

Whitepaper Overview Webinar: Best Practices in Club Governance Upper Midwest & Wisconsin Badger Chapter CMAA



A **Best Practice** is “a procedure that has been shown by research and experience to produce optimal results and that is established or proposed as a standard suitable for widespread adoption.”

Merriam-Webster



Dave Duval Executive Consultant

- CPA, Graduate of Bentley University. MBA from Babson College
- Partner in venture capital partnerships for 20+ years with expertise in strategy, finance, management and governance and experience in volunteer leadership of private clubs and homeowner associations
- Officer of two private clubs and three Homeowner Associations including President of The Quechee Club, VT and Treasurer of Charles River Country Club, MA



Joe Abely Executive Consultant

- CPA, Graduate of Boston College. MBA from The Wharton School
- 40-year career as partner in a major international accounting firm. CEO/COO/CFO of public, venture-backed and non-profit entities. Board member of a variety of public, private-equity backed, non-profit and membership organizations.
- Member of the Board of Directors of Brae Burn Country Club in West Newton, MA for 12 years. Treasurer for six years and President for three years. Current Chairman of Nominating Committee

Today's Agenda

- The survey and its uses
- Governance
- Some lessons we've learned and how those factor into the survey
- Definitional issues in the industry
- Survey findings and observations
- Recap and Q&A

Purpose of the Survey

- The survey is used to **gather information and compile an annual report** which advances the industry's awareness and understanding of best practices for club governance.
- The survey also functions as an effective **self-evaluation tool for individual club boards**. It is designed to provoke thought, fuel productive discussion and promote widespread adoption of governance best practices. We use it as the centerpiece of our governance reviews and board orientations.



What is Governance?

Governance is a system of interrelated activities that consistently drive an organization toward a desired result (its mission) in an ethical manner.

The Board Has Three Basic Obligations:

- Protect the assets of the club
- Develop and sustain sound strategy
- Ensure the financial vitality of the club

LESSONS LEARNED FROM BOARDS, CLIENTS AND PEERS

Lessons Learned

- Operating Finance
- Capital Finance
- Membership
- Strategic Governance

Lessons Learned: Operating Finance

- Dues are your highest margin operating revenue source.
- F&B is an amenity not a profit center.
- The capital ledger (balance sheet) is strategic.
The operating ledger (P&L) is tactical.



Lessons Learned: Capital Finance

- You can never have too much capital. Create a long-term financial plan consistent with strategic plan, replacement reserve study and campus master plans. Increase the capital base. Think long-term.
- Taking on debt is very serious business. If not used judiciously in the context of a long-term funded plan, it can lead to the club's failure.
- Private clubs that reduce initiation and capital fees have a difficult time increasing them again. An important source of capital must be replaced.



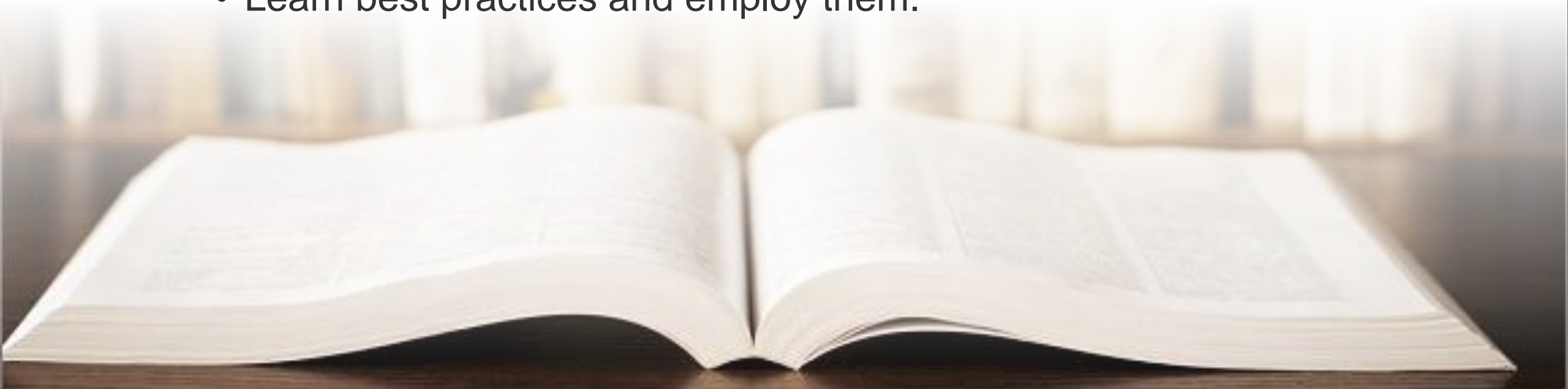
Lessons Learned: Membership

- You can't cut your way to success. Cutting corners on member-facing services and amenities diminishes the member experience.
- Expect 5-7% annual attrition. Who will your members be in 10 years?
- Communicate with the membership often; in writing and in person.
- Membership satisfaction results from the combination of state-of-the-art amenities and great quality and service.



Lessons Learned: Strategic Governance

- Develop an annual agenda for the board.
- Succession planning for officers and board members is critical.
- Respect the line between board and management roles.
- Time is precious, use it wisely.
- Learn best practices and employ them.



Definitional issues are exposed when participants are presented with specimens.



Board Orientation

SAMPLE AGENDA

- Purpose of the Board
- Legal Responsibilities (and Exposures)
- Lessons Learned from Boards, Clients and Peers
- Governance Survey
- Best Practices and the Annual Agenda
- Private Club Finances & Financial Planning
- Roles & Responsibilities: Officers, Executive Committee, Committees & Management
- Reminder to Tour the Facility

EXAMPLE:

Components of a Strategic Plan

- **Clear Mission** – needs to be documented and ideally “tangible” in the club’s culture – the club lives it
- **Clear Vision** – every club needs to be DRIVING forward with purpose - also tangible in club’s culture
- **Core Values** (Understanding Choices)
 - ✓ High Service <-> Pedestrian Service
 - ✓ High Quality <-> Pedestrian Quality
 - ✓ Large Club <-> Small Club
 - ✓ Broad Amenities <-> Narrow Amenities
 - ✓ Quality of Service & Level of Amenities <-> Price



EXAMPLE:

Components of a Strategic Plan

- **SWOT** – Member input, especially from newer and prospective members
- **Strategic Key Performance Indicators** – Standard, strategic, Board level Club Benchmarking KPIs
- **Key Strategic Goals** – this year, next 2-5 years
 - ✓ Negate weaknesses
 - ✓ Mitigate threats
 - ✓ Leverage opportunities
 - ✓ Build on strengths



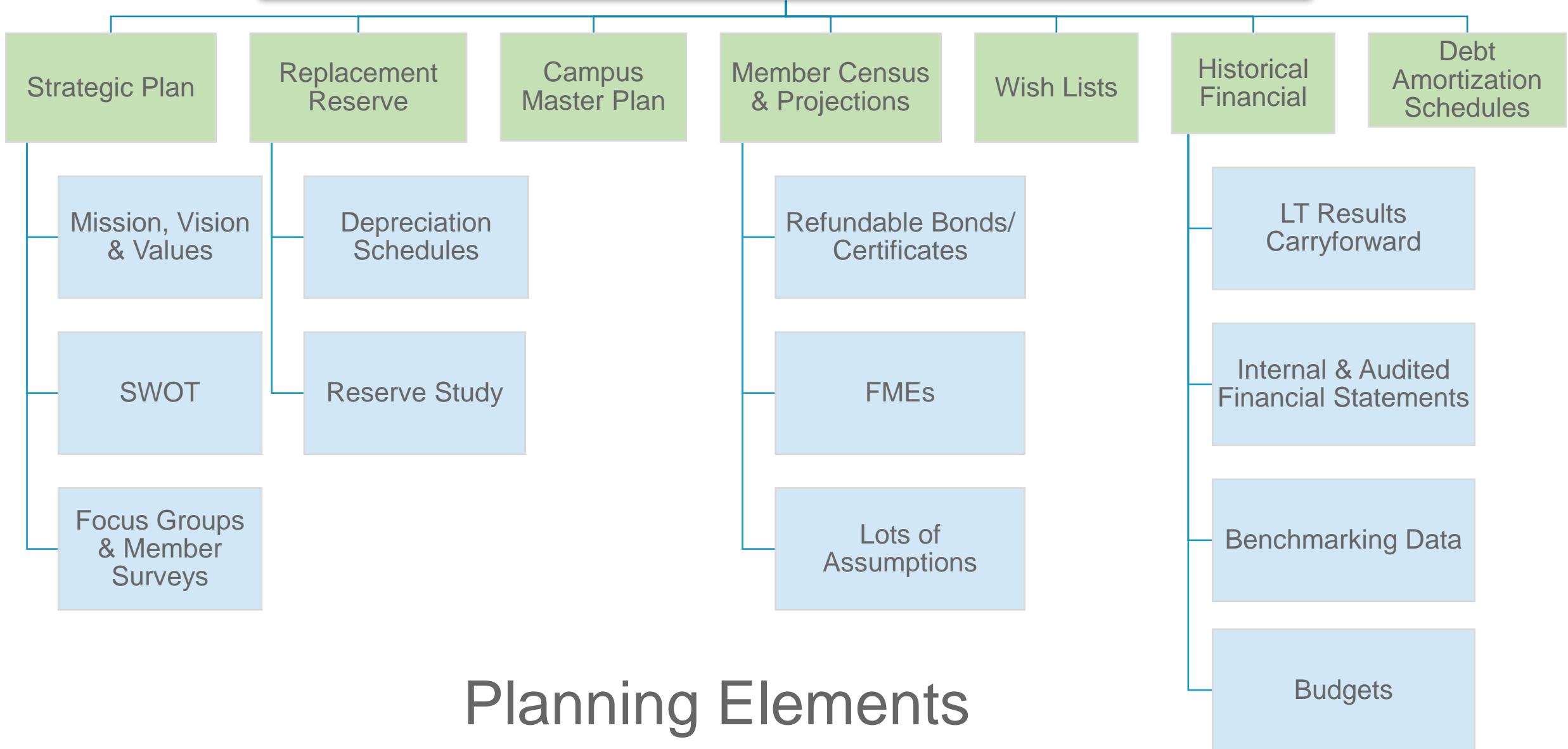
EXAMPLE:

Components of a Strategic Plan

- **Funded Long-Term Integrated Financial Plan**
- Conscious deliberation regarding **Optimal, Sustainable Member Count**
- **Capital Reserve Study** – professional and objective, 20-year view. How do resources meet needs?
- **Governance Foundation** that allows for embracement, implementation and continuous evolution of the plan through administrative transitions. Board members are **stewards of the plan**, not managers of the club
- **Fact Based Governance Culture** based on sound understanding. Staff runs the club, board sets policy, oversees strategy and fosters culture



Long Term Integrated Financial Plan



Planning Elements

Full Member Equivalents (FMEs) = Total Dues Revenue divided by the annual dues amount for the most highly privileged membership



Sample Survey Comments

- This is so fabulous to answer and see really what is complete and what is outstanding.
- Well done! Great survey and checklist.
- Great survey! Actually going to provide this survey to the incoming President as a checklist.
- Thank you for the great, thought provoking initiative!
- Thank you very much for putting this together. VERY interested in the outcomes...
- Even just answering these questions leads to better governance, especially when you come across a question and can say “Aha - great question, better think about instituting this...”.
- Well done, using as Board education through a self-evaluation tool to raise awareness of the responsibilities of Board members. Thank you.

SURVEY SUMMARY RESULTS IN KEY AREAS

The Survey

- Survey Questions Worded So...
 - “Yes” generally indicates successful adoption of a best practice.
 - “No” generally highlights opportunity for improvement.
 - "Not sure" indicates ambiguity: either individual or organizational.
 - "In process" indicates issue/area under development.
- Some questions correspond to questions on IRS Form 990; “No” response is a potential red flag.

Observations

- Responses did not always agree with available financial data.
- Managers and board members disagreed on key issues.
- In our view the manager needs to have full knowledge of the club, including finances in order to effectively do his or her job.

Key Questions

- There were 14 questions we consider key in determining the future financial results and sustainability of the club.
 - Yes or No/Not Sure answers have the greatest potential to impact or predict financial results.

8 Financial Warning Signs

Declining
FME's

Dues Less Than
50% of Total
Operating Revenue

Capital Base
Decreasing

Net Worth
Decreasing

Capital Levies Below
Annual Depreciation
& Debt Service

Total Debt Greater
Than Total Annual
Dues Revenue

Amortization Period
More Than
10 Years

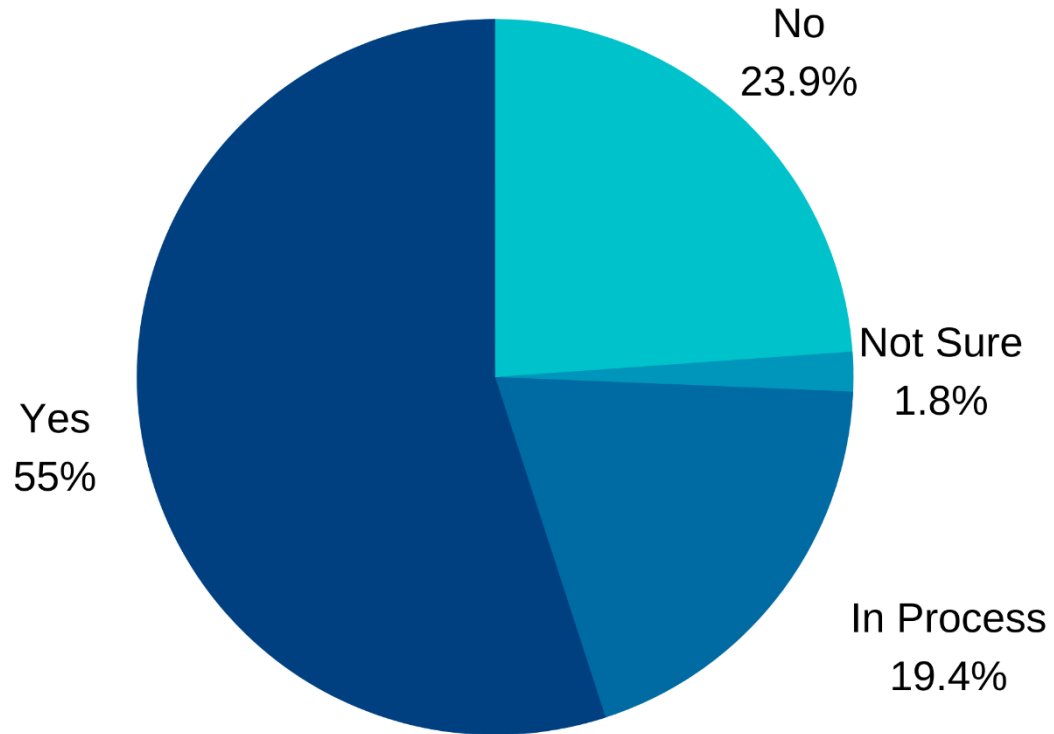
Debt Refinancing

Areas Addressed by the 14 Key Questions

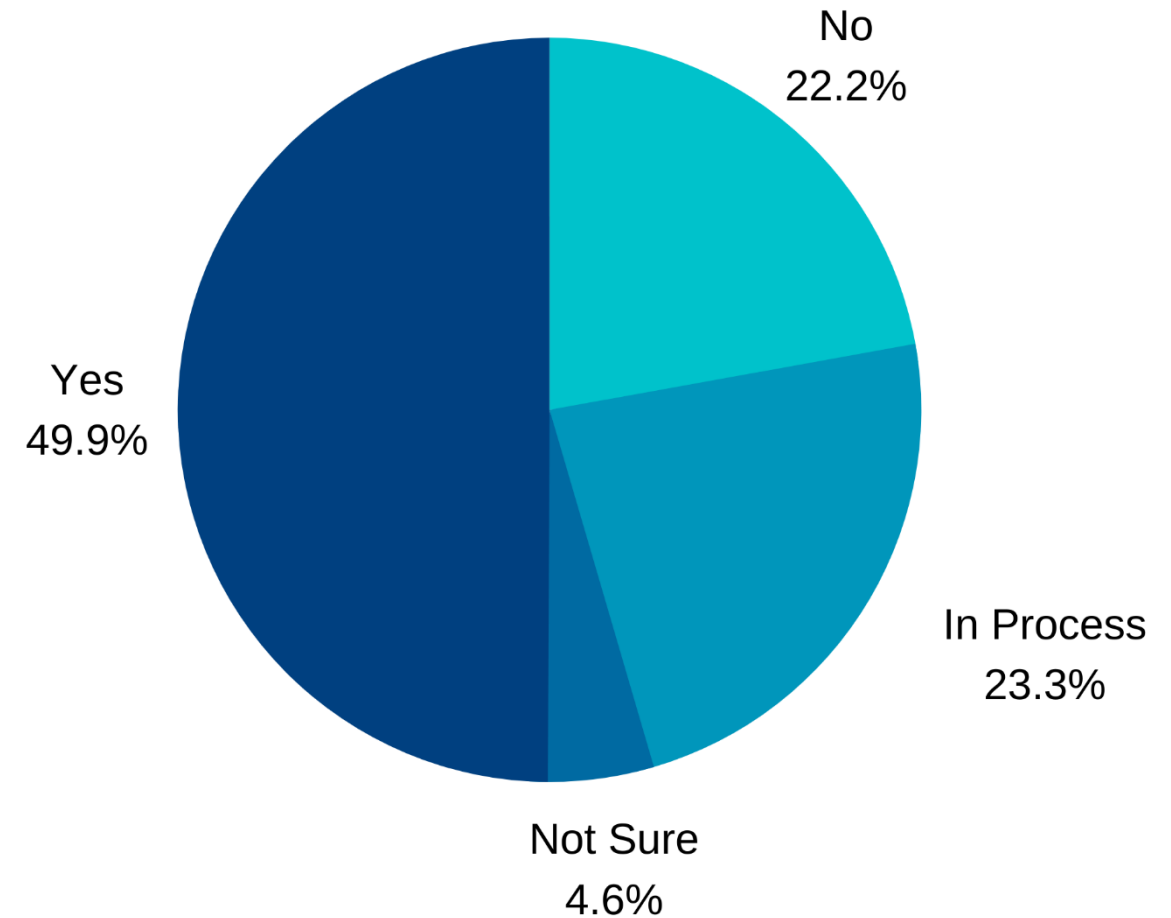
1. Strategic planning
2. Long-term financial planning
3. Nomination process & succession planning
4. Board orientations
5. Board focus
6. Debt
7. Capital replacement spending

Survey Results

Do you have a written strategic plan?



