 billion to the Australian economy and generates employment for 95,000 people. Including an imputed value for the volunteer contribution to sport of $1.6 billion, the industry ranks with the financial services, transport and defence in importance to Australian Gross Domestic Product (GDP) (Confederation of Australian Sport, 1999). The increasing awareness of governance issues in business provides a framework for evaluating the emerging focus on governance in professional sporting bodies, which are incorporated entities under Australian Company Law. The discussion on governance issues will focus on the pre-eminent sporting competition in Australia, the Australian Football League.

The Business of Australian Football

The AFL is the custodian of the most successful football code in the country and conducts the most popular national sports league. Comprising sixteen clubs around Australia, the AFL is governed by an independent commission with commission members elected by the clubs. The Commission is primarily responsible for the long-term development of the game and the successful operation of the national competition. It negotiates on behalf of the clubs for issues such as licencing, Television rights, collective bargaining agreement for the players, ground development. The AFL generated revenue of $108.447 million in 1999 with a profit of $58.28 million of which 61% was distributed to the competing clubs (AFL Annual Report 1999). Each club has a turnover of approximately $15 million (Geelong Football Club Financial Statements, 1999; Richmond Football Club Financial Statement 1999; Essendon Football Club Annual Report, 1999) so the total impact on GDP is in the order of $350 million.

The individual clubs are incorporated entities limited by either shares and/or guarantee and as such are subject to Australian corporate regulations. The clubs, in their current corporate form, were formed for the purposes of fielding teams in the Victorian Football League (VFL) and the 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 in line with their corporate constitutions. The board typically comprises independent directors largely recruited for their corporate expertise and business connections.

Governance in the AFL

The issue of governance has been the subject of widespread interest in most developed economies over the past fifteen years following the excesses of the 1980s. Corporate governance has been defined in various initiatives (OECD 1998; Hampel Report 1996 and Business Roundtable 1997) as the relationship between management, the board of directors who have been appointed by owners to oversee the management of the company on their behalf and the shareholders themselves. The contemporary
use of the term governance tends to focus on the role of the board in performing its oversight function of management and its more pro-active function in ensuring performance for the owners.

The corporatisation of sport and the AFL in particular lead to an increasing use of corporate management processes and the time seems appropriate to introduce a focus on governance. The excesses of corporate Australia in the 1980s have been 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 all clubs 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.

There were numerous instances of non-compliance with regulatory requirements such as the non-payment and declaration of Fringe Benefits Tax obligations (The Age, 1996). Non-compliance with the salary cap imposed by the Commission has also had severe financial implications for the clubs concerned. 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 (Richmond Football Club Annual Report, 1997). 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 sponsors 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, to that extent financial performance of the clubs is evaluated by the Institute of Chartered Accountants in Australia (ICAA) Annual Survey of AFL Clubs Financial Reporting. The report also 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. At some stage during that decade, Collingwood was technically bankrupt and St. Kilda negotiated a scheme of arrangement with players and coaches who were owed money. Footscray was saved at the eleventh hour from a merger with Fitzroy through the ‘rattling of cans’, and Richmond undertook the same process with the ‘Save Our Skins’ campaign (Linnell, 1995).

During the 1980s mismanagement was rife with the focus by club directors more on self-promotion and short-term on-field success, than the long-term interests of members (Linnell, 1995). At a meeting of influential directors, called by John Elliot the President of Carlton Football Club, he noted that “There has been very little if any, responsibility being accepted by club directors” (Linnell 1995, p.29).

The fortunes of the clubs and interests of the members were not necessarily better served in the 1990s with an angry reaction to the proposed merger between the Hawthorn and Melbourne Football Clubs in 1996. The merger was ultimately
thwarted with both boards in disarray after the event (The Age, September 1996). The ultimate penalty for club members was realised for Fitzroy Football Club supporters when the team was merged with Brisbane at the end of 1997. With only eight players from the existing team going north and the injudicious comments of the Brisbane club president, it was a virtual take-over (Mangan and Nauright, 2000).

