NSW Office of Sport Webinar Series

Session 3 - Effective Board/Management relationships

Outline

Introduction

Speaker introduction

Carl Millington

Pitcher Partners Sydney
p. +61 2 9228 2249 ***m.*** +61 400 104 678
e. carl.millington@pitcher.com.au
Level 16, Tower 2 Darling Park
201 Sussex Street, Sydney NSW 2000
GPO Box 1615, Sydney NSW 2001

The reason for holding the webinar

Part 3 in a series of webinars organised by the NSW Office of Sport to assist SSOs recover from the impact of COVID-19 and move forward with confidence and focus.

Whilst boards and management of SSOs are now looking ahead, one of the vexing issues faced by many organisations is how to ensure that the relationship between management and the board is as effective as possible. Today's session takes a look at the importance of effective working relationships between the board and management and aims to provide both SSO boards and management some thoughts on how to achieve this.

Previous webinars explored the following themes:

- Session 1 – Cautious emergence – post COVID recovery
- Session 2 - Emerging with confidence and focus

Where we left off at the end of Session 2

It is commonly accepted that directors of an organisation are the custodians of the future of the organisation. How you define "future" will have a big impact on the decisions made, the strategies adopted and the continuing relevance of the organisation.

Ensuring the future of any organisation requires continuous improvement, proactive planning, and timely well-informed decision making.

Working ON your business is as important as working IN your business.

The relationship between the board and management

You will often hear many different phrases and comments used when discussing the importance of the board/management relationship and its importance to the performance and survival of organisations. Words like productive; organisational effectiveness; principles; mutual understanding; boundaries; and so on.

Good working relationships involve respect, communication and honesty. Some quick thoughts about the importance of a good working relationship and some common inhibitors:

- *Why is this relationship important*? An effective relationship is essential for good governance which fosters organisational effectiveness.
- *Does this apply to SSOs*? In more ways than one. Any organisation will benefit from a productive and harmonious relationship, but as teamwork is a critical component, SSOs are well placed to understand just how that works.
- *But boards and management have different objectives*. No – they have different roles in achieving the same vision and objectives for the organisation. This is where the teamwork comes into play. A team approach requires mutual respect and trust, just like any sport.
- *How easy is it to achieve in reality*? It's not. At times it can be quite difficult, particularly if both parties don't have a clear understanding of their role in the equation. The key is to establish trust.
- *But aren't the respective responsibilities laid out in the relevant charter*? Well organised SSOs will have a board or governance charter that spells it out. The problem often is in the interpretation and implementation of those 'rules'. An ineffective relationship, poor organisational culture or even lack of relevant experience can all result in poor implementation.

Thoughts on what the board should reasonably expect from management:

- Understand and accept the board's role. In addition to a charter that sets out the role of the board, it is essential that this is communicated effectively to both board members and management.
- Accurate, timely and complete information to allow the board to make appropriately informed decisions and to alert the board to emerging issues.
- Assistance in analysing and addressing significant issues.

Management also has reasonable expectations of the board

- Not to meddle in operational matters. Management is tasked with implementing the strategies, and the board should trust them to do that and should only get more involved during times of increased duress (COVID?) or when management need help to resolve difficult or ongoing problems.
- Management's ability and contribution to the success of the organisation should be respected. An environment that allows management to present information with confidence and without interruption, constraint or fear will be far more effective.

For the board and management to develop a strong and effective working relationship there needs to an environment where each party respects the other's responsibilities, contributions and expectations. Having a clear mutual understanding and acceptance of respective roles, necessary delegations and boundaries will help achieve this.

Common problems that cause tension between boards and management

- Organisation's management structure may not be most effective for implementation and feedback.
- Policy and planning may be inadequate for monitoring and feedback purposes.
- Bottle-neck between the CEO and the board, leading to filtered and one-sided information.
- Board may try to act as a top layer of management – "steering the ship rather than agreeing the charted course and keeping a light hand on the rudder".
- Board is reactive rather than proactive - leading to lengthy meetings and ad hoc decision-making.
- Small organisations rely heavily on volunteers, which may make board members wary of monitoring or controlling professional staff – and professional staff resentful of attempted control by perceived 'amateurs'.
- Board members being overloaded, detracting from effective decision-making. This can be a result of limited ability to attract suitable board candidates, and/or extended periods of membership of board members.
- Desire to avoid conflict and maintain smooth personal relationships, particularly if board roles are voluntary.
- Some Board members feel that their role or special area of expertise gives them a right to tell staff what to do on a day-to-day basis, causing potential conflict.
- Board members have conflicts of interest.