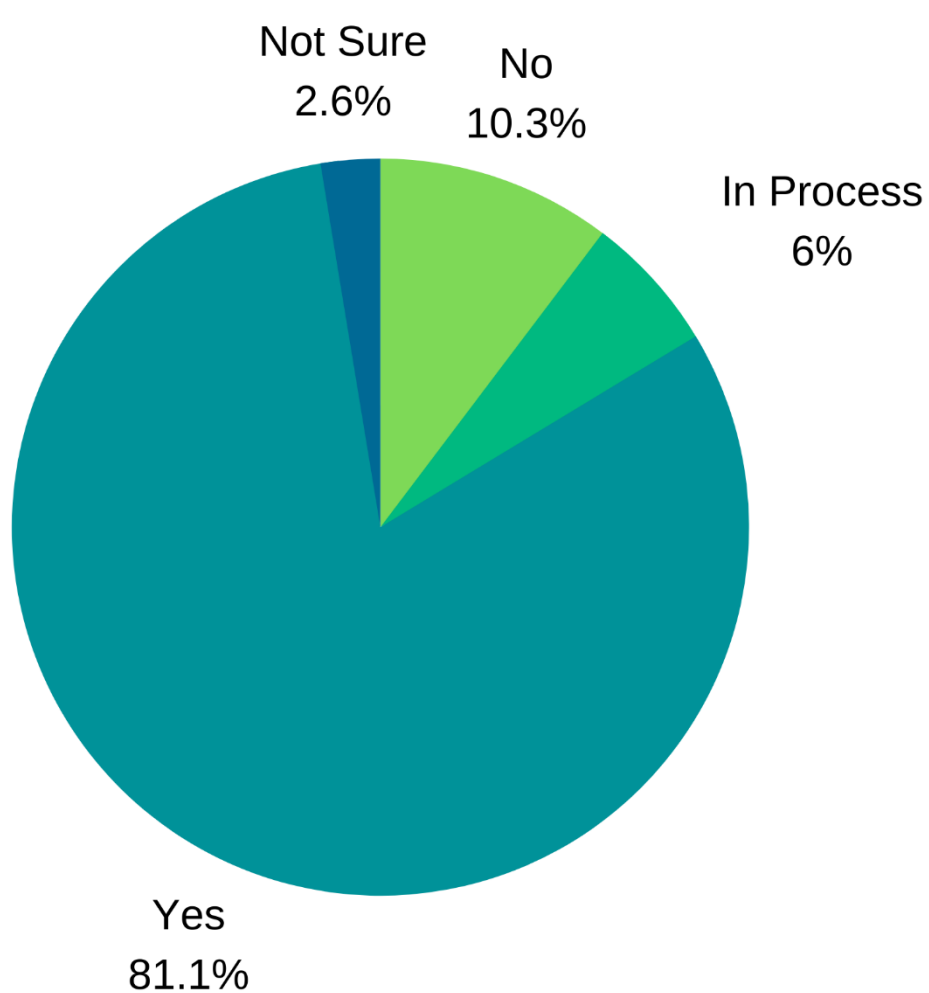
Does your strategic plan include a long-term financial plan?



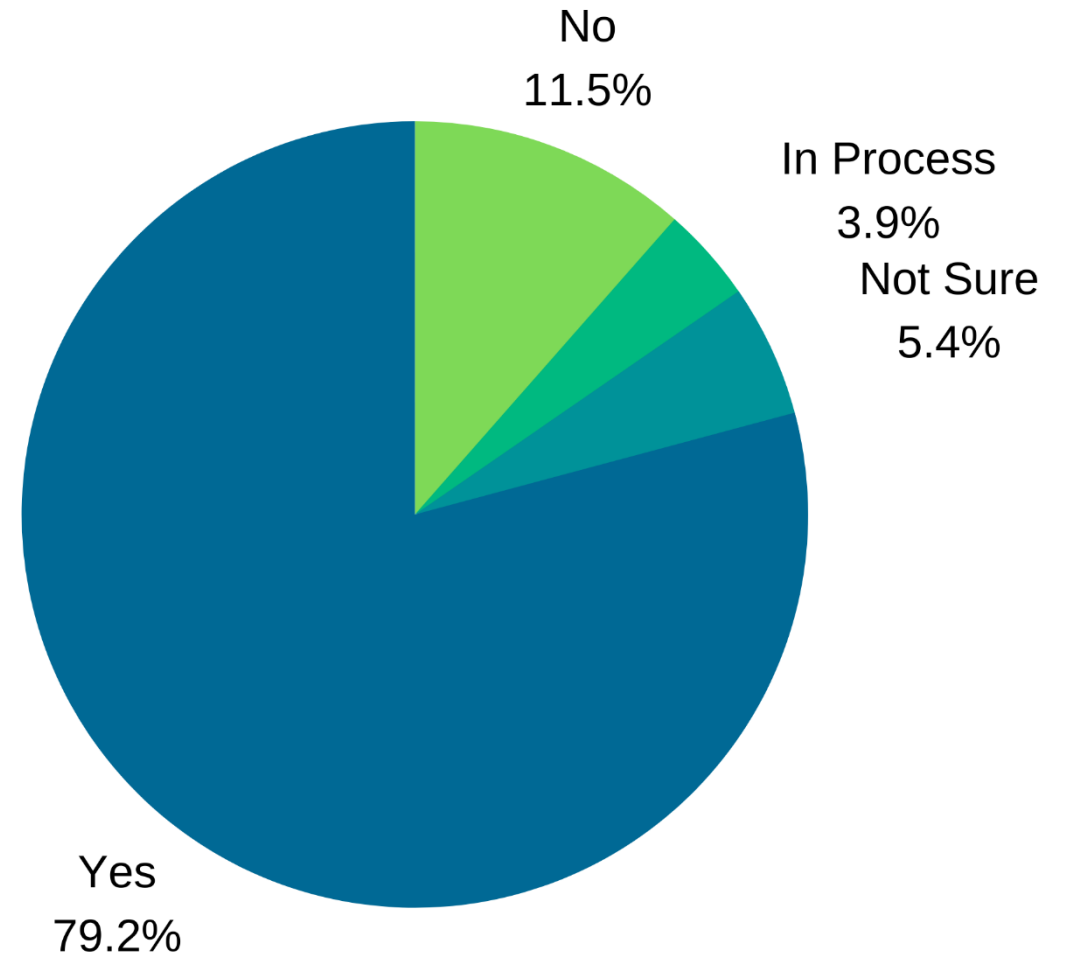
***Of yes responses, less than 50% said members were supportive of the plan.

Survey Results

Does the club have an effective nominating process for Board?

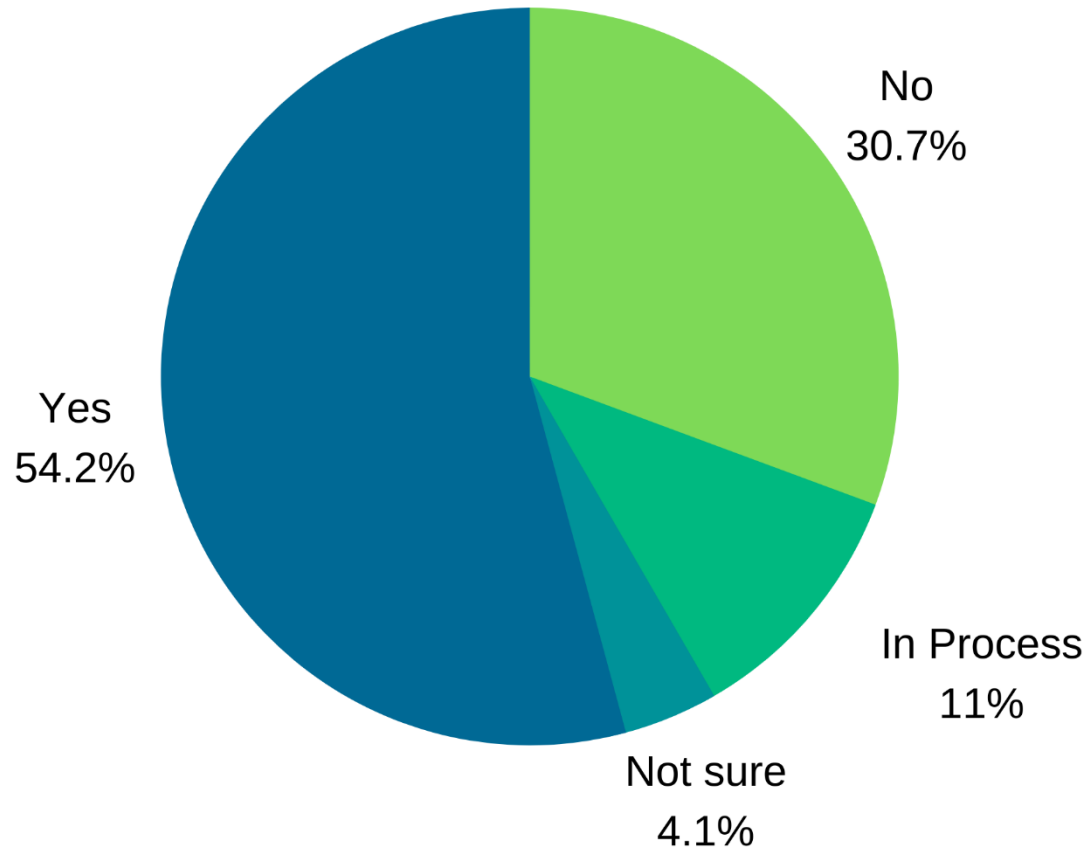


Does the club have an effective nominating process for Officers?