There were attempts to solve the financial problems of some clubs by offering them for private sale to then ‘high flying’ (later failed and dubious) entrepreneurs. The Sydney Swans Football Club licence was sold to an entrepreneurial doctor who aggressively marketed the club and gave it some glamour. However, when his business interests failed, he was no longer able to support the club financially and to continue the aggressive marketing needed for the Sydney market. A similar situation occurred with the newly created Brisbane Bears Football Club. The club got into severe financial difficulties as a result of the collapse of the corporate owner Quintex. The 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 both clubs reverted to membership organisations (Linnell, 1995).

The viability of several clubs is not secure today. The Geelong Football Club has a debt of over $1 million and has appealed to supporters for financial contributions through various initiatives (Geelong Football Club Financial Statements, 1999). North Melbourne Kangaroos, Western Bulldogs and Melbourne Demons have all lamented small membership numbers. The North Melbourne Kangaroos have been playing several of their ‘home’ games in Sydney to try to attract a new supporter base and generate a slice of the Sydney corporate sponsorship. This strategy however, appears in conflict with the desires of their membership base which is based in Melbourne. Similarly, the Western Bulldogs have attempted to break into the Sydney market but to a much more limited extent (AFL Draw 2000). Richmond Football Club has a strong membership but lack of on-field success over many years has seen a decrease in members in 2000, which contributed to the recently announced trading loss of $639,000 (Richmond Football Club Financial Statements).

The aim of this paper is to legitimise the focus of corporate governance in sport by firstly acknowledging the corporatisation of sport. It will then discuss the most recent thinking on corporate governance including consideration of shareholder versus stakeholder approaches to governance with the objective of presenting a framework for evaluating governance in the AFL clubs. The paper will focus on the clubs themselves rather than the AFL Commission. It is the club directors who have the fiduciary duty to act in the best interests of their clubs as represented by the members and it is the clubs who are most closely linked with a trading business. It is beyond the scope of this paper to evaluate the effectiveness of governance in any of the AFL clubs and to ascertain whether they adhere to the corporate principles of good governance. The paper merely aims to set the discussion of governance in sport in context and to present a framework to facilitate future research in this area.

CORPORATE GOVERNANCE IN BUSINESS
Any discussion of governance in sport and the AFL specifically, inevitably arises from a consideration of corporate governance in the shareholder driven business world, as this is where the definition and debate on corporate governance originated. The importance of relating current management issues and theories to sport management was emphasised by Slack (1996) to enhance the credibility of the sport management academic effort and to promote the area of sport management to the broader academic community as a potential “test bed” for current management research. Shilbury (1994) has also espoused the importance of drawing on broader management principles for evaluating sport administration.

Governance issues became prominent in Australia as a response to the excesses of the 1980s or, “bust” period which inevitably follows a “boom”, and to that extent the focus is now on Asia following their recent economic collapse some of which appears related to poor governance (Dunlop, 1999). Governance was seen to mean “conformance” to regulators’ rules aimed at improving the quality of reporting and tightening directors’ accountability. Now, however, the trend in governance appears to be to focussed on improving performance for the corporation’s shareholders (Dunlop, 2000; Hilmer, 1993).

The key drivers for improved corporate performance are threefold. The first is the globalisation of business which transcends national laws and regulations, while the second is the ageing western population which is placing pressure on pension and superannuation plans (major equity investors in the United States, United Kingdom and Australia) to achieve superior returns. (Dunlop, 1999). 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. The California Public Employees Retirement System (CalPERS) is a leader in shareholder activism and regularly publishes a list of best and worst performed boards of Fortune 500 companies in the US. They have also shown initiative in publishing Global Corporate Governance Principles in 1996 which to date is the only shareholder driven statement on governance.

The focus on corporate governance has lead to efforts to codify principles and policies. The most authoritative initiatives are: the 1996 CalPERS – Global Corporate Governance Principles (USA); the 1997 Business Roundtable – Statement on Corporate Governance (USA); the 1996 Hampel Report on Corporate Governance (UK), which was formed to consider the recommendations of both the Cadbury and Greenbury Committees on Corporate Governance; and the1999 OECD Principles of Corporate Governance (Europe). Initiatives in Australia such as the Bosch Report (1993) and Hilmer’s Strictly Boardroom (1993), were important contributors to these publications (Dunlop, 1999).

