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Governance lessons from the Essendon drug scandal

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While we can't undo the past there's a significant number of lessons that we can and have learned from it. Dr Ziggy Switkowski's report highlighted several areas where the board, the CEO and the staff could have improved how we ran our organisation. Many of these learnings are not isolated to EFC, they confront football clubs, businesses and non-profit organisations of every shape and size each and every day.

All of these types of organisations evolve over time, but club football in Australia has changed considerably in the past 30 or 40 years. We've gone from suburban football clubs with a few dedicated staff members dependent on tin rattling and chook raffles to serious businesses. While players were semi-professionals who typically had a day job, nowadays they're professional athletes. In the 1980's the football economy was created.

Running a football club is now a serious business, and serious businesses need good governance. We transitioned into the football economy at breakneck speed and some key elements of governance didn't keep up, which meant we weren't up to the professional or corporate standard of an organisation of our size. These things may have derailed your average private company, and eventually they caught up with EFC too.

Lack of good governance is why good people did bad things at EFC

It's easy to point the finger at a bad guy and blame them when something goes wrong, but when you look at what happened at EFC quite forensically you realise that there's no real bad guy. There's a fairly long list of people who each made small mistakes. They didn't quite sort out a problem that they should have over there, they tried to fix something here but didn't try hard enough or they thought a decision had been implemented when it hadn't.

People only saw bits and pieces, and no individual could have seen the disaster that was coming. They were captives of an inadequate governance structure. It's similar to an air crash investigation, where a major air disaster wasn't caused by one single thing, but rather it was a serendipitous collision of four or five often relatively minor things.

In *The Origins of Ethical Failure*, Dennis Gentilin discusses the issue of how people with a reasonable moral compass end up doing bad things in organisations. Without butchering Gentilin's eloquent book, he



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highlights the importance of organisational context and culture, group behaviour and the signals that leadership sends.

The great lesson is that informal context in an organisation always trumps rules. So even if your policies say you should do something this way, if you're surrounded by people who tell you that you should do it differently, you're almost certainly going to go with the flow. This can lead to you losing perspective or seeing why that's the wrong thing to do. In addition, we all absorb signals from people in leadership about what's acceptable and what's not. Whether it's coming from the boardroom or cabinet, people take in these cues and modify their behaviour accordingly. That's why how you behave as a leader in an organisation is so important. It demonstrates what really matters and is often more powerful than words.

So when you're on a board and put in place governance processes, it's crucial that these are followed to a tee by everyone from the top down. It might feel like nitpicking, it might be bureaucratic, it might be boring, but if you let it slip, you're exposing your organisation and ultimately you personally, to the risk of disaster.

The whole drama at EFC was ultimately a classic failure of governance and I think it's important that others can learn from our mistakes. There were three key areas of corporate governance that EFC needed to bring up-to-standard:

1. Accountability and responsibility must be crystal clear

One of the key issues highlighted by the Switkowski report was that there was a bit of a 'no one is in charge' problem at EFC. While football clubs don't necessarily have the same structure as corporate organisations, lines of accountability and clear definitions of responsibility are crucial.

There were a number of areas where this fell down, from recruitment processes to the hierarchy of decision-making. While it's desirable to have flexible workforces, there still needs to be discipline when it comes to updating accountabilities, job descriptions and reporting lines. It's up to the CEO to ensure that any vague areas are clarified and rectified.

This level of governance extends to policies and procedures. These can't just sit in a drawer gathering dust. They're living documents that cover all aspects of how an organisation runs, and as the organisation changes they must be reviewed and amended. When you're evolving as quickly as EFC did this can be challenging, but it's the board's responsibility to make sure it's done every year.

In the end, the ultimate accountability rests with the board. They need to be kept informed of what's going on, and if there are areas where they don't have visibility, then it's up to the board to make sure they get the information they need. If a course of action has been approved by the board, they need to ensure it's followed through by asking for reports on how it's been implemented.

Being a board member isn't a passive role. The ultimate responsibility rests with you, so ask questions, speak to people at all levels of the organisation and demand information if you need clarity.



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2. Transparency is crucial

The CEO isn't always the most powerful and important person in the room, in fact there are many organisations where the power lies in two separate areas. For example, while there may be a departmental secretary in the defence department or police forces, the real power often lies with the person in the uniform. Similarly, when I was the Minister responsible for the Future Fund, the Chief Investment Officer was often paid more than the CEO. At EFC, the CEO was charged with managing the business, and the football department actually looked after the players and the game.

Having two centres of power raised additional challenges of governance, and this is something I think EFC failed to fully comprehend. After all, 20 years ago EFC was a relatively small organisation, but now we employ over 100 people and have annual revenues that exceed \$50 million. The football operations alone have about 40 people. A structure of this size needs to be appropriately managed and it needs to be open to review.

These are not challenges unique to EFC, most football clubs at that time probably were in the same boat. Having two alternative centres of power, functioning like autonomous little worlds means it can be almost impossible to understand who's responsible unless you have good governance processes and transparency.

Transparency needs to extend to understanding why the organisation is structured the way it is, and how you manage it. This can be achieved by conducting a review of the organisational structure, but it's crucial that it's taken very seriously and structured appropriately because it can be the source of real and serious problems.

I'm currently involved in conducting a review of the Defence Department. As part of this review, we have spent a lot of time thinking about our diarchy. Effectively there is a dual management position, with a Departmental Secretary and the Chief of the Defence Forces. As there's no simple 'one person is in charge' solution, it comes down to operating arrangements and protocols.

3. Document everything that matters

This may seem obvious but documentation can easily fall through the cracks. Ultimately it was one of the critical failings for EFC. When things go wrong the easiest way to review what happened is to see what's been documented. That's why it's so essential that every decision that matters is recorded appropriately.

Documenting what's going on should really be an instinctive response for any organisation. Whether you're making decisions, implementing decisions or doing potentially risky things, every important decision should live in a document trail.

But it's not enough for the board or leadership to outline instructions, no matter how unambiguous they are. These must be written down, and compliance to them must also be recorded. This may require monitoring processes to be put in place. It's not enough to assume everyone will follow your orders to the letter, risk management and good governance requires you to ensure that this happens and that a document trail supports this.