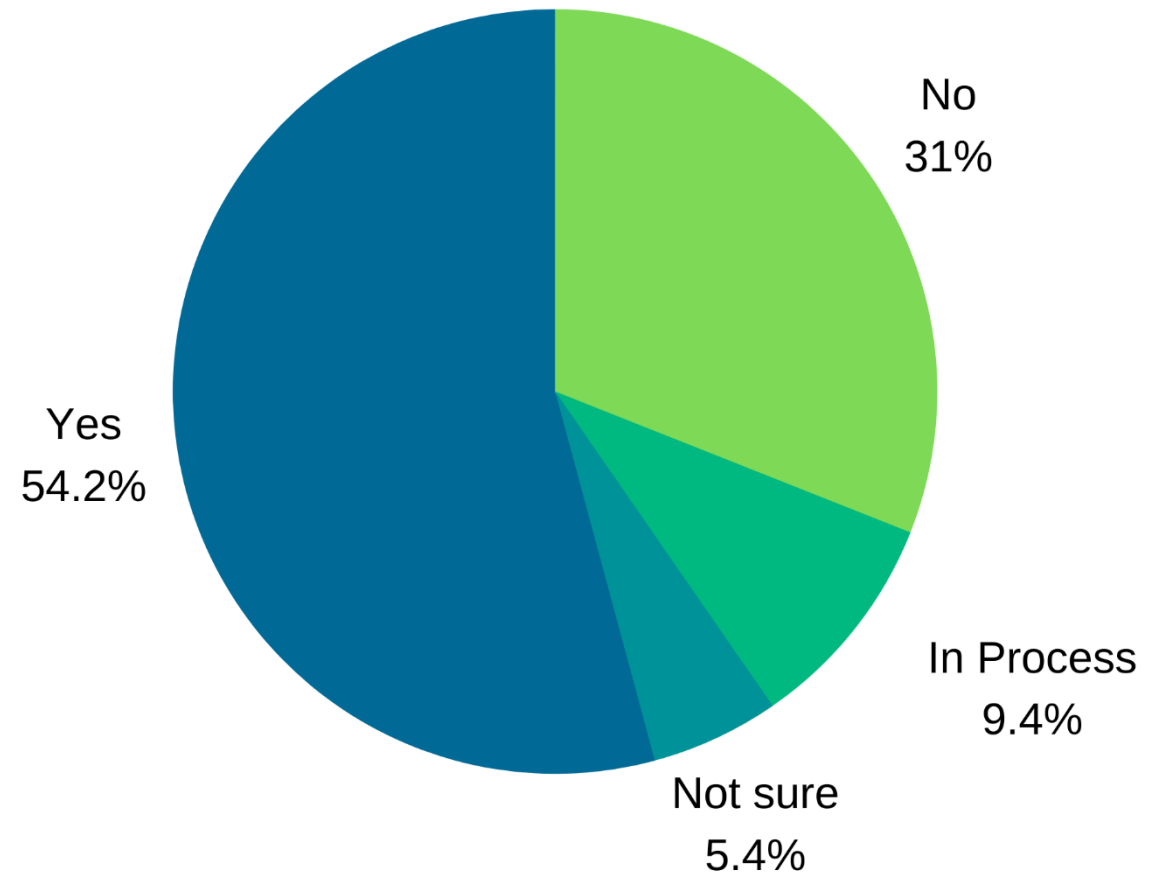


Survey Results

Is there appropriate succession planning for Board Members?

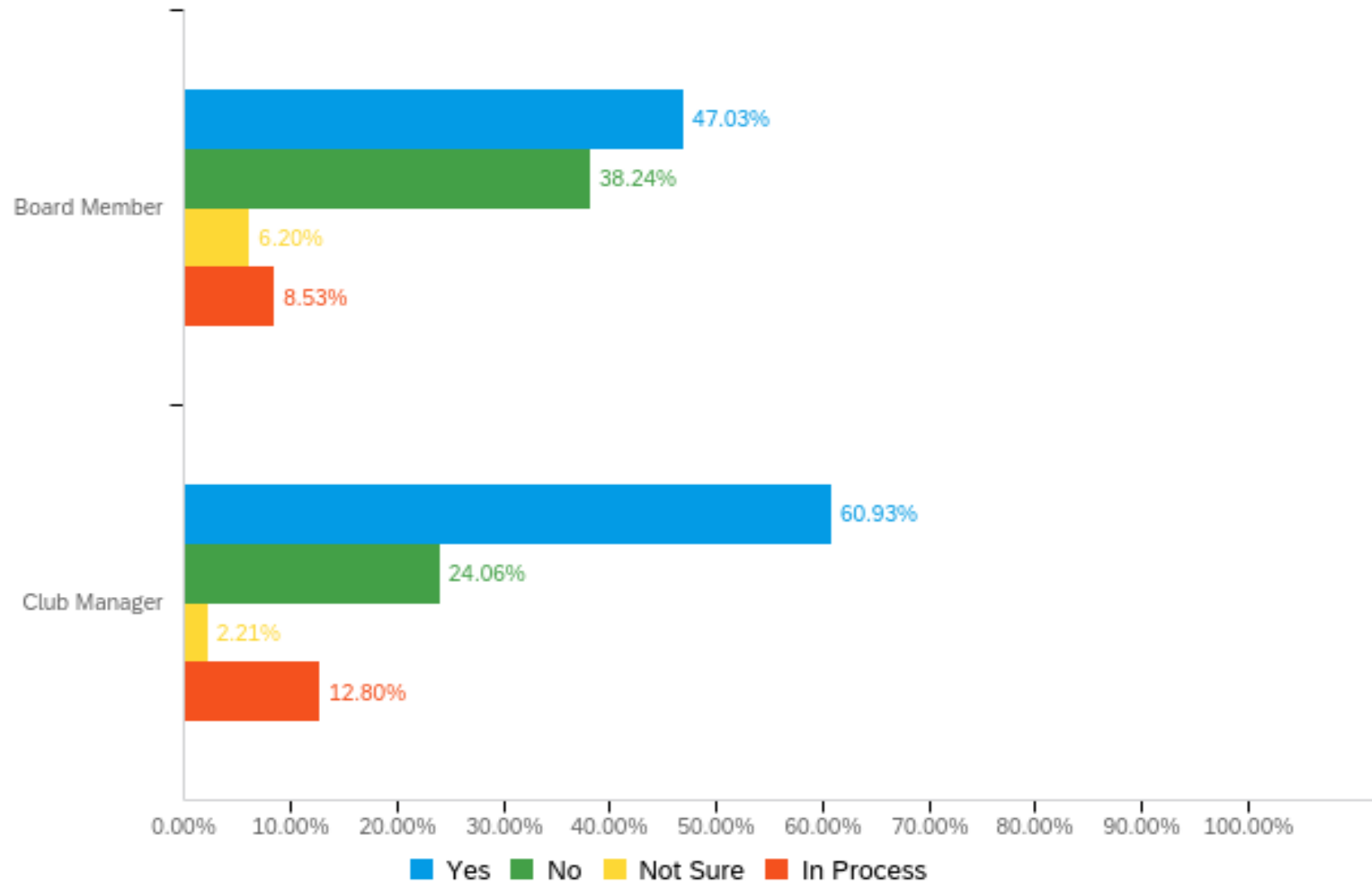


Is there appropriate succession planning for Officers?



