

Governance Essentials

Best Practices in Club Governance

Co-Authored by: Joe Abely and David Duval - Club Benchmarking Executive Consultants



2021 Club Governance Report

The report that follows is a summary of our findings from the 2021 Club Benchmarking Governance Survey. Conducted annually since 2017, the Governance Survey grew out of the exchange of ideas by a group of club presidents, treasurers and managers representing a dozen or so clubs in greater Boston. Over the years, the survey has evolved and expanded in response to suggestions from respondents and through our extensive work with individual clubs.

The Governance Survey was conceived as a diagnostic tool that would provoke thoughtful, productive discussions and identify opportunities for improvement by evaluating understanding and adoption of recognized best practices directly tied to effective club governance. The survey also provides a meaningful foundation for direct engagements and orientation sessions with individual club leadership teams.

The 2021 survey garnered more than 1,000 board member and GM responses from approximately 700 different clubs, reflecting the full industry spectrum with participation from golf clubs, country clubs, yacht clubs, tennis clubs and social clubs. This year's response was the largest and most geographically diverse since the survey began five years ago. To the best of our knowledge, the responses also represent the largest involvement of board members in a data-collection effort of this kind. Thank you to everyone who contributed to the success of the 2021 survey by taking time to participate.

Best Practices in the Club Industry

Collectively, clubs in the United States represent a more than \$35 billion industry. With a median of 11 directors per club serving approximately 3,000 clubs, some 33,000 people are currently working as volunteer leaders at their clubs, but the vast majority have no prior formal governance training, club board experience or understanding of the private club business model. Add to that the fact that they cycle through their terms at a rapid pace relative to other industries and it is no surprise that dissemination and adoption of best practices has been slow or non-existent in private clubs.

Over the last five years, the annual Governance Survey has consistently revealed disparities in responses among board members of the same club and between board members and managers. We believe these are a direct result of significant gaps in club-specific education and communication. Our goal is to identify those gaps and the educational opportunities that will bridge them. In the report that follows, we present findings from the 2021 Governance Survey augmented by our observations gathered through extensive interactions with clubs across North America.

Three Cornerstones of Great Governance: People, Resources and Focus

The formula for exceptional club leadership is relatively straightforward. It is a matter of getting the right **people** involved, equipping them with the proper **resources** and getting them to **focus** on what matters most. In our experience, clubs that succeed in mastering that formula will produce superior financial results.

In the survey, we address the first piece of the formula – **getting the right people involved** – through questions related to the nominating process, succession planning and the avoidance of contested elections. We believe contested elections are antithetical to effective succession planning for board members and officers, and therefore, the continuity of thought and implementation of plans across multiple administrations. We concur with the many survey respondents who believe meaningful committee experience is an important prerequisite for board service.

The critical **resources** utilized by effective boards start with fact-based education on the private club business model which leads to including strategic plans, reserve studies, campus master plans, independent membership surveys and funded long-term integrated financial plans. In our opinion, the latter is the most important of all. It enables a club to match future resources with plans in a fiscally prudent manner.

When it comes to **focus**, strategic Boards should:

- Conduct annual orientations for new members
- Set annual agendas consistent with long term plans
- Fully fund long term needs and avoid deferred spending on capital assets
- Embrace the common [Key Performance Indicators](#) that matter to every club to monitor performance.

Specific questions about club views on managing debt, food & beverage, and time allocation were added to the survey this year with some interesting results. From our experience, Boards and clubs that are financially successful tend to operate with enlightened views on the use of debt, the importance of food & beverage as an amenity versus a profit center, and the allocation of the Board's time for strategic purposes.

Each of the three cornerstones of great governance – **people, resources and focus** were queried in this year's survey. The results presented in this report are intentionally sorted to highlight consistency or variation between responses from current Board Members (426) and Managers (491). The summary sets aside 83 responses from industry consultants, controllers and former Board members to concentrate on the Board and Manager.

PEOPLE

As illustrated in charts 1 and 2 below, the majority of Board Members and Club Managers surveyed believe their clubs have an effective **nominating process** for Board Members and Officers. The nominating committee is widely recognized as the most important committee in a club, due to its potential to impact the club's success. The effectiveness of **succession planning** (charts 3 and 4) is viewed much less favorably. Succession planning requires consistent attention and improvement, but it is critical to continuity of thought and implementation of plans. It is also extremely important for Club Managers having to deal with new officers and directors every year or two.

In survey comments related to the nominating process and succession planning, suggestions for improvement from Board Members and Club Managers include multi-year views by the Nominating Committee, a stronger statement of purpose of the Nominating Committee, a more formalized and transparent process, better education of candidates, and mandatory committee experience.

Chart 1 - Nominating Process (Board)

Do you believe the club has an effective nominating process for the Board?

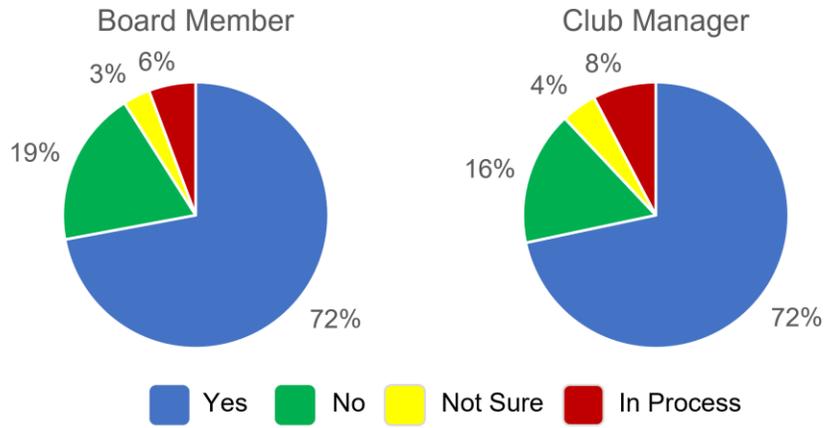


Chart 2 - Nominating Process (Officers)

Do you believe the club has an effective nominating process for Officers?

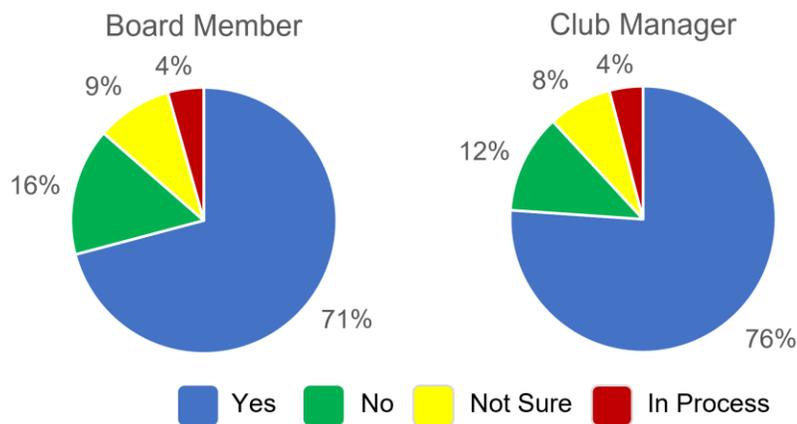


Chart 3 - Succession Planning (Board)

Is there appropriate succession planning for the Board?