Planning together

The board's role in strategic planning

To be successful, all organisations need to have a clear and well-defined strategic purpose. Without it, and a clear understanding of what the organisation does and does not do, strategic objectives may not be achieved.

The extent of board involvement in the strategic planning process will be determined by a number of factors including, the SSO's size, the experience of its management team, and its current situation. The level and experience of resources available will vary from SSO to SSO.

Some observations:

- Larger SSOs are more likely to have a management team with the capability and resources to assist with the formulation and structure of the SSO's strategy. The board's role under this scenario is more likely to be one of questioning, challenging and clarifying.
- Smaller organisations which do not have the same level of resources as the larger SSOs may need the board to be more involved in the development of strategy.
- In 2020, with most organisations in crisis, boards were required to be more involved than usual.

- Strategy cannot be developed in isolation. Management and the board must work together, with management providing information and insight, to which the board adds experience and knowledge to develop the SSO's strategic direction.
- As management is responsible for implementing the strategy, it is important that the management team support, which makes the working relationship between the board and management critical.

Budgeting and Forecasting

Simply put, a budget outlines your State Sporting Organisations finances and maps your forward direction. Better practice would suggest that a budget should be prepared at least annually, and serves as a reference point for boards and committees to assess actual performance to expectation. Within this guide there is further information on how to assess performance.

The highlights of a good budget link back to planning. In looking at what you want to achieve, you can now overlay the financial elements. Whilst it can be hard to predict the future, your budget will require a series of assumptions. It is suggested that amongst other things you should consider:

- Look at past revenues, and assess if they are recurring or one off in nature;
- Look at past expenses, and assess if they are recurring or one off in nature;
- Consider if any of your goals will drive more revenue opportunities;
- Consider what will be required to be spent to achieve your goals; and
- Understand the timing of your receipts, remember you cannot spend what you don't have.

A budget:

- estimates how much money your organisation will earn and how much it will spend over a specific period, usually a year.
- identifies fixed and variable costs and determines how to allocate the money received to those costs.
- is reviewed and adjusted on a periodic basis. The frequency will depend on actual results, changes in the operating environment, or amendments to your organisation's business model.
- gives organisations goals to aim for and a framework for meeting them responsibly.

A forecast:

- uses historical and current data, along with market and industry analysis, to help predict whether budget targets can be achieved.
- ensures organisations have the resources needed to deliver on what their business needs.
- increases the confidence of the management team to make important business decisions.

What Comes First, the Budget or the Forecast?

Budgets and forecasts must work together:

- one sets the targets; the other lends insight on whether they can and will be achieved.
- A forecast can be used to help build a budget or figure out how money should be allocated to specific areas of the business.
- But without a budget, the forecast has no real aim.

The Budgeting and Forecasting Process

There are generally four commonly accepted types of budgeting processes:

- Incremental budgeting
- activity-based budgeting
- value proposition budgeting
- zero-based budgeting.

Incremental budgeting:

- the most common method.
- takes numbers from the prior period and adds or subtracts a percentage to come up with a budget for the current period.
- is based on the idea that a new budget can be developed by making marginal changes to the current budget.
- is a good approach if your SSO's business is reasonably static and not experiencing significant year on year changes.
- can hide budget inefficiencies, and ignores external factors.

Activity-based budgeting (ABB):

- does not take historical costs into account when setting the budget
- sets a target and determines which inputs and activities are needed to get there.
- budgets are prepared on the basis of activity-based costing (ABC) which identifies cost drivers, projects total units and estimates the cost per unit.
- helps organisations thoroughly analyse cost drivers, but is expensive to implement.
- Is more suited to organisations that lack historical costing data.

Value proposition budgeting

- considers the question of whether everything in the budget delivers value for the SSO's business by examining whether each line item creates value for members, staff or other stakeholders.
- aims to avoid unnecessary expenditures, and can be used in conjunction with other types of budgeting.