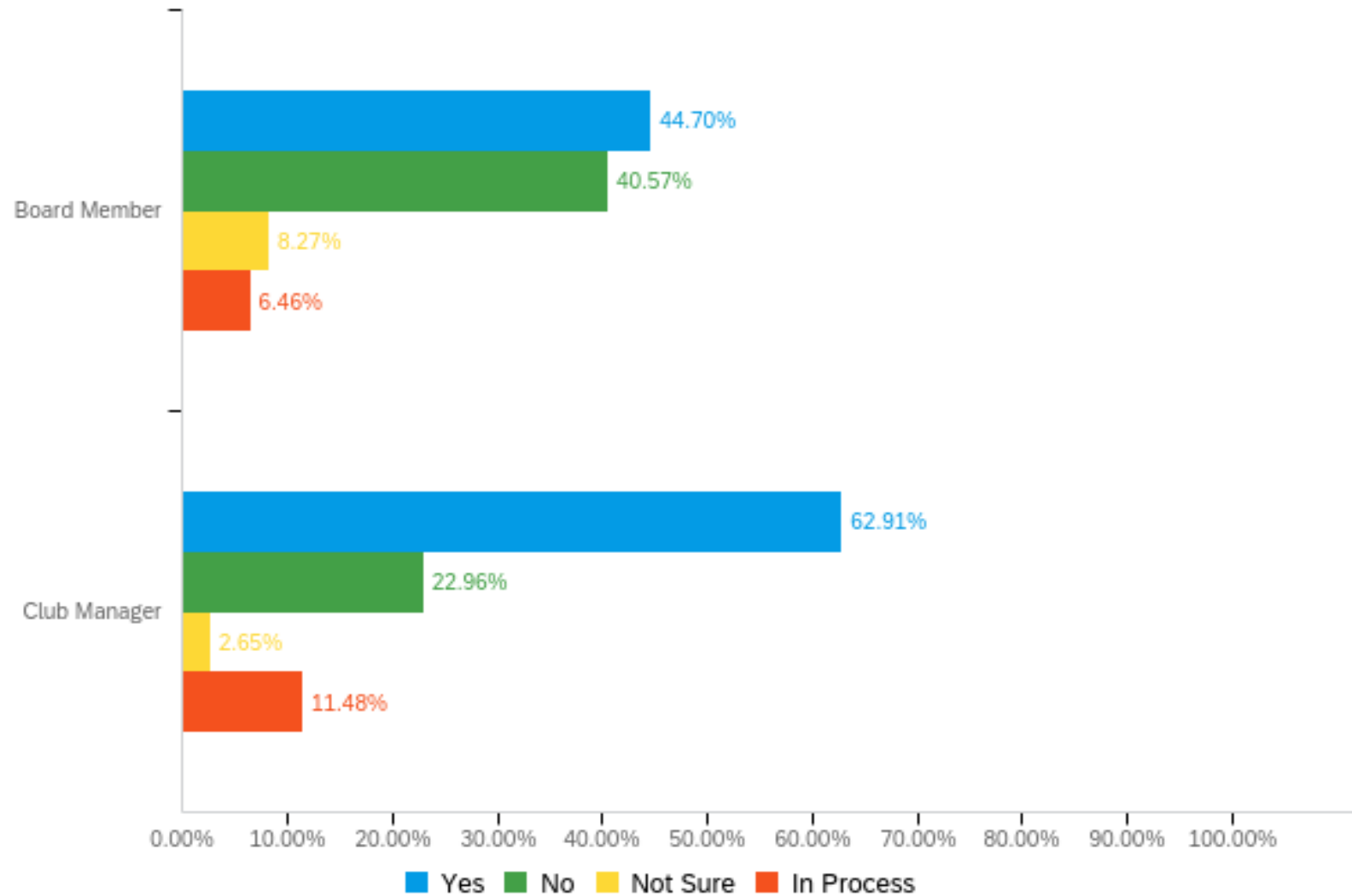
Survey Results

Is there appropriate succession planning for Board Members:



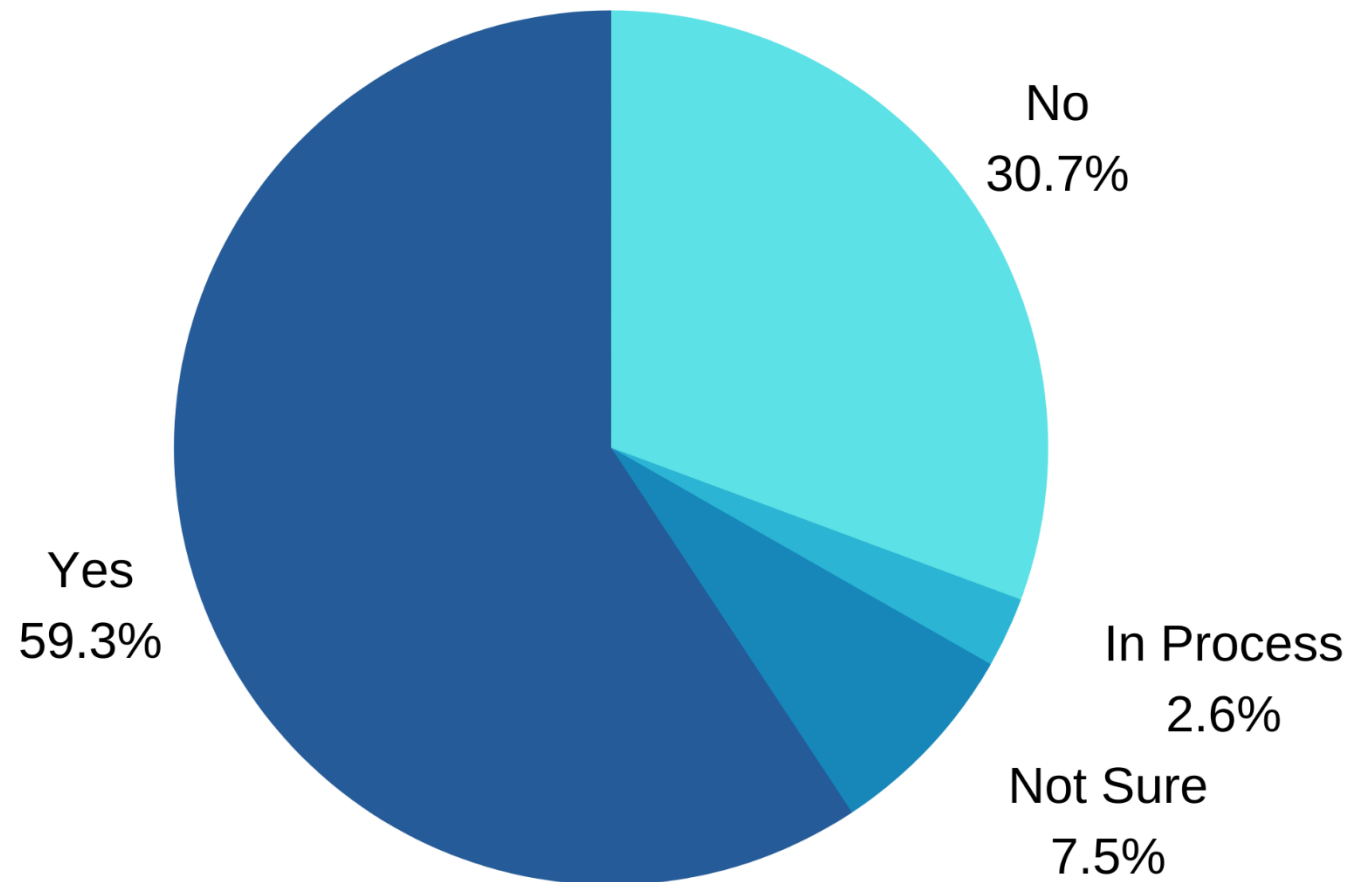
Survey Results

Is there appropriate succession planning for Officers:



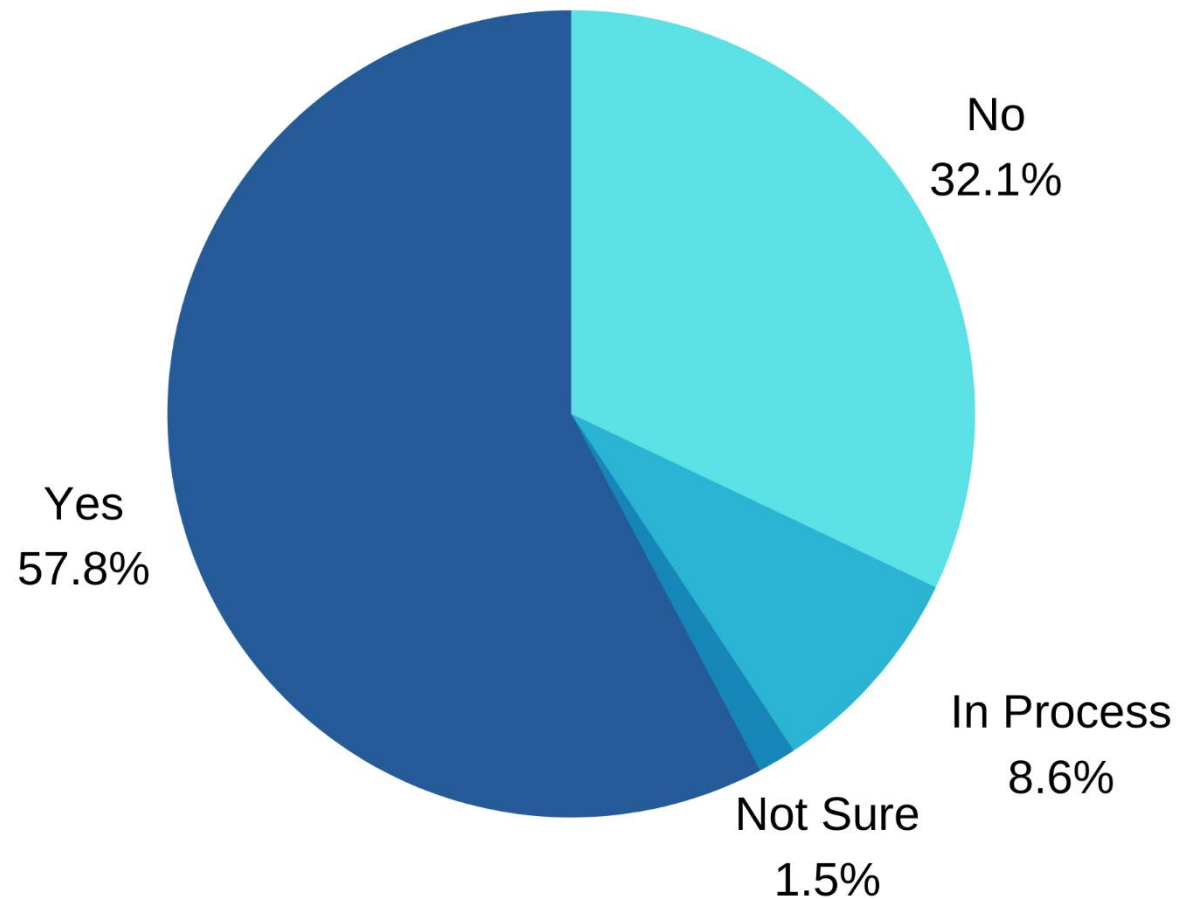
Survey Results

Does your nominating process actively seek to avoid contested elections?