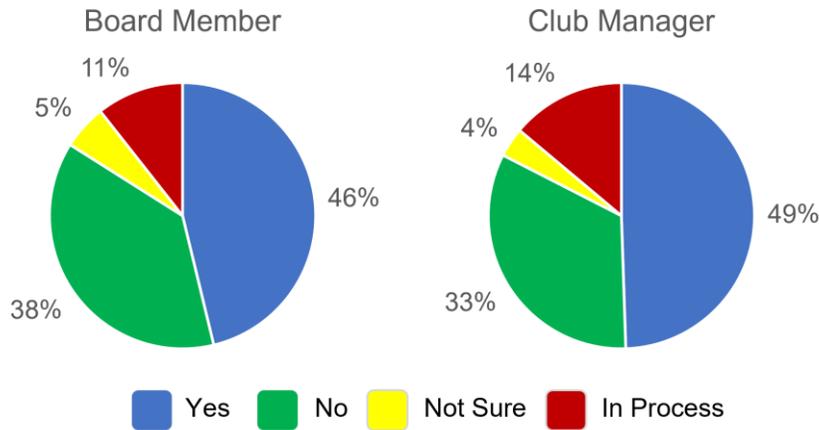
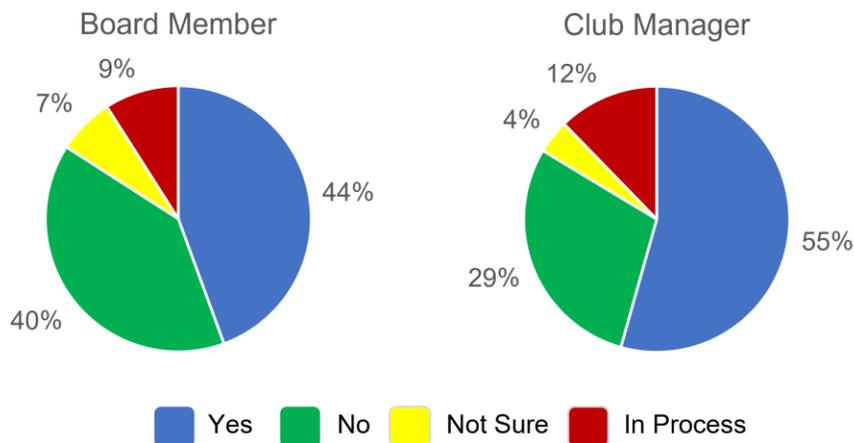


Chart 4 - Succession Planning (Officers)

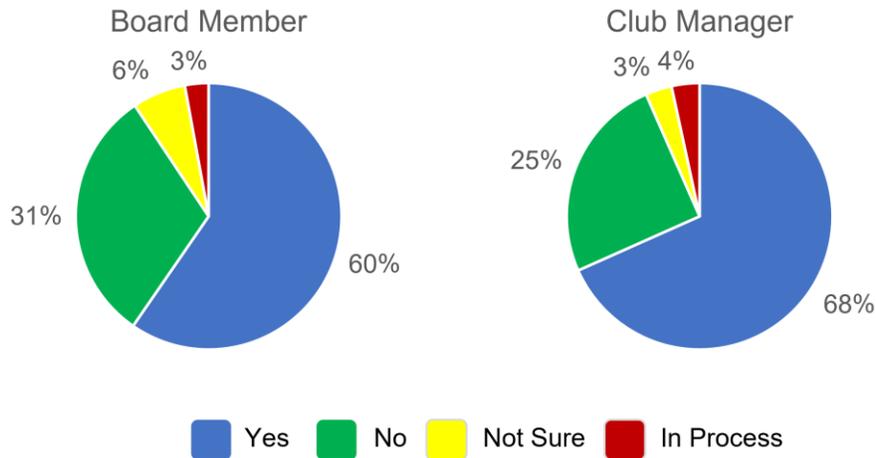
Is there appropriate succession planning for Officers?



While current bylaws and statutory requirements may limit the ability to avoid contested elections completely, they are a major impediment to the purposeful construction of a Board. Based on survey comments and our own experience as board members, board educators and advisors, many clubs are being more specific in their definitions of a slate (one candidate for each open position) as they rewrite their bylaws. Concerns of popularity contests and group self-perpetuation are better dealt with in the thoughtful construction of Nominating Committee, more transparency in the committee process, and more education of the membership through board and committee communications.

Chart 5 - Contested Elections

Does your nominating process actively seek to avoid contested elections?



RESOURCES

Charts 6 through 9 below summarize Board and GM responses to questions about the existence of strategic plans, reserve studies, campus master plans, independent member surveys and funded long-term financial plans. With respect to the funding of long-term financial plans, “funded” means projected capital sources that equal or exceed all of the club’s obligatory and aspirational capital needs, debt service, and other obligations throughout the planning period. We strongly recommend 10-year forward projections.

Approximately one-half of the respondents reported having a written strategic plan. Another 25% reported plan development was “in process.” Readers should note that the definition of a strategic plan varies by individual respondent. Through in-person discussions with survey respondents, we know that in-process can mean anything from “we’re starting to consider...” to “we’re almost ready to present the plan to membership for approval.”

Independent Membership Surveys, Professional Reserve Studies and Facility Master Plans tend to be more straightforward and uniform in definition. The latter two are vitally important components of long-term financial plans. Among respondents indicating that a long-term financial plan is maintained for all funds, only one-third of Board Members and one-half of Club Managers believed their plans were fully funded. Boards must maintain a long-term view and develop a plan to close the gap on funding deficiencies after carefully considering all long-term needs. This is job #1.

Chart 6 - Strategic Planning

Does your club have a written strategic plan?

