CLUB BENCHMARKING

2023 Club Governance

Survey Report

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Relative to other industries, private clubs tend to operate in isolation. In the absence of readily available shared knowledge about club-specific best practices, boards often attempt to fill the void with home-grown practices that have been passed along over time or created from scratch in each new cycle. Frequent board turnover is another idiosyncrasy of the club industry that can thwart efforts to develop and maintain consistent strategic leadership.

The purpose of our annual Club Governance Survey is to explore gaps in board education and alignment across the industry and report those findings in a way that will provoke thought, fuel productive discussions, and promote adoption of best practices. Our goal is to help boards learn to work together more effectively and to ensure that board members have the knowledge they need to succeed.

The first Club Governance Survey was conducted in 2017, inspired by a group of club presidents, treasurers and managers from the greater Boston area who met regularly to exchange ideas and discuss best practices. Over the years, the survey has evolved and expanded in response to suggestions from respondents and through the extensive work Club Benchmarking has done across the industry.

The 2022 survey garnered more than 1,200 responses from board members and general managers representing 801 different clubs. Responding clubs covered 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 six 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.

2022 Governance Survey Overview

Once again, this year's survey findings shed light on what we call "knowledge gaps" which are evident in responses from both board members and from general managers. The gaps appear in the form of "Not Sure" or "I Don't Know" responses to questions addressing critical areas of club operations, finances and general practices that are requisite for effective governance and management.

The survey also identified numerous instances of board member responses to important financial questions that were, upon further analysis, contradicted by the club's actual financial data. Examples of areas where the facts didn't match what board members believed to be true include:

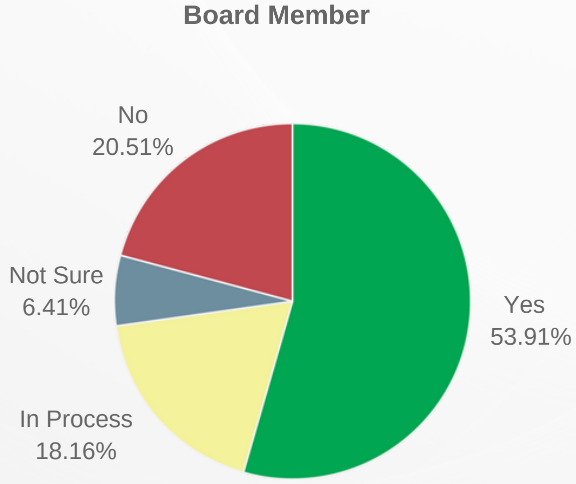
- The sufficiency of cash flow to cover depreciation and debt service
- Balloon payments structured into existing debt
- The length of debt repayment amortization periods
- Level of debt in relation to annual operating dues revenue (i.e., debt capacity)
- Segregation of operating funds from capital funds
- Total member count and number of Full Member Equivalents

The board and general manager are responsible for overseeing and managing the financial affairs of the club, so we consider those misunderstandings as important opportunities for education. While it's not reasonable to expect that every member of the board will have a strong financial background, it is necessary that at a minimum they be able to understand the club's financial statements. They should also have a clear understanding of how the club is funded and how that impacts its future. Let's take a closer look at the section of the survey that focuses on financial planning.

Long-Term Financial Planning

Consider the unique physical footprint and extensive asset inventory of a private club. It is, without a doubt, a capital-intensive business. We recommend clubs maintain a fully funded long-term capital plan, preferably covering a 10-year period, that is dynamic and updated at least annually. Measuring the adequacy of resources (initiation fees, capital dues and assessments, and proceeds from debt) at a single point of time is generally not sufficient because some resources such as initiation fees tend to vary from year to year, while other resources such as COVID-19 government assistance or special assessments may be either one-time or not predictable. Proceeds from debt are episodic. Analysis of club industry data clearly shows that capital is the primary driver and fuel for growth in private clubs. Charts 1 through 3 below reflect survey responses to key questions about capital finance.