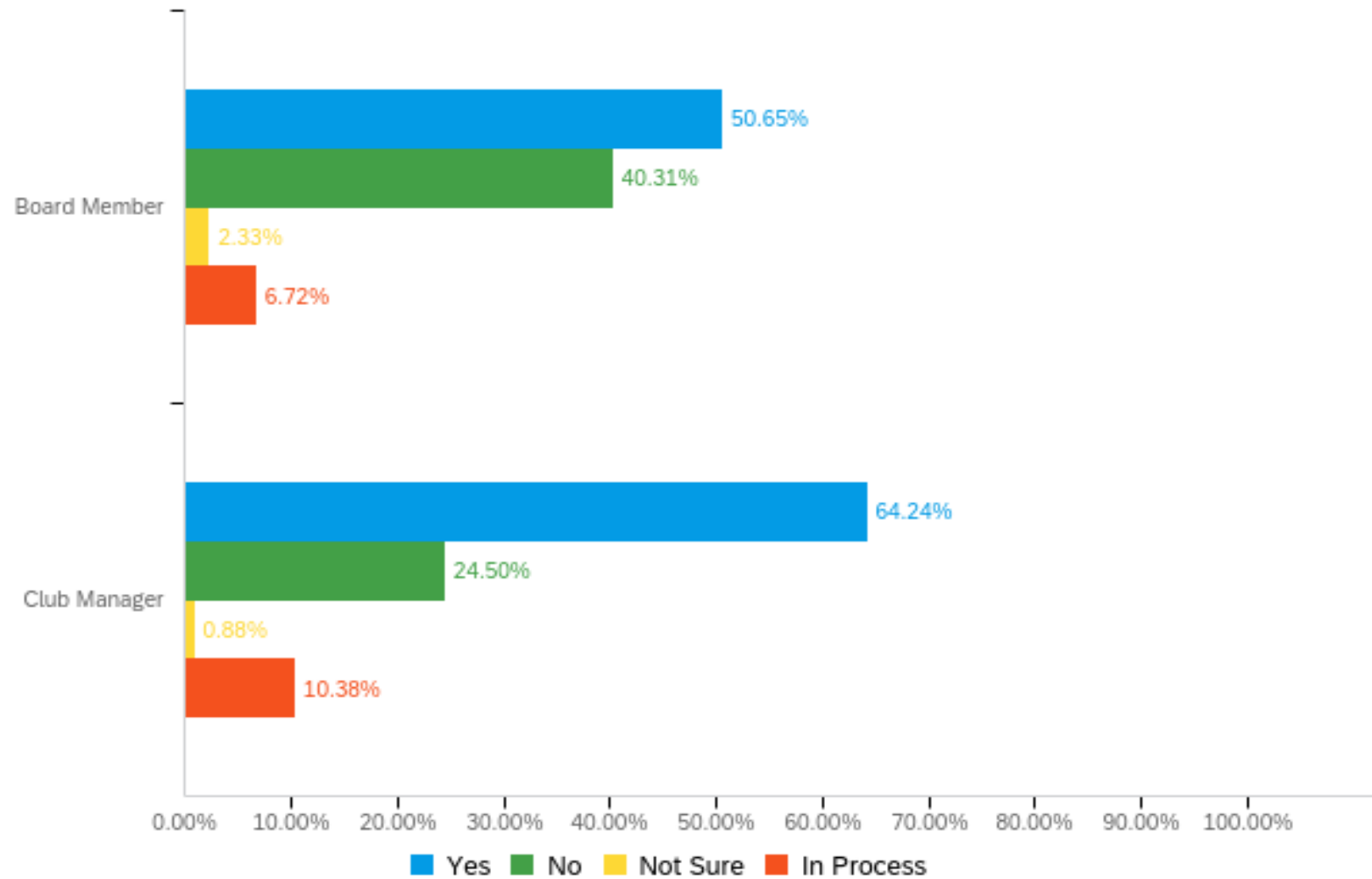
Survey Results

Does your club have an annual orientation program for Board members?



Survey Results

Does your club have an annual orientation program for Board members?



Survey Results

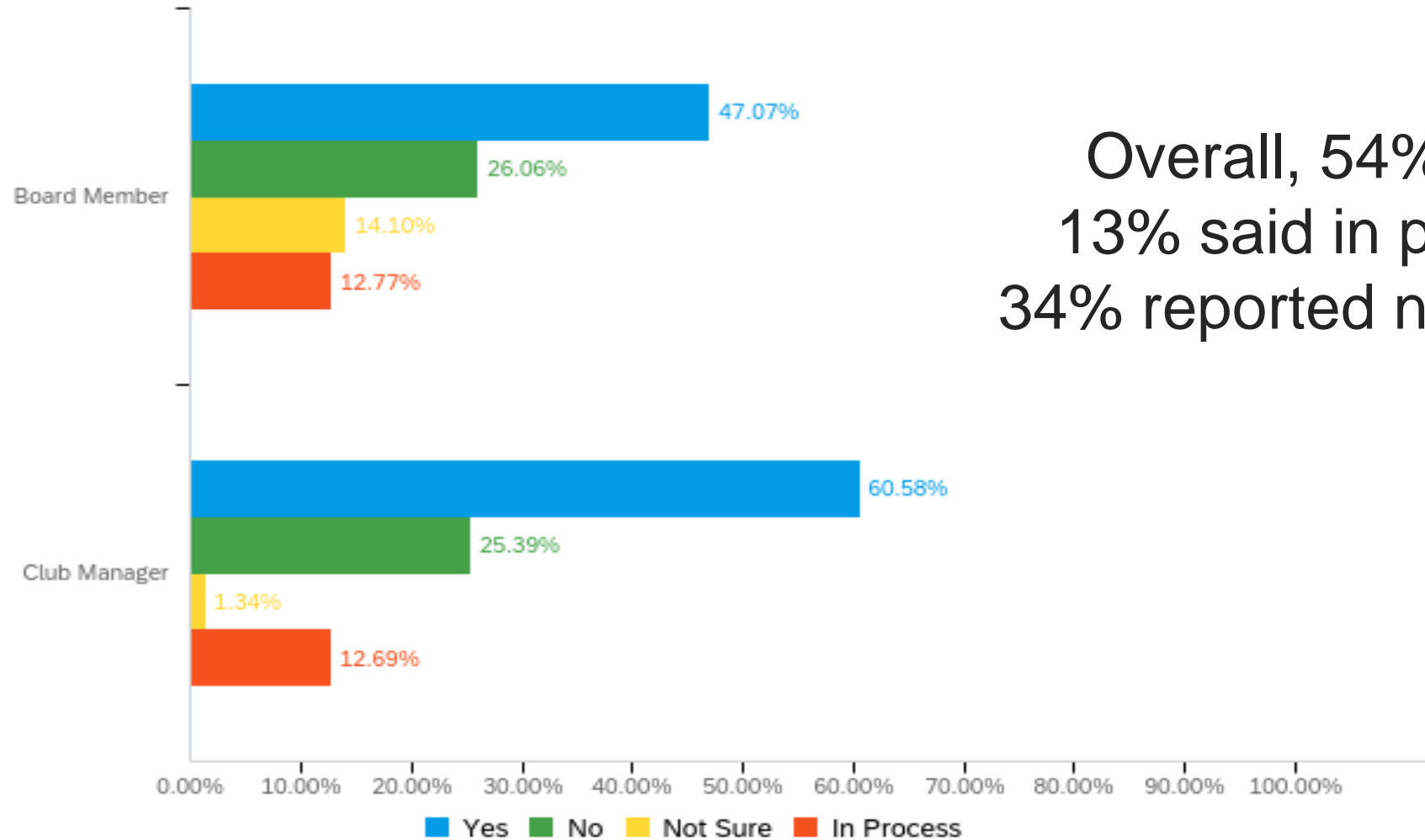
Q: How much of the board's focus is devoted to strategy and the balance sheet versus operations?