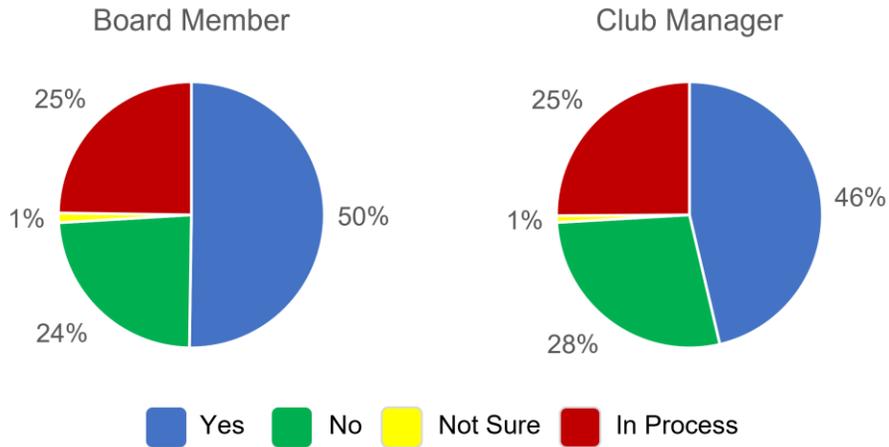


Chart 7 - Reserve Study

In the last five years, has the club conducted a professional reserve study of its capital assets covering a 15 to 20 year outlook?

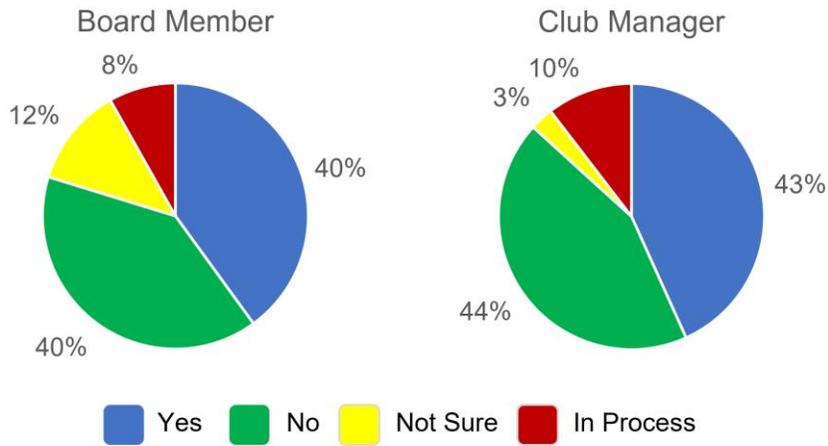


Chart 8 – Facility Master Plan

Does the club have a facilities master plan?

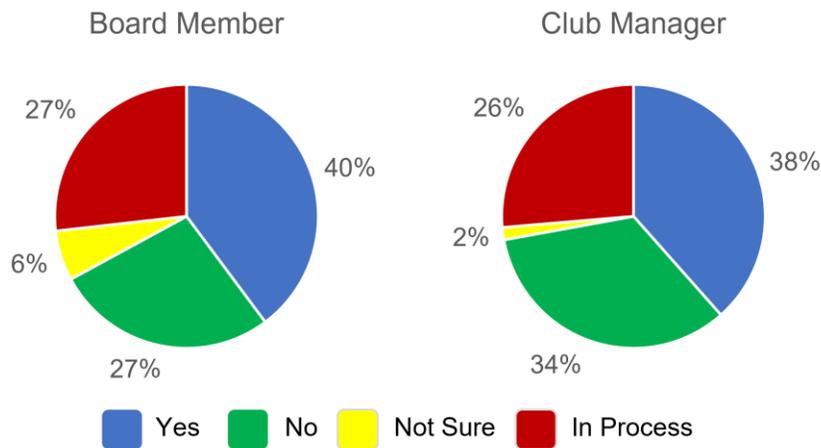
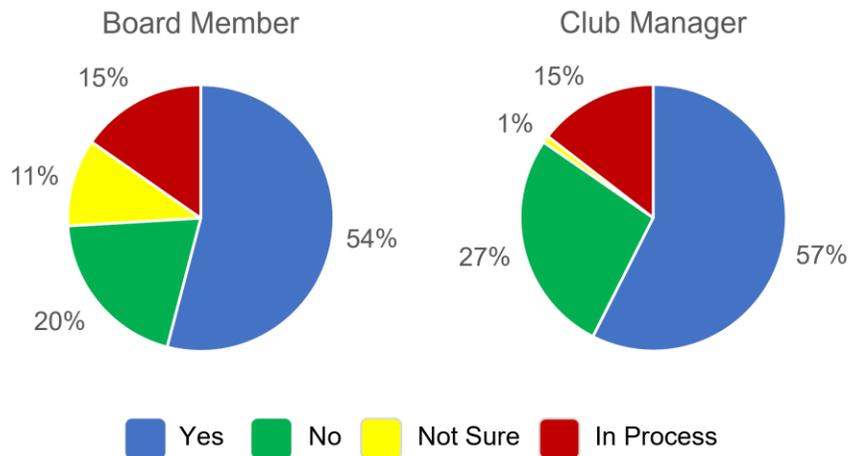


Chart 9 - Financial Plan

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

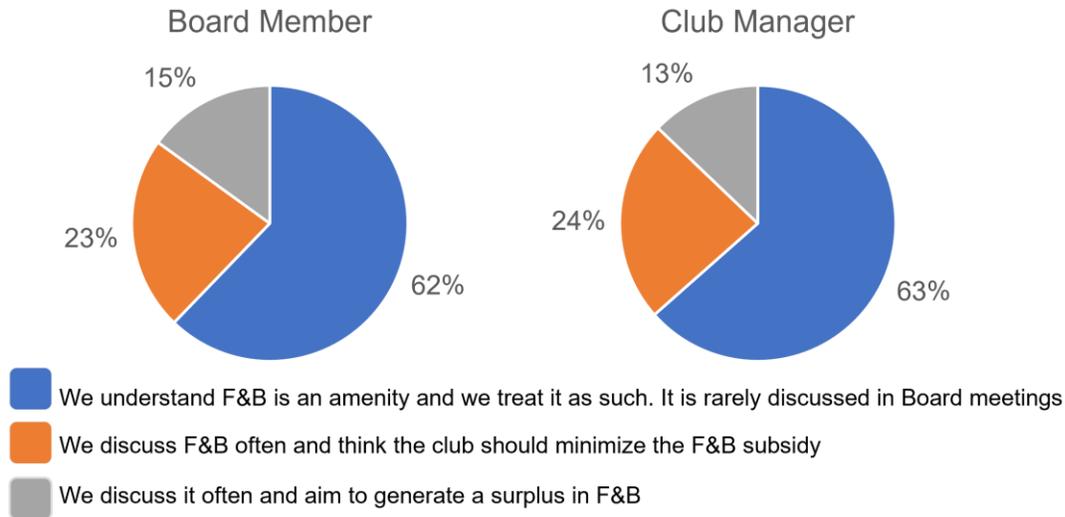


Focus

Most Board members will begin their term of service with little or no knowledge of the intricacies of private club operations, capital needs, industry best practices or even the private club business model. Annual education is necessary to instill and transfer knowledge, shorten learning curves and ensure that limited resources are focused on the most important actions. Over the last decade, perspectives have evolved on key issues such as the the role of food & beverage as an amenity versus a profit center, appropriate use of debt, and the allocation of Board time to strategic matters. Education aimed at improving the board’s understanding of fundamentals like these saves a great deal of time and discussion during the year. Charts 10 and 11 and Table 1 below report survey results on the three topics noted above.