Chart 1: When asked if the club maintains a long-term financial plan for all funds, the responses were as follows:



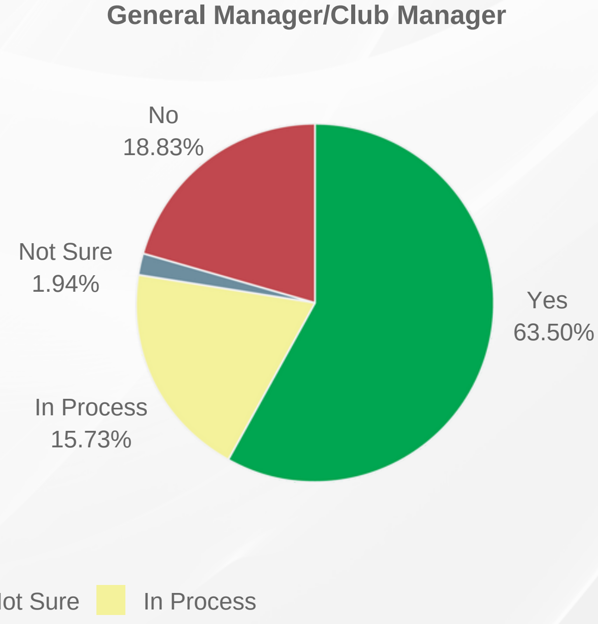
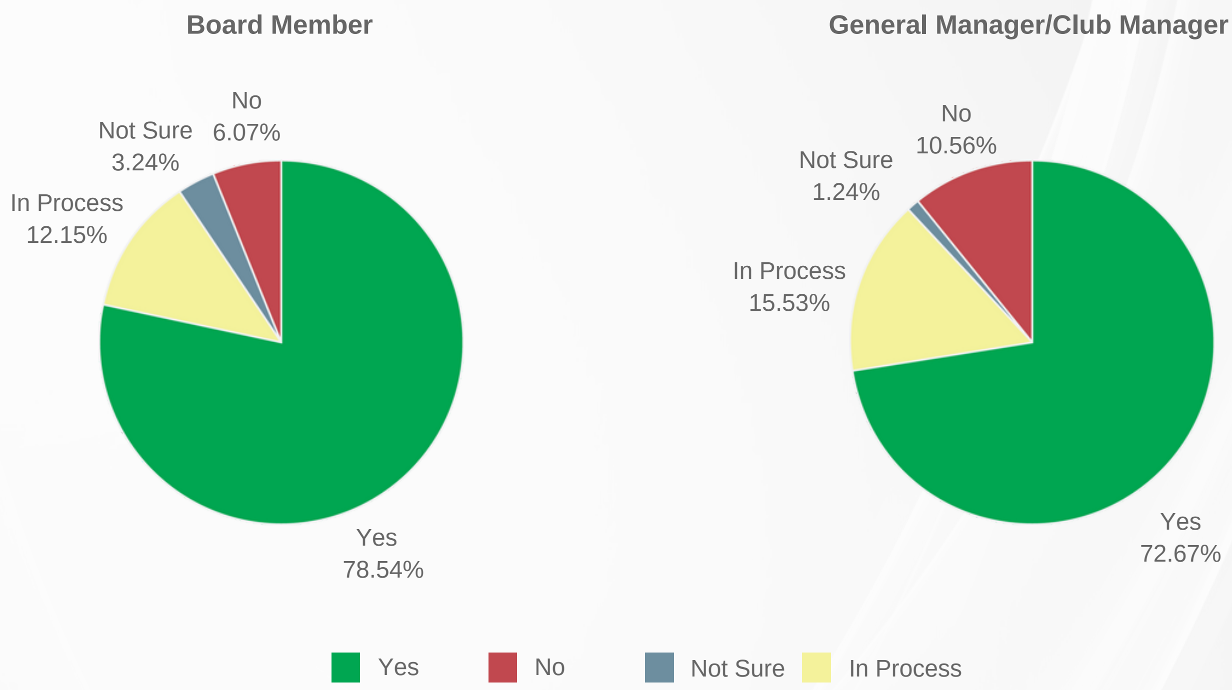
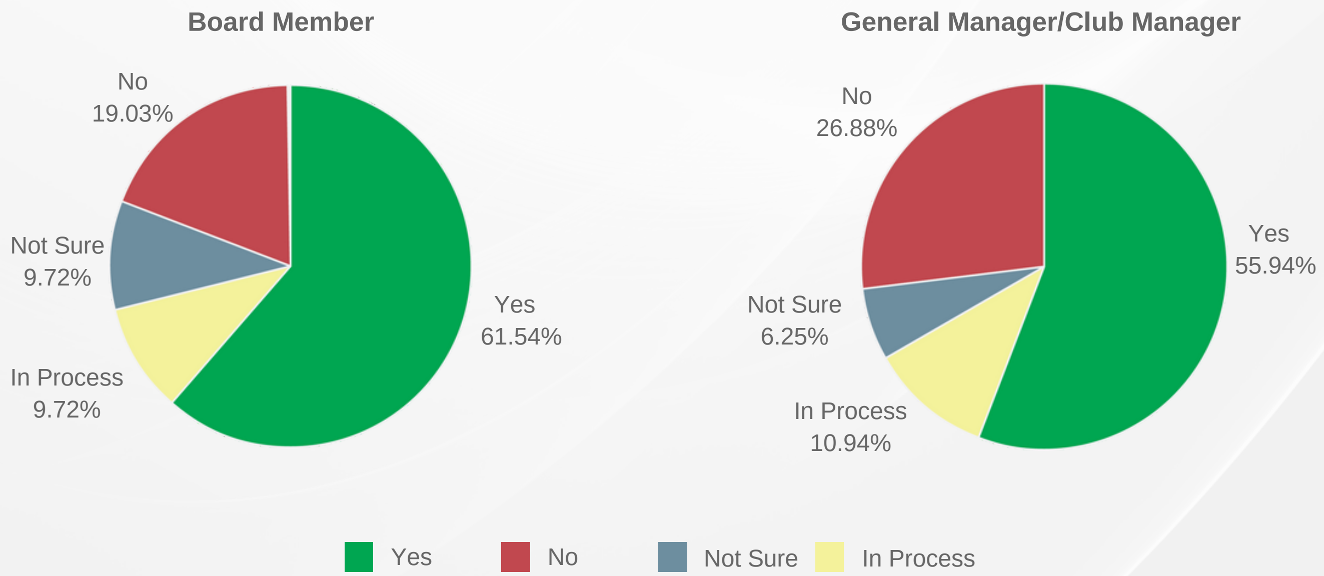