A: More than 65% of respondents reported the board spends **less than 50%** of their time on strategic issues and 42% said they spend **less than 30%**.



Survey Results

Does the club maintain a long term financial plan for all funds?



Overall, 54% said yes, 13% said in process and 34% reported no or not sure.

Survey Results

- **Is your club debt-free?**

Only 23% of respondents reported being debt free.

- **If not debt-free, is your total debt balance less than your total annual dues revenue?**

Of respondents reporting debt, 59% said the club's debt balance is less than annual dues revenue, 35% reported that the debt balance was greater than annual dues and 6% were not sure.



Survey Results

Was the original loan amortization period on any debt 10 years or less?

Of respondents reporting debt, 50% reported an amortization period of less than 10 years and 50% reported greater than 10 years or were unsure.

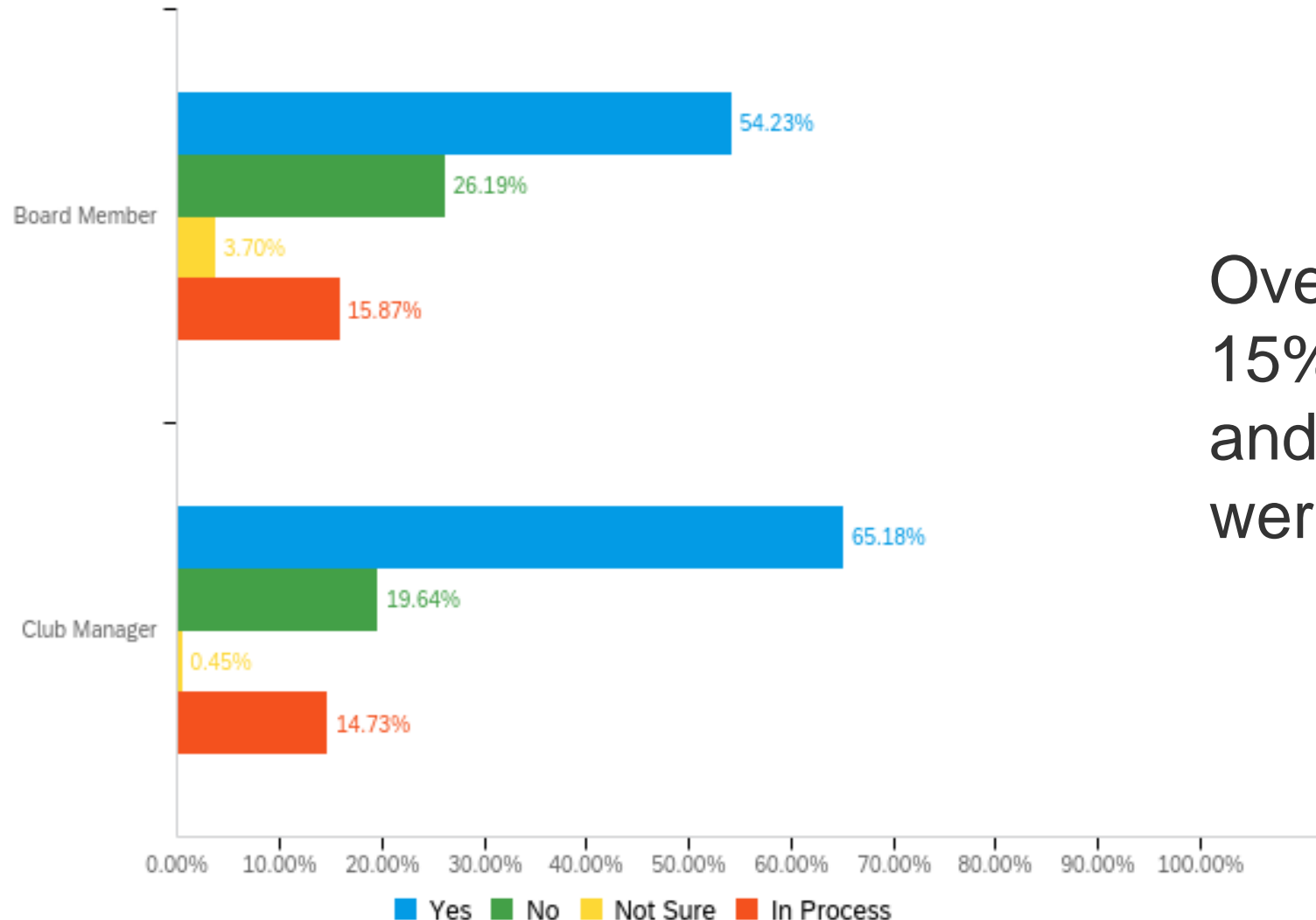
Impact of Long Amortization Periods

\$4M Loan with 4% interest rate and principal due in 10 years

Amortization Period	Principal Due in Year 10	Percentage of Amount Borrowed
10 Years	\$0	0%
15 Years	\$1,606,574	40%
20 Years	\$2,494,111	60%
25 Years	\$2,854,375	71%

Survey Results

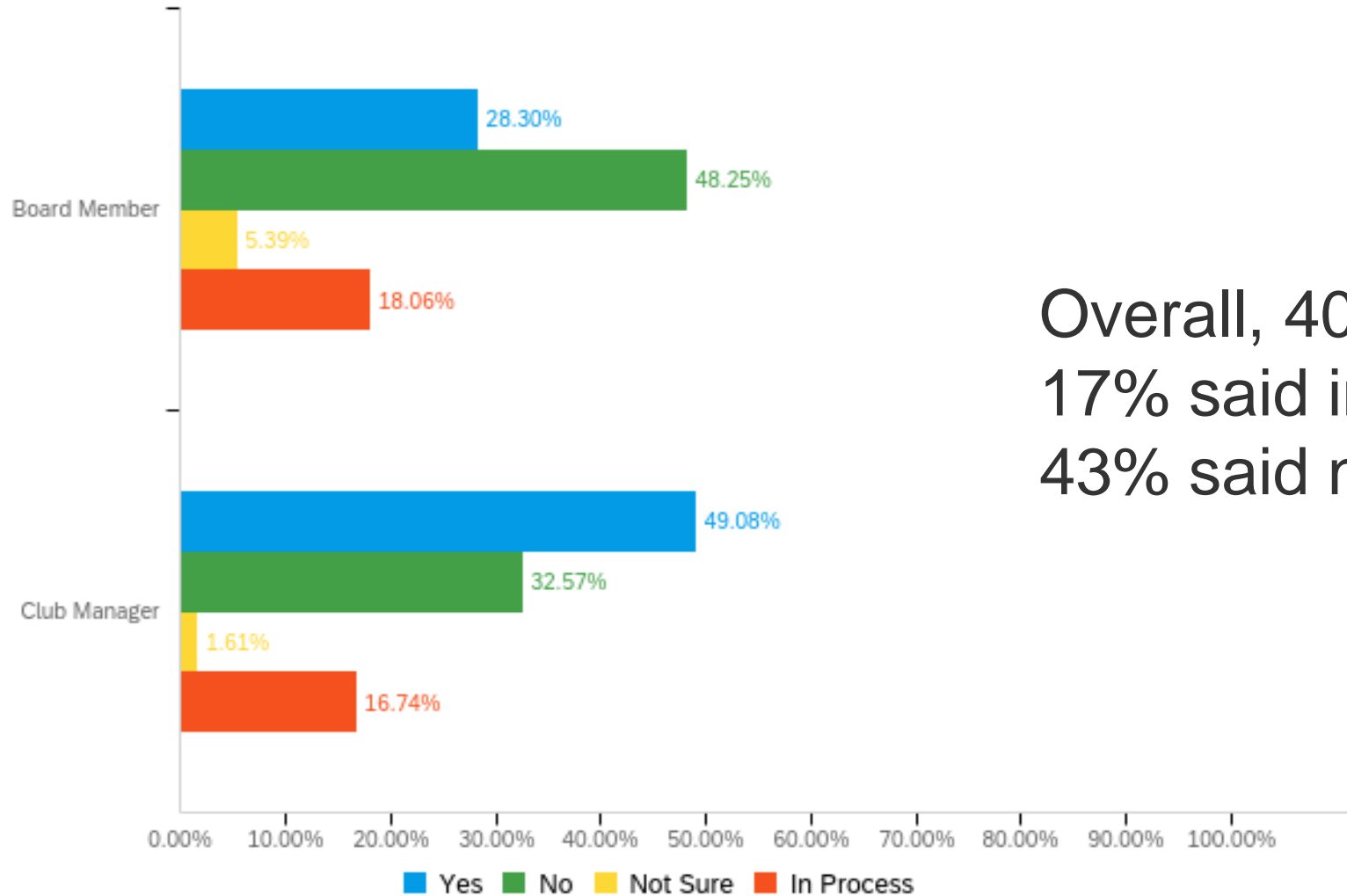
Does the long term plan reflect expected capital spending for the next 5-10 years?



Overall, 59% said yes, 15% said in process and 26% said no or were not sure.