Chart 10 - Food & Beverage

Which best describes your club's view of food & beverage?



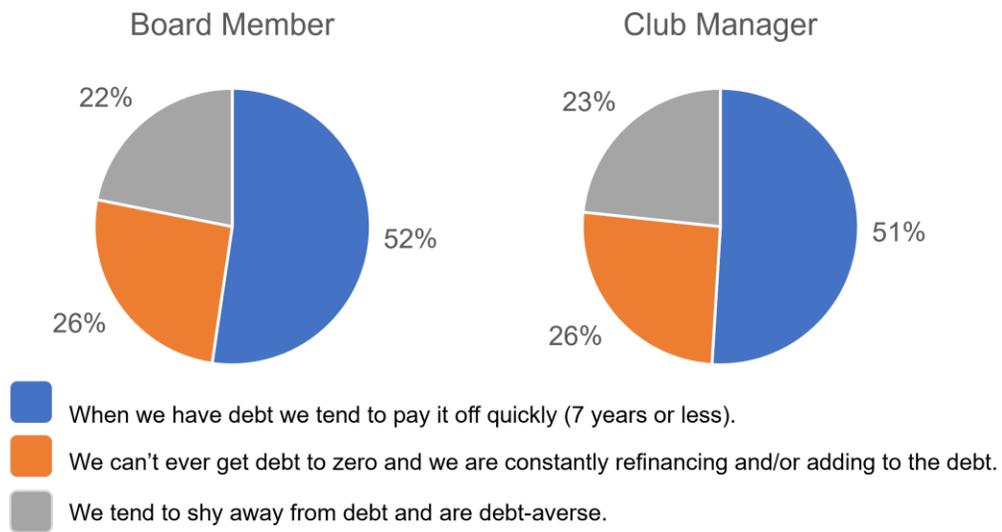
In a private club setting, food & beverage, like any other club amenity, is subsidized by dues. The industry data is conclusive; clubs where F&B is treated as an amenity are financially healthier, with more members, higher initiation fees, higher dues and growth in Net Worth Over Time. In clubs where F&B is treated as a profit center, the focus is on efficiency versus creating a compelling member experience. The data shows that clubs at or below the median have fewer members, charge less for initiation fees and have declining net worth. Again, the data is conclusive.

Debt

Industry data indicates an increase in the use of debt by clubs over the last 10 years. For some clubs, judicious use of debt may be prudent. However, taking on too much debt, opting for repayment terms that are too long or using so-called "balloon payments" to make debt service more affordable in the near term often hampers a club's ability to adequately fund future obligatory capital needs.

Chart 11 - Debt

Which best describes your club's approach to debt?



Strategic Focus

As a strategic body, the board has a responsibility to focus the majority of its time on forward-looking planning & strategy. As tempting as it may be to delve into operational concerns or member behavior, boards must be disciplined and stay the course on strategic matters. We encourage boards to devote 65-70% of meeting time to strategic matters. Survey results presented in Table 1 below indicate discussions of current year operations consumed approximately 60% of board meeting time at the responding clubs.

Table 1 – Strategic Focus

During board meetings, what percentage of time do you spend discussing current year club operations vs. forward-looking planning & strategy?

Board Member

Club Operations	64
Forward-Looking Planning Strategy	36

Club Manager

Club Operations	57
Forward-Looking Planning & Strategy	43

The importance of strategic focus becomes clear when one considers the financial realities that exist outside the operating ledger, on the club's balance sheet. As stewards and fiduciaries, every board member and club manager *should* know if their club is current on obligatory capital spending (repair and replacement of existing assets) and if they are generating sufficient capital to service debt and fund depreciation. Charts 12 and 13 below indicate deferred spending and insufficient capital generation at approximately one-third of the responding clubs. The "not sure" answers indicate a need for additional board education. In fulfilling their fundamental responsibilities and meeting their fiduciary duty of care, board members should, at a bare minimum, be able to answer "yes" or "no" to these two questions. The reader should note that frequently, club financials do not align with responses to this question.

Chart 12 – Deferred Capital

Is the club current on capital replacement spending (avoiding deferred spending?)

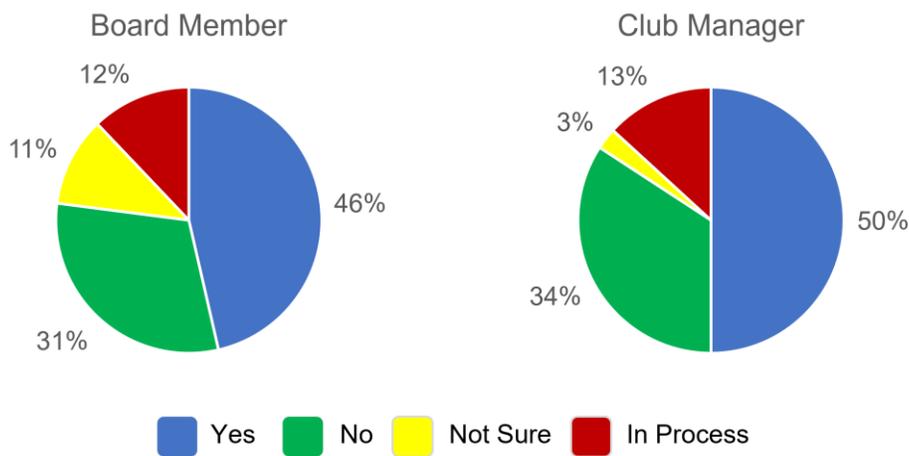
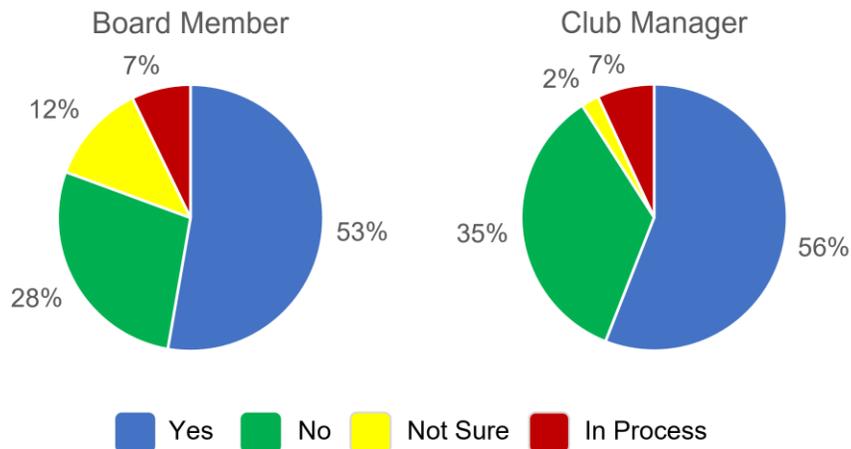


Chart 13 – Capital Funding

Does your club fully fund depreciation and debt service on an annual basis?



