
MELBOURNE FOOTBALL CLUB



MFC Board Review July 2013

Report to the Board – Executive Summary

This document is the Executive Summary of findings and recommendations of the MFC Board Review undertaken on behalf of the MFC Board by Board member John Trotter.

Executive Summary

This Executive Summary highlights the key findings and recommendations of the review of the Board of the Melbourne Football Club (MFC). Further findings and recommendations are detailed in the full report to the Board.

Background

The Board appointed Peter Jackson to the role of Chief Executive Officer (CEO) for an initial period of six months (now extended to 2014). Although this is an all-encompassing role associated normally with the responsibilities of a CEO, the following priorities are to be addressed during his appointment:

- review the structures, processes and people across all levels of the club;
- review the Football Department with the objective of improving the on-field competitiveness; and
- review the short to medium term (1-3 years) financial forecasts.

To ensure that all aspects of the club's operations were taken into consideration and the independence of the Board and CEO relationship is maintained, the Board appointed John Trotter (Board member) at the 3 June 2013 Board meeting to conduct a review of the Board.

Objectives

The objectives of the Board review were to:

1. Assess the performance of the Board and provide recommendations to improve Board performance;
2. Review and make recommendations on the state of the MFC Corporate Governance Framework - including structures, processes and operations of the Board with a focus on bringing the framework, where practicable, to industry and corporate best practice standards; and
3. Determine the future requirements of the Board, including Board composition.

Scope

The scope of the review included feedback from Board members, senior MFC management and key internal and external stakeholders, including the AFL.

The Corporate Governance framework was assessed against: The Corporate Governance Framework for AFL Clubs; the ASX Corporate Governance Council Principles and Recommendations with 2010 Amendments; and generally accepted corporate best practice.

The future Board composition requirements were determined through the analysis of AFL Club Boards and other relevant organisations, and included feedback from selected AFL Club Chairmen and the AFL.

Key Findings and Recommendations

1. Overall Board Performance

In assessing the performance of the Board, it was clear that the Board has added significant value to the MFC over the last five years, and until 2013 had produced four years of profit, acquired significant assets and grown the MFC revenues. However, due to both poor on-field performance and current financial performance, the Board recognises it has lost the confidence of the members, key stakeholders and the AFL.

Findings:

- I. To regain the confidence of these parties, there needs to be a significant change in the composition of the Board.
(Note that there have been six changes to the Board that was formed in 2008, and a further four resignations and one new appointment during the timeframe of this review).
- II. The current role of President Peter Spargo is recognised as an interim position, and the appointment of a new President is seen as a priority step in rejuvenating the Board.
- III. By rejuvenating the Board and appointing a new President, the MFC will re-establish Board stability. This is critical in:
 - a. regaining the confidence of members, key stakeholders and the AFL;
 - b. recruiting the best persons for key Football and Business positions; and
 - c. attracting new Board members.
- IV. The AFL has made it clear that, as part of the Support Package conditions, they will play a role in determining the composition of the Board moving forward.

Recommendations:

- I. The Board, through the Nominations Committee, needs to develop and implement a formal Board Succession Plan, ensuring that there is managed turnover of longer serving incumbent directors, and appointment of new directors to restore the confidence of members, key stakeholders and the AFL;
- II. The Nominations Committee should commence the process of identifying and nominating potential Board members in early August 2013, noting that a number of potential candidates have already contacted the MFC; and
- III. Once the new Board is in place, the appointment of a new President who has the support of the AFL is seen as a critical step in ensuring that the MFC is in the best position to:
 - a. give renewed confidence to the members, key stakeholders and the AFL;
 - b. provide a stable environment as a means of attracting key personnel and retaining current players; and to
 - c. minimise the risk of disruption to the MFC and the support of the AFL that may be caused through external parties challenging the nominations process.

2. Board Effectiveness

A number of Board members joined the Board in mid 2008 when the MFC had limited management skills, lacked resources and had significant debt. This resulted in a blurring of roles of the Board and management, as Board members were immersed in “running the club” and eliminating the debt.

The effort, commitment and contribution of the current Board and individual Board members over this period is recognised. However, as MFC revenues have grown significantly over the last five years and a number of people have been appointed to manage the MFC, it is critical that the Board now assume the role of a Board and let management manage. In measuring the effectiveness of the Board, the following areas were reviewed:

- the role of the Board;
- the people;
- Board practices and processes; and,
- the behaviours of the Board.