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. Fred Hilmer (1993) concluded that the key role of the board was to ensure corporate management is continually striving to achieve above-average performance taking account of 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:

1. **Strategy**: to participate with management in setting the goals, strategies and performance targets for the enterprise and provide resources
2. **Performance**: to monitor the performance of the enterprise against its business strategies and targets, with the objective of enhancing its prosperity over the long term
3. **Conformance**: to ensure there are adequate processes to conform to legal requirements and corporate governance standards, and that risk exposures are adequately managed
4. **Accountability to Shareholders**: to report progress to the shareholders as their appointed representatives, and to seek to align the collective interests of shareholders, boards and management.

However, there are differences between these initiatives in the importance they place on stakeholders. It is this different focus which fuels the debate on which governance model is appropriate. This discussion on shareholder versus stakeholder is particularly relevant for sporting corporations, which have non-shareholder-voting constituents.

**CORPORATE GOVERNANCE MODELS**

Much of the discussion on corporate governance 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 to extend their focus to the rights, stakes and influences of all stakeholders (stakeholder management approach).

Szwajkowski (2000) succinctly discusses the differing viewpoints. He notes that the shareholder value approach promoted by Friedman (1970) had many similarities with the stakeholder approach articulated by Freeman (1984) and extended by several authors (Freeman and Evan, 1990; Donaldson and Preston, 1995; Jones, 1995). The key issue is whether “maximisation of shareholder wealth” which should be the objective of corporate managers, is in conflict with expending resources on satisfying and negotiating with non-shareholder stakeholders. The link Szwajkowski established was based on Friedman’s 1970 discussion of a corporate objective as maximising shareholder wealth “while conforming to the basic rules of society, both those embodied in the law and those embodied in ethical custom” (Friedman, 1970; quoted in Szwajkowski, 2000, p.5). This was an attempt to legitimise stakeholder theory.

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. Freeman’s contribution was significant in developing a stakeholder management 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.

Donaldson and Preston (1995) attempt to integrate and clarify much of the thinking on stakeholder theory. They categorised the approaches to stakeholder theory as descriptive (describe or explain certain corporate characteristics and behaviours), instrumental (linking stakeholder management or lack thereof, with corporate objectives) and normative (prescribe action based on an understanding of what is the right or wrong thing to do).

The above approaches were focussed on the “investor-owned” corporation, and in Donaldson and Preston’s view, extension to other circumstances is not appropriate due to the unique nature (economic interests) of the corporate setting.

Both the OECD and Hampel Reports acknowledge the rights of stakeholders other than shareholders and appear to encourage stakeholder participation in governance (OECD, 1998; Hampel Report, 1998). The Business Roundtable Statement on Corporate Governance (1997), however, takes the shareholder value approach. It states that the interests of stakeholders should be considered only to the extent that this consideration enhances value for the shareholders.

Dunlop (1999) neatly categorises 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 (Dunlop, 1999; Donaldson and Preston, 1995) 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.
CORPORATISATION OF SPORT

The discussion of corporate governance in business is relevant for any discussion on the performance of governance in sport due to the increasingly corporate nature of professional sport. Corporate terminology is prevalent in many sports. In the AFL the game is sold as a “product”, financial viability of the clubs is an important strategic requirement, formal licensing agreements have been struck, and an increased emphasis is put on meeting stakeholders’ needs. The corporatisation of sport has many facets beyond the legal nature of the entity. It can refer to the structure, ownership, prime stakeholders, focus on sponsors, process of management and treatment of employees (including the players). The major sporting clubs in the US and the UK have embraced corporatisation to the extent that in the US many of the major Hockey, Baseball and Football franchises are listed stocks within the pro-sport industry (Garrity, 2000). Similarly, in the UK, the 20 Premier League clubs are listed on the London Stock Exchange.