Creating and maintaining an annual agenda helps boards stay focused on the most critical and strategic tasks at hand, but as we see in chart 14 below, more than half of the respondents say that important tool

is not in use at their clubs. Agendas typically list 5-10 major topics to tackle that are consistent with the development and implementation of long-term plans. As seen in Chart 15, about 60% of respondents have an annual board orientation program in place. Clubs not embracing those tools are missing an opportunity to educate board leaders and drive board focus.

Chart 14 – Annual Agenda

Does the board set written annual goals and objectives for itself in the form of an annual agenda?

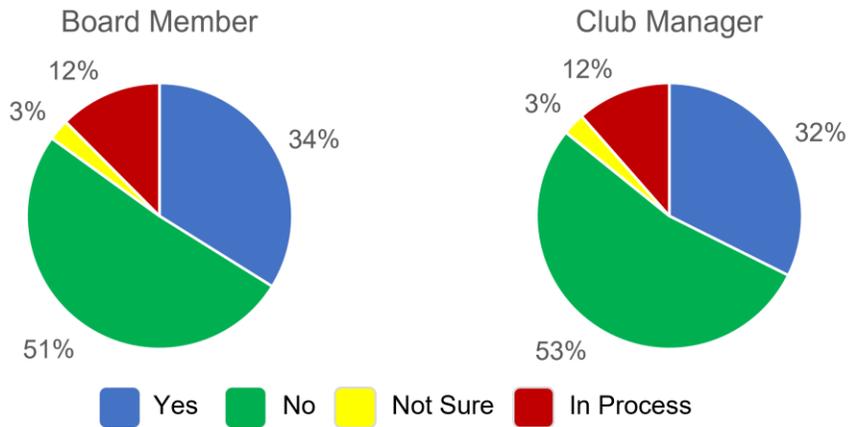


Chart 15 - Board Orientations

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

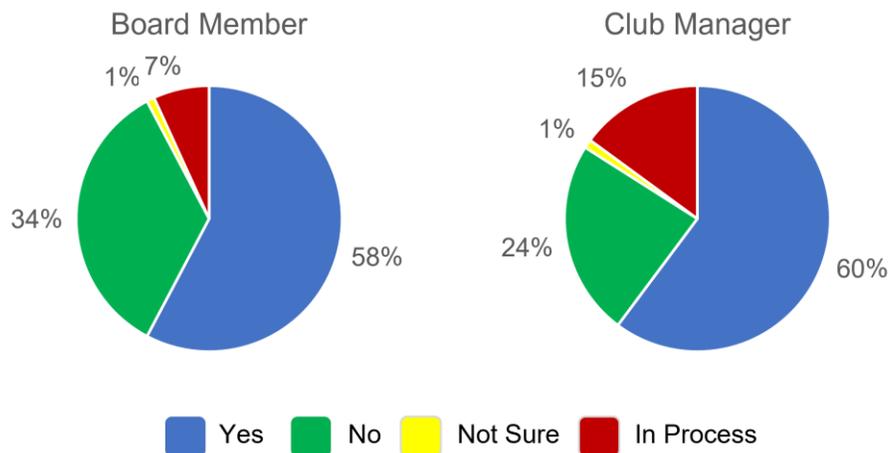


Table 2 - Financial Indicators of Success

Table 2 below presents critical metrics boards can use to measure performance. These metrics indicate how well a Board is discharging their duty to develop sound strategy, preserve and grow club assets, and ensure the club's financial vitality. It is not coincidental that six of the eight indicators focus on the balance sheet. Quartile breakpoints are based on survey club data which is consistent with the industry overall.

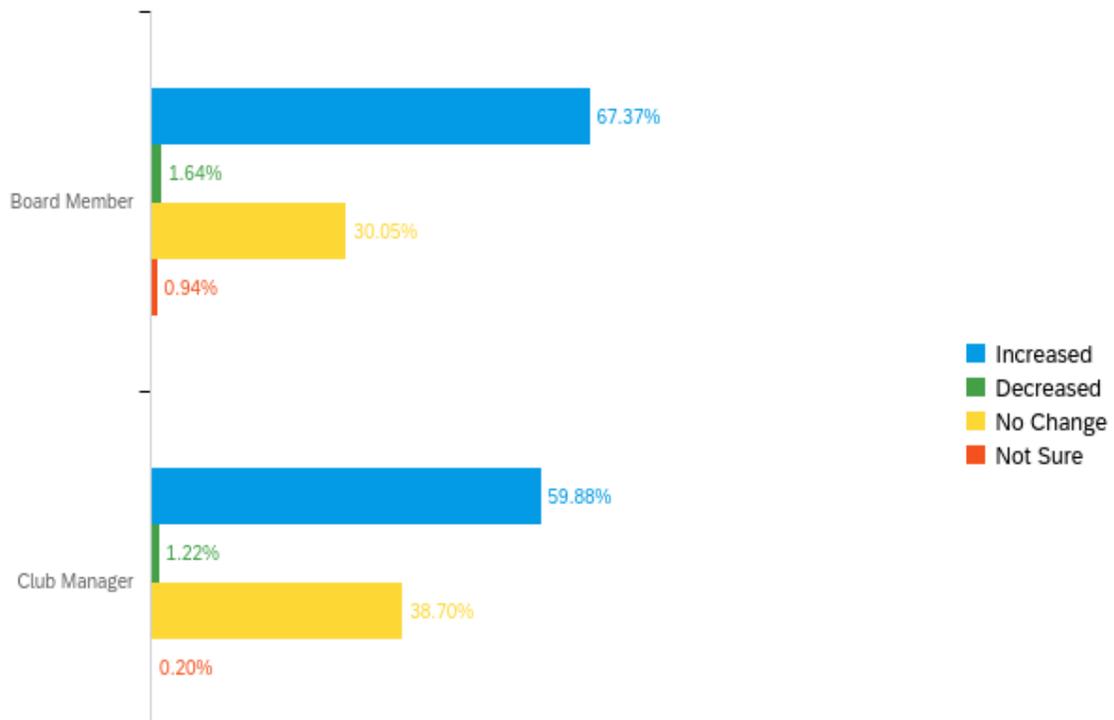
Financial Indicators of Success	Lower 25%	2nd Quartile	3rd Quartile	Upper 25%
Compound Annual Growth Rate of Member's Equity (Net Worth)	0.6% or less	>0.6%	>2.5%	>5.3%
Compound Annual Growth Rate is the annual rate of growth or decline in net worth over time. Club Benchmarking recommends a <u>minimum</u> of 3.5% growth annually to keep pace with inflation and meet future obligatory needs.				
Net to Gross PP&E	36.40% or less	>36.40%	>45.75%	>53.37%
Generally speaking, the higher the ratio of net to gross property, plant and equipment, the fresher/newer the assets. The difference between net and gross PP&E is accumulated depreciation. CB recommends a goal of 55% or higher.				
Net Available Capital to Depreciation plus Current Portion of Bank Debt & Capital Leases	54.53% or less	>54.53%	>85.58%	>118.74%
The ratio of Net Available Capital to Depreciation and the Current Portion of Bank Debt & Capital Leases indicates the club's ability to fund depreciation and current debt commitments. Clubs that fail to meet both needs typically fall behind in capital spending and see declining net worth and lower net to gross PP&E ratios over time. A deteriorating campus negatively impacts the ability to attract and retain members.				
Debt to Equity Ratio	61.59% or greater	<61.59%	<30.06%	< 6.26%
The Debt to Equity Ratio measures a club's utilization of debt versus member capital. Debt is not a substitute for member capital but is rather an assessment spread out over time. While debt can leverage near-term capital investment, it can also hinder future administrations unless there is a plan for repayment. Financially strong clubs typically limit the Debt to Equity ratio to 20% or less.				
Debt to Dues Ratio	142.54% or greater	<142.54%	<86.79%	<23.81%
The Debt to Dues Ratio is another measure of the club's reliance on debt. Clubs with a ratio of debt to dues revenue higher than 100% are generally the most highly leveraged and are at greatest risk of not being able to continually improve their campuses and attract new members during economic downturns.				
Dues to Operating Revenues	43% or less	>43%	>49%	>55%
The Dues to Operating Revenue ratio provides insight into the durability of club business models. Dues subsidize all amenities and fund administrative costs. Clubs relying on other sources of revenue (such as outings and banquets) to cover fixed expenses are vulnerable to factors such as weather, economic downturns and other unforeseen challenges such as the COVID shutdowns. The higher the dues ratio the better, and exceeding 50% is recommended.				
F&B Subsidy (% of Dues Revenue)	3% or less	>3%	>8%	>13%
F&B is one of the most important amenities a club has to offer. Roughly 80% of clubs subsidize F&B to some extent and those with the highest subsidies are generally the healthiest overall.				
Net Available Capital to Depreciation	89% or less	>89%	>133%	>175%
Net Available Capital to Depreciation Ratio focuses entirely on the coverage of depreciation. As a group, clubs that fail to cover depreciation invariably fall behind in capital spending and experience declining Members' Equity and Net to Gross PP&E ratios. The most tangible result is a deteriorating campus over time.				