Findings:

The review indicated that the effectiveness of the Board was being impacted by the:

- I. lack of clarity of the roles and responsibilities of the Board and management;
- II. issues around the strength of the working relationship with key management;
- III. depth of experience of Board members with Corporate Governance frameworks, structures and processes;
- IV. use and mix of skills of individual Board members;
- V. time availability of certain Board members;
- VI. clarity of Board member roles; and
- VII. the depth of relationships with key stakeholders.

Recommendations:

- I. To improve the effectiveness of the Board, the current MFC Governance framework, structures and processes need to be revisited and, where practicable, brought up to corporate best practice standards, recognising the specific requirements of the MFC;
(This exercise covers Board Charters, Board Committee structures and Board processes, including: the respective roles of the Board and management, the Code of Conduct, Diversity policy, Succession planning, Board nominations, Board member induction, Board and Board member evaluation, Management evaluation, Board agendas and Management reporting.)
- II. The Board Nominations Committee, in determining the composition of the Board, should ensure that there are a number of Board members who are experienced in businesses that have working Corporate Governance frameworks; and
- III. As the Governance structures and processes are being updated and the strategic priorities of the club are being reassessed, it is recommended that:
 - a. All current Board members are re-inducted through the revamped Board Induction program;
 - b. All new Board members complete induction within two months of joining the Board; and
 - c. At least one Board meeting per year has a session to refresh Board members on the key aspects of the induction program.

3. Board Composition

The composition of the Board, and the skills and experiences that individual Board members bring to the Board, will be critical in establishing Board stability and giving members, internal and external stakeholders and the AFL confidence that the MFC Board is able to rebuild and sustain the performance of the club.

In addition to recognising the general attributes of corporate Boards, a high level analysis of AFL Boards was undertaken as part of this review.

Findings:

- I. The range across AFL clubs is from six (Hawthorn) to 13 (Carlton);
- II. The skills and backgrounds of AFL Board members are extremely diverse, but finance and accounting, legal and professional sports backgrounds, combined with a professional career, are common skills across most AFL Boards;
- III. Diversity is common to the majority of AFL Boards;
- IV. The ability of Board members to commit appropriate time to fulfilling their roles and responsibilities is essential;
- V. Most AFL Boards have a mix of corporate and small or private business board members;
- VI. A demonstrated understanding of the difference between the role of the Board and the role of management is seen as critical to the proper functioning of the Board; and
- VII. The President/Chairman is seen as critical to establishing the tone of the Board.

Recommendations:

The total number of Board members stipulated by the MFC Constitution (Rule 3) requires a minimum of six and a maximum of 12 board members. It is recommended that:

- I. The Board should be composed of non-executive directors who can both individually and collectively bring to the Board the following skills and attributes:
 - a. A demonstrated understanding of the difference between the role of the Board and the role of management;
 - b. Strong finance skills, including audit and accounting experience;
 - c. Legal skills;
 - d. Professional sporting experience combined with a business background;
 - e. Networked in the business community and/or within the MFC members and key supporter groups (e.g. Foundation Heroes, Coterie) to facilitate fundraising;
 - f. A mix of Board members from large business/professional backgrounds, who understand Board and Board governance;
 - g. A diversity of members;
 - h. A track record of being team players who can work with the other Board members;
 - i. Strong values and ethics, including confidentiality and an understanding of conflicts of interest;
 - j. Can commit time to ensure board duties are carried out effectively and attend club functions when required;
 - k. Holds an understanding of the importance of appropriate Board member relationships with players and staff; and
 - l. As the MFC is embarking on a significant reshaping of the Club, changes in personnel and a change in strategic focus, it is recommended that the Board should include member(s) who have experience in organisational change management.

- II. In addition to the attributes outlined above, the President of the MFC should have:
- a. the support of the AFL;
 - b. the ability to form a sound working relationship with the CEO of the MFC;
 - c. an understanding of the business and the issues of the AFL, and specifically the MFC;
 - d. the skills to hold the Board and management to account; and
 - e. the respect of the members, key stakeholders and the business community.

Conclusion

The Melbourne Football Club's current financial position and on-field performance does not meet the expectations of members, key stakeholders and the AFL. The AFL has offered support to address these issues, but this support is highly conditional.

In this context, the implementation of the recommendations contained in this report should be seen as critical to:

- satisfying the conditions of the AFL;
- regaining the confidence of members, stakeholders; and
- providing a stable environment that is essential in attracting key Football Department personnel, and retaining players.

As agreed at the Board Meeting on 24 June 2013, the Board and management have already commenced a series of actions to implement the above recommendations.

AFL Statement

"The AFL is satisfied that the Board Review process undertaken by the Melbourne Football Club was robust and the recommendations are supported by the AFL."

Andrew Dillon - General Counsel, AFL