Zero-based budgeting

- starts at zero and the budget built from scratch.
- ignores all current revenues and expenditures.
- requires every item in the budget to be justified.

- is good tool for organisations needing strict cost containment.
- can be time-consuming, so probably best to only use sometimes.

Working together

Management reports to the board

Boards can exercise their various responsibilities by:

- setting aims, policy constraints and guidelines, objectives and broad strategy, and then confirming these with management.
- identifying and agreeing defined performance indicators.
- ensuring it receives information to enable it to:
  - probe and question management on key issues;
  - focus on critical success areas and key performance indicators;
  - take appropriate action when there are unexpected variances from forecasts and budget.
- frequently reviewing the information provided to them by management to ensure that they receive the information that is necessary for them to fulfill their obligations as board members.
- ensuring that all board members fully understand the information provided to them.
- insisting on management reports being focussed and succinct to avoid provision of excessive and at times irrelevant data.

Fundamentals of good performance reports

Good performance reports contain a mixture of data, information and management insights, necessary to:

- facilitate relevant and effective decision-making at board level.
- prompt board members to ask the right questions and decide best actions

In summary, management reports, performance reports, board reports – whatever you call them, should follow some basic principles:

- Align with the strategies, objectives and risks of your organisation
- Communicate effectively
- Be insightful, proactive and future-focussed
- Promote and support organisational improvement

On that basis, some of the key attributes of good information include:

- *Relevant* - Information presented to the board should be sharply focused and reflect the defined objectives and the overall strategy of an organisation. It must not obscure the overall picture with irrelevant detail.
- *Integrated* - the information produced internally should be managed so that it satisfies both internal and external reporting needs. Hence the need to ensure that any

financial information presented to the board is able to be reconciled with the information provided in the annual financial statements.

- *Timely* – do not let perfect get in the way of good. It is better that the board receives information that's imperfect (but within acceptable tolerances of precision) in good time than completely accurate information too late. Information should, as far as possible, be available promptly enough to plan from it and/or take action to consolidate gains and recover shortfalls.
- *Reliable* - Information should consistently be of good enough quality for the board to be confident in it.
- *Comparable* – able to compare what happened with what should have happened. Budget comparisons should be a key management tool, but the emphasis should be on the future, which can be influenced, rather than the past, which cannot.
- *Clear* - Reports should always be written clearly and simply and avoid jargon or acronyms.

Information that boards should normally expect to receive:

- monthly consolidated profit and loss accounts, balance sheets and cash flow statements reported against budget;
    - smaller organisations that do not have the resources to prepare monthly financial statements should, as a minimum, provide income and expenditure report, balances of cash, investments, creditors and known financial commitments.
- if relevant, a monthly analysis of results by strategic function or business unit;
    - some organisations manage operations on a functional basis, or by activity type.
- a quarterly update of forecast operating results for the year;
    - In addition to the financial statements compared to budget, it should include:
        - a report on any large investment projects or budgeted capital expenditure (e.g. facilities upgrades, development of new facilities),
        - an analysis and opinion by management whether the forecast financial position will be satisfactory or unsatisfactory at the end of the year, and
        - any recommended remedial action required.
- a six-monthly review of progress on the implementation of the organisation's strategic plan.
- annual reconciliation of the results reported in management reports throughout the year with the annual financial statements of the organisation.

Board members should consider the following questions about the information they are receiving:

- *Accuracy.* Can I trust the data?
- *Relevance*. Does it cover the critical issues?
- *Timeliness*. Is it sufficiently up to date?

- *Clarity.* Is it presented in such a way that I can digest it quickly?
- *Risk assessment.* Is the information purely historic or does it assess future risks?
- *Depth.* Do I receive only summaries or can I access more detailed information if needed?
- *Data access.* Can I access the data via a secure internet connection?

Q & A - Example questions

- Does the board run the organisation, or does management run the organisation?
- We are only a small organisation and some of our board members also have operational roles. How do we practically differentiate between the roles?
- How often should the board get non-financial strategic reports?
- As a small SSO we have limited resources and rely heavily on volunteers. How often should we prepare management accounts?
- Should our budget include non-cash items such as depreciation and asset purchases?