Additional Observations

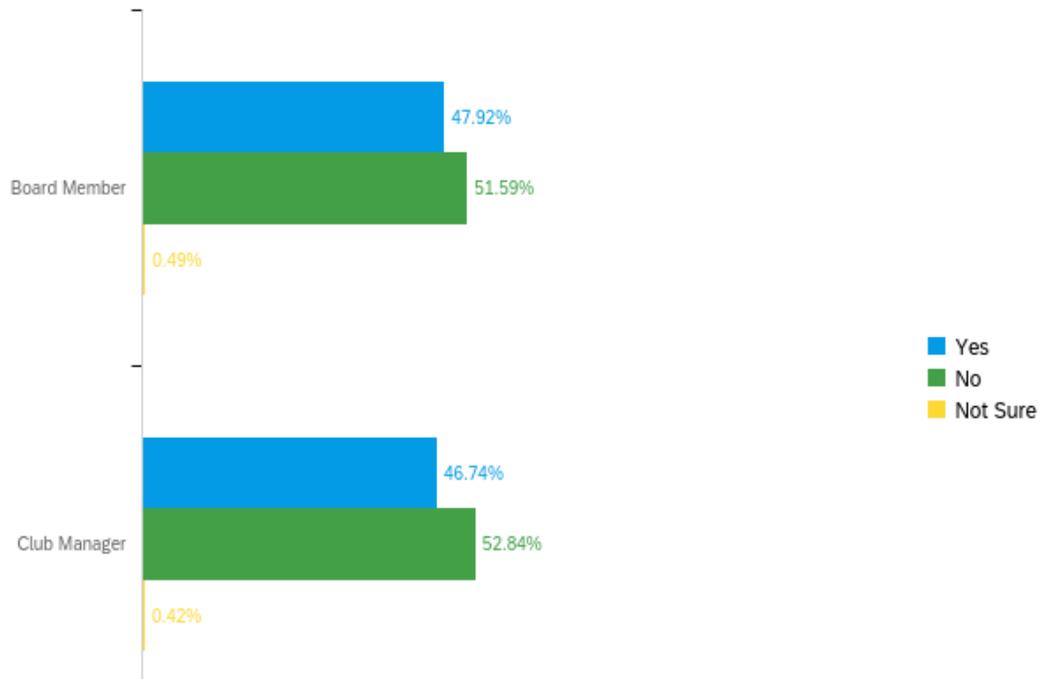
Responses to select survey questions tend to move in patterns from year to year. Responses in a few key areas reflected a surging interest in private clubs during the pandemic. Notable increases over time in initiation fees, waiting lists, full member equivalents and net worth (members' equity) were broad based as evidenced by the graphs below. Much of the positive growth resulted from resurgent interest in private clubs during the first year of the pandemic.

1. Initiation fees have increased in approximately 60% of responding clubs
2. In this sample, 47% of clubs have waiting lists to enter
3. Net worth has increased in the majority of responding clubs

Q10 - Has your club's initiation fee increased, decreased or not changed over the past year?