The Corporate Evolution of the AFL

In Australia the process of corporatisation of Australian Rules football has gone beyond the mere legal structure of the clubs. It is the nature of the governing body’s (AFL) and competing clubs’ operations, which is the most visible indication of corporatisation. Linnell (1995) documented the rise of Australian Rules football as a business and traced the first significant step to the mid 1970s with the emergence of Allen Aylett as the youngest president of a then VFL club and the business practices implemented by the North Melbourne Football Club. The club’s strategies achieved two premierships and three grand finals in five years and set a benchmark for business practices which the remaining clubs soon emulated (Mangan and Nauright, 2000). The unrestrained spending on players and coaches needed to be recovered and lead to aggressive marketing and alternative sources of revenue generation and North Melbourne was the first club to employ a full time fund raiser (Hess and Stewart, 1998). This growth in commercialisation was accelerated by the election of Allen Aylett to the Presidency of the governing body (VFL) and saw the unprecedented introduction of corporate processes such as strategic planning and licencing of merchandise (Mangan and Nauright, 2000).

The next significant progress along the road to corporatisation occurred as a result of the escalating costs (primarily for player transfers) for clubs in the late 1970s. Described as “hyperinflation”, the costs for some clubs threatened their solvency and several were technically bankrupt (Linnell, 1995). The clubs, unable to put aside parochial differences to address the major issues confronting the game, agreed to the appointment of a Commission to administer the game on their behalf. The clubs were now licencees or franchises and subject to licence requirements including the need for continued financial solvency (Hess and Stewart 1998, Mangan and Nauright, 2000). The increased need for finance lead several clubs to issue shares to raise capital.

Further evidence of corporatisation in Australian Rules football, is the negotiation of a collective bargaining agreement between the players, their “union” and the AFL (Dabscheck, 1989). Finally, the Commission and club boards boast a wealth of
corporate talent with the former CEO of Southcorp, partner with Boston Consulting Group, Managing Director of Spotless Services, Chairman of Just Jeans as well as prominent Melbourne business identities John Elliott, Ian Dicker and David Smorgon. Their business expertise and participation on corporate boards promotes the awareness of governance issues within the AFL (McGuire, 1999).

GOVERNANCE IN SPORT

The explicit consideration of the role of governance in sport is only very recently receiving both popular and academic attention although the need for improved governance processes has at times been critical. The process of governance in sport generally and the AFL clubs in particular is a complex issue.

In each elite sporting club, the day to day management is usually separated from the board or private owner and in the stock exchange listed franchises in the UK and US, ownership is remote in the hands of professional investors seeking attractive returns. In the AFL clubs, a similar separation occurs between management and the usually voluntary and independent board. However, the ownership of the club is less structured than formal shareholdings and is vested in the hands of members who pay a fee which gives certain entitlements including in most circumstances, voting rights. It is this fragmented membership structure which has allowed the governance of clubs to proceed relatively free of the type of shareholder activism occurring in the business arena.

The Special Features of AFL Clubs

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 (West Australian, 8/12/1997). While to the average club member and supporter, performance is overwhelmingly measured by on field success; the board has a wider responsibility to ensure long-term survival, and the discharge of fiduciary responsibilities.

The key issue in governance within most sports is the requirement to ensure continued financial viability for the club or organisation, while trying to limit the growing perception of the fans that they are being disenfranchised in favour of the interests of corporate sponsors and the media. This begs the question as to which stakeholders the boards of sporting clubs owe a fiduciary duty. To answer this question, it is necessary to segregate the financial members of a sporting club from mere supporters and it is also necessary to examine how effective clubs are in discharging their duty to members.

The ownership structure is one significant difference between many sports organisations and profit maximising business enterprises and has evolved from the
social nature of sporting clubs. Even in (especially in) elite sports, the clubs are
chronically under-funded, driven by emotional expectations rather than financial
constraints and where the core club membership is parochial, they often ignore market
forces (Sports Australia, 1999).

Sports Australia (1999, p45) noted that “clubs which continue to operate as traditional
members’ clubs or associations are increasingly being seen as out of step with the new
order of professional sport.” The organisations held up as role models are the clubs of
the English Premier League for the reasons that “The League attracts the cream of the
world’s best players, commands a global television audience and its clubs have fans
across the earth. The public companies which own and run the clubs are accountable
to their shareholders and must maintain transparent corporate governance.”