Survey Results

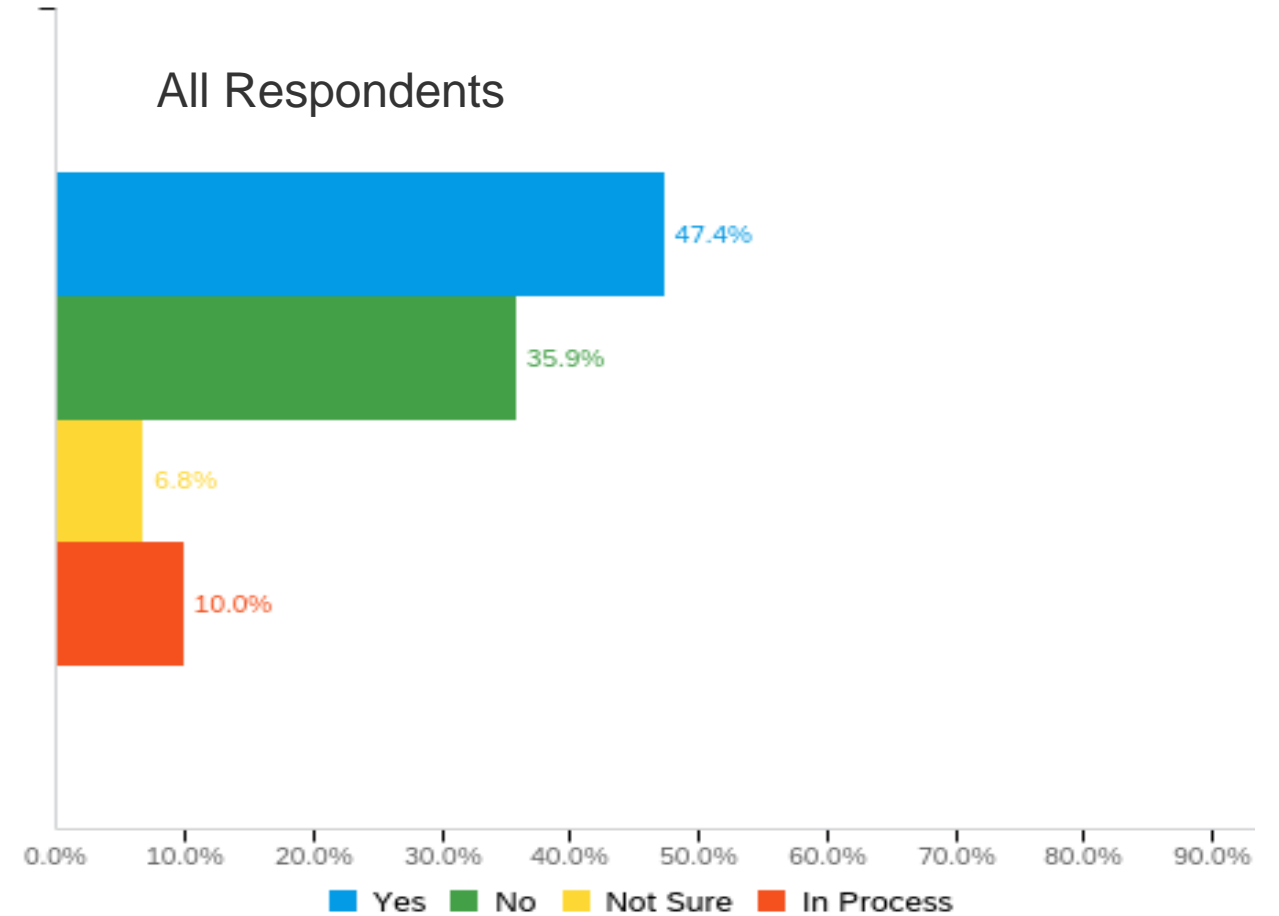
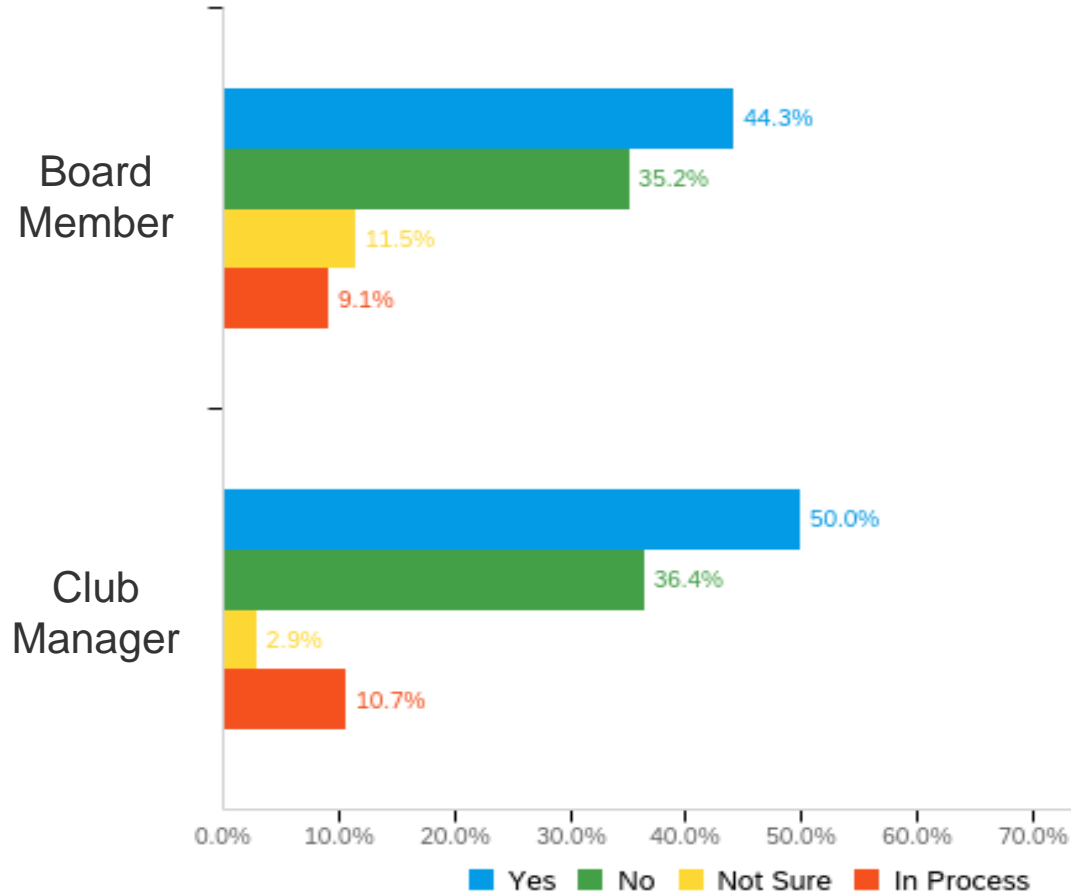
Is the long-term capital plan funded?



Overall, 40% said yes, 17% said in process and 43% said no or were not sure.

Survey Results

Is the club current on capital replacement spending?



Summary

- “Yes” answers to survey questions indicated best practices
- Of the 14 questions most closely related to strong financial results, less than 60% of respondents gave “yes” answers
- There are a significant number of clubs that would benefit from consistent, industry specific training in strategic governance and adherence to best practices



Core Values & Best Practices

VISION: To generate widespread understanding and adoption of the best practices that lead to sustained club success.

Informed Leadership

1. Continuously educate regarding best practices and important societal trends impacting the private club industry.
2. Conduct mandatory and comprehensive orientations for all stakeholders.
3. Adopt the fact-based, private club business model and related financial best practices and KPIs
4. Embrace data-driven leadership rooted in strong governance principles and transparent communication to all stakeholders.

Empowered Management & Team

1. Create and maintain robust talent acquisition, retention, and professional development systems.
2. Utilize proven performance management systems to set goals and measure outcomes.
3. Perform regular team engagement surveys, compare to benchmarks and act on results.

Strategic Stewardship

1. Develop and maintain an effective strategic plan.
2. Protect, preserve, and grow the assets through comprehensive capital planning that addresses obligatory and aspirational improvements within a unified facilities master plan.
3. Enhance member value by creating innovative club experiences.
4. Ensure seamless transitions of Boards, Committees and Senior Staff.

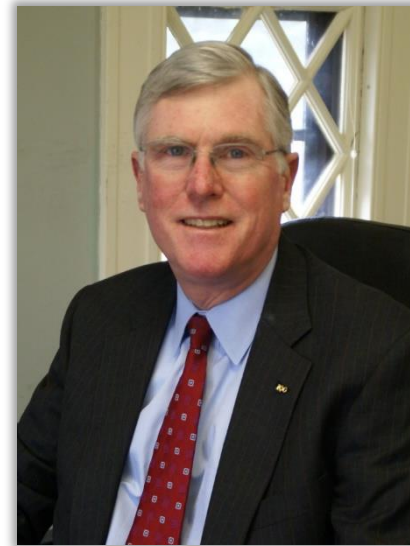
Compelling Member Experience

1. Match member expectations to club's primary purpose.
2. Measure member needs, preferences and satisfaction on a regular basis.
3. Provide a value proposition that cultivates highly engaged, loyal, and satisfied members who think like owners.
4. Present a relevant experience that easily attracts the next generation of members.

Questions?



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Thank You!



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*Our mission is to foster healthier clubs, more strategic boards
and more empowered managers by elevating fact over opinion.*