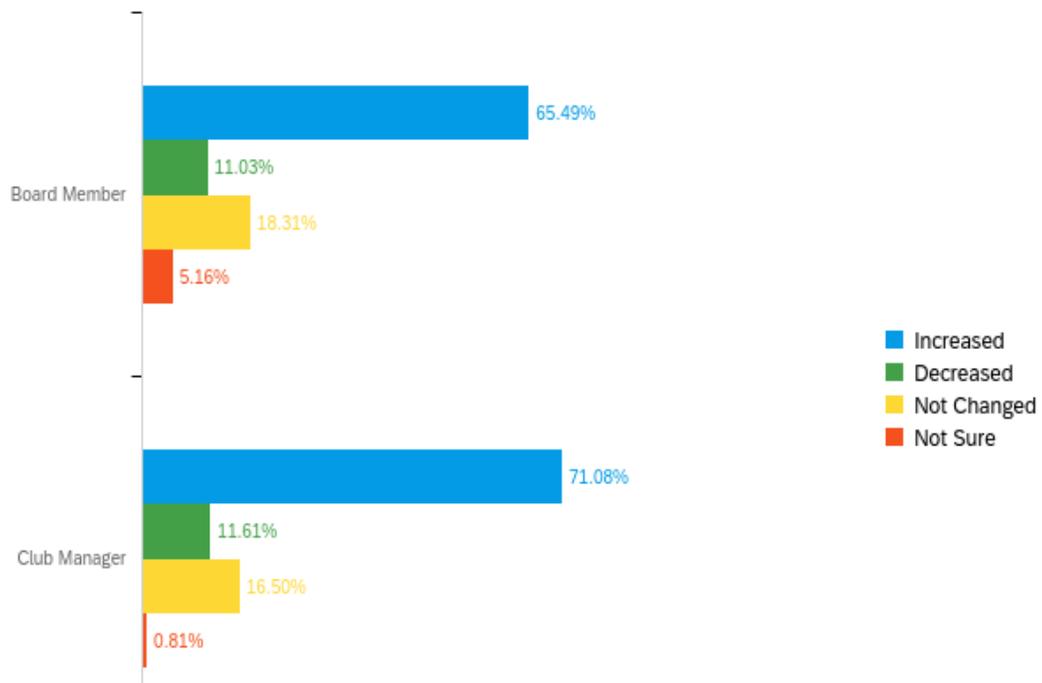


Q11- Does the club have a waiting list of future members to enter the Club?

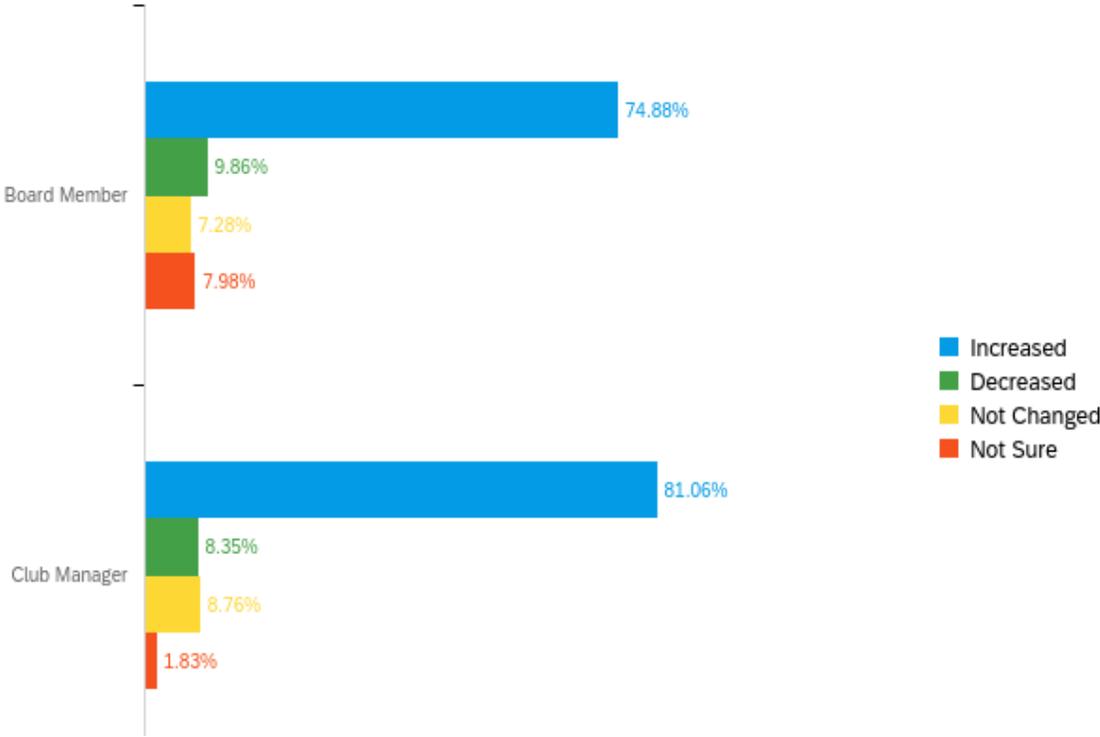


The chart above reflects a significant increase over the results of the 2020 Governance Survey where less than 30% of Board members and managers reported having waiting lists.

Q17 - Has the number of full members equivalents increased, decreased or not changed over the last 5 years?



Q18 - Has your club's net worth (Members' Equity = Assets minus Liabilities) increased, decreased or not changed over the past 5 years?



Among respondents reporting that their club does net worth projections...

Q64 - Since you project net worth for each year of the planning period, is your club's net worth projected to grow by at least 3.5% each year?

Field	Board Member	Club Manager
Yes	52.85% 65	67.57% 100
No	9.76% 12	16.22% 24
Not Sure	37.40% 46	16.22% 24
	123	148

Showing rows 1 - 4 of 4

Conclusion

We have been conducting this annual survey and working with the boards and management of individual clubs since 2017. One of the lessons learned over that time is that there are not many life experiences that can adequately prepare club board members for their roles. The industry is full of well-meaning board members who simply “don’t know what they don’t know.” Experience and data tell us this: clubs that embrace education and adopt best practices generally make good progress, and those that do not tend to tread water, make avoidable mistakes or fall behind.

We’re also keenly aware of swings in educational focus that are the result of short terms of service on club boards. While one club board may embrace education and achieve alignment as a result, the next administration might take a different approach that erodes the progress. A commitment to continuous education must be ingrained in the culture of the board if progress is to be sustained across multiple administrations. Focus on succession planning for Boards and Officers is also a critical component of sustainable, effective governance.

One item of particular note from our research and analysis is data which indicates an increase in use of debt by private clubs over the last decade. In the coming months, we will be digging into the impact of debt on a club’s ability to fully fund obligatory capital needs while maintaining operations and member satisfaction levels. In particular, we will be analyzing industry data to better understand the impact of payment terms and the amount of debt assumed. The concern is that long amortization periods or balloon payments leave boards simultaneously seeking to repay the debt, fund obligatory capital needs and move forward with aspirational capital plans. A good deal of the time we spend helping clubs goes to resolution of those issues and educating boards on prudent use of debt.

We are constantly learning through this annual survey process and through our engagements and we are grateful for the participants whose time and input make that possible. We look forward to working with clubs on their governance needs over the next year and we welcome your input on ways to improve our 2022 survey.



Appendix

Variations in responses between board members and general managers are not unusual or unexpected. At least in part, the Governance Survey is designed to gauge levels of awareness, education and alignment. This year though, we were struck by the uncertainty demonstrated by board members on questions related to Human Resources and General Matters. While board members are not typically responsible for directly managing these matters, awareness is important and the results suggest additional education is warranted. Boards must ensure good processes are in place. It is worth noting the vast majority of board members responding were officers of their clubs.

Human Resources

Does the club have a policy on performing background checks on employees?