However, Michie and Walsh (2000) put an alternate view stating that the
establishment of shareholder owned entities in football was detrimental to the key
stakeholders in the sport, the fans. The profit objective demanded by shareholders
forces serious consideration of increased media involvement in the game, increased
ticket prices, focus on sponsors all of which lead to alienation of the fan.

Additional reviews of governance in sport include the roles of the board in amateur
sport organisations (Inglis, 1997); and how power is exercised by the board in
provide an instructive mainstream article on Governance in sport and the obligations
of a sports board.

The European Experience and Fan Power

The focus on governance is an emerging issue in sport as it is for for-profit business.
The growth in shareholder activism, which has lead to an increased focus in business,
could be mirrored by trends in the UK to a rise in ‘fan power and democracy’. There
is evidence to support the fact that supporters are becoming more active in the UK,
with supporter associations either becoming involved in governance of clubs or at the
least forcing accountability of club management and directors (Sir Norman Chester
Centre for Football Research, 1995).

Perceived supporter exploitation by their clubs in English soccer lead to a Labour
government “Football Task Force”, which examined the need for regulation of the
clubs in the fan’s interests, including an “Ombudsfan” to adjudicate on grievances of
ordinary supporters (Hamill, 1999).

Although there has only been one popular attempt to unite fans within the VFL/AFL
with a Fight for Football Survey (Herald Sun 1/7/1992), there has been some evidence
of member interest in board positions. In December, 1997, 59% of Richmond
Football Club members voting in the 1997 board elections, many voting to keep an
perceived undesirable influence off the board (West Australian, 8/12/1997).
GOVERNANCE FACTORS IN BUSINESS AND SPORT – A COMPARISON

Where ownership is remote from control of an organisation, there is always some focus and discussion on for whom and how the organisation should be governed. This is no less true for a sporting organisation whose management controls several million dollars of members’ funds each year. However, the issues of governance in a non-shareholder organisation become problematic. The following table illustrates some key differences in the characteristics between two successful Australian organisations, National Australia Bank and the most recent AFL competition winner, the Essendon Football Club. The list of factors are not exhaustive but are presented to highlight some key differences in terms of the focus, performance and levels of accountability.

Table I. Comparison of key governance factors between a major business corporation and a successful AFL club.

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>National Australia Bank</th>
<th>Essendon Football Club</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal form</td>
<td>Company limited by shares</td>
<td>Company limited by guarantee</td>
</tr>
<tr>
<td>Ownership</td>
<td>Shareholders</td>
<td>Members</td>
</tr>
<tr>
<td>Number of Directors</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Only 2 from finance industry</td>
<td>Only 2 former footballers</td>
</tr>
<tr>
<td>Executive vs. Independent</td>
<td>1 executive director</td>
<td>All are independent</td>
</tr>
<tr>
<td></td>
<td>7 independent</td>
<td></td>
</tr>
<tr>
<td>Directors Remuneration</td>
<td>$23.4 million in 2000</td>
<td>None</td>
</tr>
<tr>
<td>Board Committees</td>
<td>Four</td>
<td>One – Audit Committee</td>
</tr>
<tr>
<td>Related parties dealings</td>
<td>Incidental</td>
<td>Role of directors to include both direct financial contributions and attraction of sponsors $230,000 (150% of profit) received as donation</td>
</tr>
<tr>
<td>Statement of Governance</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Public Profile</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Benefits to Owners</td>
<td>Tangible - Dividends, share appreciation</td>
<td>Intangible – vicarious feelings of success, social bonding</td>
</tr>
<tr>
<td>Website Focus</td>
<td>Customers, shareholders – financial information easily accessible</td>
<td>Fans, members No financial information published</td>
</tr>
<tr>
<td>Tax Status</td>
<td>Taxable entity</td>
<td>Tax exempt (from company tax only – still subject to FBT, payroll tax, GST)</td>
</tr>
<tr>
<td>Turnover</td>
<td>$24 billion</td>
<td>$14.4 million</td>
</tr>
<tr>
<td>Operating profit after tax</td>
<td>$3.37 billion</td>
<td>$150,124</td>
</tr>
</tbody>
</table>
Key differences:

Ownership Structure
The difference between shareholders and members is centred on the type of benefits expected and the ability to switch “investments” if not satisfied. In the key respects of for whom the organisation exists and the ability to exercise democratic rights over the directors of the company, there are few differences. The Chairman of the Essendon Football Club stated in the 1999 Financial Statements (p4) that “The Essendon Football Club is made up of its members. Its reason for being is its members. It is the support of you its members which has enabled us to return to financial strength…”

This statement while reinforcing the importance of the member also highlights the difference in nature of the investment. A shareholder invests for a return, both dividend and capital growth. A member invests an annual subscription for the privilege of watching their team in action and to hopefully share in the team’s ultimate success. It is the consumption of a service (watching a football game) which confuses the identity of the member as owner as they are also customers. While shareholders of NAB can also be customers, they do not consume the product or service with the one investment amount.

Switching ability is another key difference. If a shareholder is unhappy with the return or business or management practices, there is an effective market mechanism for transferring investments. The football club member is limited by cultural and psychological constraints in their ability to switch investments (Stewart, 1983).

This highlights the corporate governance issue of “exit” versus “voice”. “Exit” involves an investor “leaving” the firm through a market mechanism usually as a result of dissatisfaction with performance. “Voice” involves parties who have “durable” relations with the firm and when dissatisfied with performance, voice their dissatisfaction (Hirschman, 1984; quoted in Nooteboom, 1999). Exit is not always a viable option although the reasons often given is the inability to liquidate a sizeable investment (Nooteboom, 1999).

Directors’ Remuneration
Directors’ fees are not only remuneration for the time taken by company directors but also represent compensation for the increasing liability they bear for the company’s affairs. While the liability of directors is the same for the director of a sporting corporate, they are usually prohibited by their constitutions from receiving any remuneration other than professional indemnity insurance paid on their behalf.

Related Parties transactions
The disclosure of dealings between directors of the company and any other organisation with which they are affiliated is the same for both types of companies. However, the directors’ dealings for a business corporate, while potentially beneficial to both parties, are usually (excluding fraud) incidental to the main financial dealings of the company. A football club actively recruits directors who can assist the club financially either personally or through the attainment of corporate sponsors. It is often the promise of financial contributions which ensure appointment or election to the board, however, failure to deliver the promised contributions is apparently no
reason for dismissal (personal communication with Terry Grigg, Director of the Richmond Football Club).

CORPORATE GOVERNANCE IN THE AFL – A STAKEHOLDER APPROACH.

While there may still be some debate over whether the shareholder or stakeholder approach is more relevant to assessing the governance of the NAB board, it could be argued that the governance of AFL clubs is more appropriately assessed by reference to the stakeholder management model for the following reasons:

1. Shareholder wealth and returns is not the primary objective of AFL clubs. While the directors have a responsibility to their members and the AFL Commission to operate profitably and maintain solvency, these financial considerations are only so they can continue to participate in the competition and enjoy on-field success.
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, 1999; The Age, 5/9/1996; The Age, 13/3/2001).
3. While the fiduciary duty of the AFL club director is clearly owed to the club member, the discharge of their accountability cannot be achieved without consideration of key stakeholders. In some instances the focus on key stakeholders actually provides the intrinsic benefits for the members. An example of this could be the relationship with the media. Positive management of that relationship can lead to favourable press comment, increased willingness to broadcast games and interview players which increases the enjoyment of the member and their ability to share in the vicarious success of the team.
4. It is only through management of key stakeholders and resolution of conflicts between those stakeholders, that the objective of on-field success and financial viability can be achieved.

While these reasons are not necessarily conclusive and perhaps not even compelling, in the absence of more definitive research, they do provide a starting point for determining a framework for evaluating the governance of an AFL club. Recent literature adds some credibility to the choice of a stakeholder approach to evaluating governance in sport. Steane (2001) has studied the governance issues in not for profit organisations in Australia and found that ideology and values were the key drivers of the organisation performance as opposed to monetary or financial considerations. His research confirmed that although governance in not for profit organisations tended to mimic shareholder value models, there was more synergy in a stakeholder approach.