APPENDIX 1 – QUESTIONS THAT BOARD MEMBERS AND MANAGEMENT MIGHT ASK ABOUT INTERNAL CONTROLS WITHIN THE ORGANISATION

There are specific questions which can be asked covering the revenue, receivables, expenses, payables, employee benefits and cash controls for an SSO. The size of the organisation and availability of suitable resources will often determine whether the board or senior management should be asking the questions. If the board is unsure about the responses to any of these questions, they should probe deeper until they receive the explanations that they require.

Payroll

- How can management be certain that amounts paid via the payroll are correctly calculated?
- How can management confirm that income taxation and other deductions are accurately calculated and disbursed?
- Are management provided with accurate payroll cost data on a regular basis to support their decision making, etc.?
- How can management be sure that all payroll transactions are correctly reflected in the accounting system in the proper accounting period?

Accounts payable/Creditors

- What mechanisms prevent the payment of inaccurately priced/calculated or duplicated invoices?
- Are all invoices authorised prior to payment and confirmed as being within the agreed budget?
- How can management be assured that the application and accounting treatment of GST is correct and in accord with the prevailing legislation or requirements?
- What processes ensure that the values of paid accounts and outstanding invoice liabilities are accurately and completely reflected in the accounting system?

General ledger/Management accounts

- How can management be certain that the General Ledger accounting data is accurate, complete and up-to-date?
- How does management ensure that the accounting records and systems comply with the prevailing laws, regulations and accountancy good practice?
- How can management be assured that all summaries and analyses of accounting data are accurate and reliable?
- How is the accuracy of published and statutory accounting statements confirmed?
- What mechanisms protect the organisation's accounting data from either loss, unauthorised amendment, or leakage?
- Are management provided with timely, accurate and relevant accounting information to support their decisions and actions?

Budgeting and monitoring

- How can management be certain that the budgeting model and processes adequately and accurately reflect the structure and operations of the organisation?
- Are the budgeted figures agreed by the relevant members of management and how is this signified?

- How is the accuracy and completeness of data input from other source systems confirmed?
- How is the budget and actual data reflected by the budget system confirmed as accurate and complete?
- Is the budget information produced and circulated on a timely basis?
- How can management be certain that all subsequent amendments to the budgeted data are justified, authorised and accurately applied?
- Are significant budget versus actual variations identified and promptly acted upon?
- How is the action taken in reaction to variations, shortfalls, etc. verified as complete and effective?

Bank accounts and banking arrangements

- Are bank accounts only established at the request of senior management for a defined and authorised purpose (and how is this process evidenced)?
- What mechanisms prevent the unauthorised set up and operation of a bank account?
- How are management assured that all banking transactions are accurate, complete, and authorised whenever necessary?
- Have written procedures governing the set up and use of banking facilities been established and implemented?
- Would management be aware of impending overdraft situations and are all overdraft arrangements negotiated and suitably authorised in advance?
- How does management ensure that only authorised bank loans and financing arrangements are established?

.APPENDIX 2 – QUESTIONS THAT BOARD MEMBERS MIGHT ASK ABOUT THE ORGANISATION'S FINANCIAL STATEMENTS OR OPERATIONS

- Are there any significant increases or decreases in income or expenditure – and if so, do these make sense?
- Are we generating enough revenue to be sustainable, or relying on funding? What happens if the funding model changes?
- Has budget been met? Have we exceeded expectations or fallen short? Why?
- Do our financial results reflect our non-financial results? E.g. Our participation numbers have increased, so should our participation revenue. We have increased spending on coaching accreditations, have our coaching numbers increased?
- Have events occurred which weren't foreseen and need to be budgeted for next year?
- Have our statutory obligations been met in regards to GST, payroll tax, WorkCover etc.?
- Do we have enough cash to pay our creditors? Are we at risk of being late on payments?
- Is our business solvent? Do our current assets exceed our current liabilities?
- Is any inventory held still able to be sold? Or is it at risk of being obsolete?
- Are we owed large amounts by debtors and is there an issue with collecting such monies?
- Are we generating a positive or negative net cash flow? Does spending need to be tightened or is there scope to invest more into the sport?
- Are we too heavily reliant on debt? What happens if further debt cannot be sourced or is recalled? How long could we survive?
- Have all our employee entitlements been provided for?
- Has the auditor identified any issues with our books and records?