Response	Board Member		Club Manager	
Yes	62.72%	254	70.19%	325
No	6.67%	27	26.13%	121
Not Sure	29.14%	118	0.86%	4
In Process	1.48%	6	2.81%	13
Total	Total	405	Total	463

Does the club have an Employee Handbook that's been recently reviewed by appropriate counsel?

Response	Board Member		Club Manager	
Yes	56.30%	228	88.98%	412
No	5.93%	24	5.40%	25
Not Sure	33.83%	137	0.43%	2
In Process	3.95%	16	5.18%	24
Total	Total	405	Total	463

Are employees required to sign/date an acknowledgment that they received the Employee Handbook?

Response	Board Member		Club Manager	
Yes	47.39%	191	96.54%	446
No	4.47%	18	2.16%	10
Not Sure	46.15%	186	0.22%	1
In Process	1.99%	8	1.08%	5
Total	Total	403	Total	462

Does the club train its Managers in Employment Practices?

Response	Board Member		Club Manager	
Yes	52.23%	211	71.06%	329
No	12.38%	50	17.06%	79
Not Sure	31.44%	127	0.86%	4
In Process	3.96%	16	11.02%	51
Total	Total	404	Total	463

Does the club have an effective onboarding/orientation/training process for all employees?

Response	Board Member		Club Manager	
Yes	48.89%	198	59.83%	277
No	10.86%	44	18.79%	87
Not Sure	32.35%	131	0.86%	4
In Process	7.90%	32	20.52%	95
Total	Total	405	Total	463

Does the club offer an Employee Assistance Program (EAP)?

Response	Board Member		Club Manager	
Yes	22.44%	90	49.24%	227
No	23.69%	95	42.95%	198
Not Sure	52.12%	209	4.77%	22
In Process	1.75%	7	3.04%	14
Total	Total	401	Total	461

Do your risk management processes confirm ACA and Wage & Hour compliance?

Response	Board Member		Club Manager	
Yes	49.50%	199	85.96%	392
No	6.47%	26	9.87%	45
Not Sure	41.29%	166	3.07%	14
In Process	2.74%	11	1.10%	5
Total	Total	402	Total	456

Does the club periodically review and benchmark its compensation and benefit plans?

Response	Board Member		Club Manager	
Yes	61.29%	247	79.65%	368
No	12.66%	51	13.42%	62
Not Sure	21.84%	88	1.73%	8
In Process	4.22%	17	5.19%	24
Total	Total	403	Total	462

Are employees trained to handle and document claims of workplace harassment and discrimination?

Response	Board Member		Club Manager	
Yes	61.04%	246	80.99%	375
No	6.95%	28	9.94%	46
Not Sure	27.30%	110	1.94%	9
In Process	4.71%	19	7.13%	33
Total	Total	403	Total	463

Do you have policies in place addressing member and employee fraternization?

Response	Board Member		Club Manager	
Yes	39.70%	160	64.15%	297
No	17.12%	69	31.32%	145
Not Sure	39.21%	158	1.73%	8
In Process	3.97%	16	2.81%	13
Total	Total	403	Total	463

Does the club have an up to date employee engagement study conducted by a third party?

Response	Board Member		Club Manager	
Yes	9.48%	38	15.58%	72
No	43.89%	176	78.14%	361
Not Sure	44.89%	180	2.81%	13
In Process	1.75%	7	3.46%	16
Total	Total	401	Total	462

General

Does the club have a disaster recovery plan?

Response	Board Member		Club Manager	
Yes	25.55%	104	36.01%	166
No	32.92%	134	54.23%	250
Not Sure	36.36%	148	2.60%	12
In Process	5.16%	21	7.16%	33
Total	Total	407	Total	461

Does the club have a record retention and destruction policy?

Response	Board Member		Club Manager	
Yes	31.70%	129	53.80%	248
No	18.92%	77	40.56%	187
Not Sure	45.95%	187	3.47%	16
In Process	3.44%	14	2.17%	10
Total	Total	407	Total	461

Does the club have a Whistleblower Policy?

Response	Board Member		Club Manager	
Yes	22.85%	93	62.99%	291
No	25.06%	102	32.68%	151
Not Sure	50.86%	207	3.25%	15
In Process	1.23%	5	1.08%	5
Total	Total	407	Total	462

Does the club use professionals to assess cybersecurity risks?

Response	Board Member		Club Manager	
Yes	36.12%	147	83.37%	386
No	23.83%	97	14.25%	66
Not Sure	37.10%	151	0.65%	3
In Process	2.95%	12	1.73%	8
Total	Total	407	Total	463

Does the club have risks and insurance coverages professionally reviewed on a regular basis?

Response	Board Member		Club Manager	
Yes	78.62%	320	93.30%	432
No	3.93%	16	5.83%	27
Not Sure	15.72%	64	0.22%	1
In Process	1.72%	7	0.65%	3
Total	Total	407	Total	463

Do provisions of the club's governing documents and Directors & Officers coverage adequately protect Board members from personal liability?

Response	Board Member		Club Manager	
Yes	75.56%	306	96.72%	442
No	1.98%	8	1.09%	5
Not Sure	21.73%	88	1.97%	9
In Process	0.74%	3	0.22%	1
Total	Total	405	Total	457

Does the club have a PR plan for times of crisis?

Response	Board Member		Club Manager	
Yes	13.27%	54	30.09%	139
No	44.72%	182	58.87%	272
Not Sure	38.57%	157	3.25%	15
In Process	3.44%	14	7.79%	36
Total	Total	407	Total	462

Does the club have a policy regarding doing business with members?

Response	Board Member		Club Manager	
Yes	51.60%	210	52.81%	244
No	26.29%	107	41.56%	192
Not Sure	20.39%	83	1.52%	7
In Process	1.72%	7	4.11%	19
Total	Total	407	Total	462

NOTES

About the Authors

David Duval - Executive Consultant



- Graduate of Bentley University. MBA from Babson College
- Certified Public Accountant
- Partner in venture capital partnerships for 20+ years combining proven business expertise in strategy, finance, management and governance with substantial volunteer leadership of private clubs and homeowner associations
- Worked with general managers, board peers, and industry consultants for 20+ years to improve financial performance and planned outcomes of member-owned clubs and associations
- Officer of two private clubs and three Homeowner Associations including President of The Quechee Club in Vermont and Treasurer of Charles River Country Club in Massachusetts

Email: dduval@clubbenchmarking.com

Phone: 617-519-6281

Joseph Abely - Executive Consultant



- Graduate of Boston College. MBA from The Wharton School
- Certified Public Accountant
- 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.
- Board of Directors of Brae Burn Country Club in West Newton, MA for 12 years. Treasurer for 6 years and President for 3 years.
- Worked with talented general managers, board members and industry consultants to improve the membership experience and financial performance of clubs he served.

Email: jabely@clubbenchmarking.com

Phone: 781-953-9333

www.clubbenchmarking.com/board-services