If such an approach is used, then we could consider what a stakeholder map or framework might look like for an AFL club. Key stakeholders would include the members, players, the governing body, sponsors (an increasingly important contributor) and media. Consistent with Freeman’s definition, they all are significant
for the influence they exert on the organisation. The “stakes” for each group could be derived on the basis of the existing literature such as it is and anecdotal evidence. Merely constructing a list of stakeholders and their stakes does not prescribe how governance should be conducted or what constitutes good governance for each stakeholder, but it does give a starting point for understanding the relationships and potential tradeoffs the directors will have to make.

Such a framework using the Stakeholder Management map articulated by Freeman (1984) is presented in Table II.

**Table II. Potential Stakeholder Map for Essendon Football Club**

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>“Stake”</th>
<th>Governance Issue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td>Desire for success</td>
<td>Ensure on-field success</td>
</tr>
<tr>
<td></td>
<td>Identification with team</td>
<td></td>
</tr>
<tr>
<td>Players</td>
<td>Team/Personal success</td>
<td>Ensure on-field success</td>
</tr>
<tr>
<td></td>
<td>Financial independence</td>
<td>Manage escalating costs</td>
</tr>
<tr>
<td></td>
<td>Increasingly, quality of life</td>
<td>Maximise revenue</td>
</tr>
<tr>
<td>AFL</td>
<td>Attractive competition</td>
<td>Ensure on-field success</td>
</tr>
<tr>
<td></td>
<td>Increased national exposure</td>
<td>Ensure continued participation in AFL</td>
</tr>
<tr>
<td>Volunteers</td>
<td>Emotional attachment</td>
<td>Manage escalating costs</td>
</tr>
<tr>
<td></td>
<td>Need for participation</td>
<td></td>
</tr>
<tr>
<td>External financiers</td>
<td>Interest Income</td>
<td>Ensure continued solvency</td>
</tr>
<tr>
<td></td>
<td>Repayment</td>
<td></td>
</tr>
<tr>
<td>Sponsors</td>
<td>National exposure</td>
<td>Ensure on-field success</td>
</tr>
<tr>
<td></td>
<td>Reputation</td>
<td>Maximise revenue</td>
</tr>
<tr>
<td>Media</td>
<td>Circulation</td>
<td>Minimise negative press</td>
</tr>
</tbody>
</table>

This list of stakeholders is not exhaustive. Other potential stakeholders are the management team particularly the coach, the board itself and special categories of members such as coterie groups. Nor have the “stakes” been rigorously determined. The governance issues that have been presented are largely derived from presumed organisational objectives (Linnell, 1995; Shilbury, 1994). There clearly could be some conflicts between the management of players salaries and ensuring continued solvency. Similarly, there may be a conflict between maximising sponsorship revenue and player management in that players represent a key marketing tool for sponsors.

This paper stops short of a full stakeholder analysis, however, it does present the issue of governance (again contemporaneously held to mean both an oversight function and a proactive performance driver) in context and introduces a starting point for governance performance evaluation.

**Conclusion**
Sport is big business. The AFL clubs while defined as small businesses individually on the basis of turnover or profitability, collectively with the AFL Commission contribute approximately $350 million to GDP (assuming each club’s turnover is $15 million). As incorporated entities, the issues of governance and accountability are both similar to and different from those of business corporations.

The discussion on corporate governance globally, has focussed on the determination of principles of good governance which can only be readily determined by assessing the achievement of the objectives for the key constituents. Any consideration of governance in sport must emanate from the consensus emerging from the business world. This is only legitimate however, to the extent that it can be shown that sport and the AFL in particular, bears some relationship with the business world. The increasing focus on financial viability is one key similarity as is the use of business processes such as strategic planning and marketing.

However considerable differences can be exhibited between the two types of organisation. The key difference is the ownership model and the different motivations and drivers of shareholders and club members. It is this difference which fosters consideration of the appropriate model by which governance of an AFL club should be assessed. Due to the lack of shareholder wealth motive, an argument could be made that the stakeholder approach is more appropriate. Finally, a suggested stakeholder map is presented for consideration, and as a basis for further research on the evaluation of governance in the AFL

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