Chart 2: Does the club's long-term financial plan include a detailed forward-looking capital plan that quantifies capital needs, capital resources the gap between them if one exists?



For those clubs that reported having a long-term financial plan, we asked whether projected resources meet or exceed projected needs, including the funding of depreciation and debt service.

Chart 3: Do your projected resources meet/exceed your projected needs, including the funding of depreciation and debt service?



To put those responses in context, approximately 45% of board members and 37% of managers reported that their club either did not have or they were not sure if their club had a long-term financial plan. For those that reported having long-term financial plans, only 61% of board members and 56% of managers reported that the projected resources in the long-term financial plan covered projected needs, including the funding of depreciation and debt service.

Put another way, only 34% of respondents “believed” they have a long-term financial plan *and* that their club’s projected needs are fully funded including depreciation and debt service. It is important to note that the facts often contradict those beliefs.

Club Benchmarking considers it a best practice to fund Obligatory Capital (repair and replacement of existing assets) through recurring capital dues, with future requirements precisely quantified by a professional capital reserve study. Keeping assets fresh is an important element in promoting membership satisfaction and new member recruitment. Interestingly, Club Benchmarking analysis of annual financial data from more than 1,000 clubs shows that only 14% of all clubs generate sufficient capital dues to cover depreciation. Given that replacement costs will certainly exceed the depreciated value of assets due to inflation, it follows that merely covering depreciation is not sufficient.

Too often, clubs that do not generate adequate capital dues to cover obligatory capital requirements resort to other avenues to make up the difference:

- They “kick the can” down the road and allow the asset base to deteriorate.
- They use debt to fund Obligatory Capital thus shifting responsibility of asset consumption from past and current members to future members who are going to pay the debt back through their own capital contributions.
- They use assessments which also negate the obligation for covering asset consumption from all of the past members who have left the club or from those members who will leave the club as a result of the assessment.

Using initiation fees to fund Aspirational Capital (addition or expansion of the club's amenities) is considered a best practice. The logic is that newer members joining the club will enjoy the use of the newer assets more than longer tenured members who will, through natural attrition, leave the club before enjoying the full life of the aspirational investments. It is important to note that since initiation fee revenue can be highly variable, it is a more appropriate funding source for aspirational projects where timing is relatively flexible. Capital dues are much more consistent and thus a reliable funding source for meeting the club's obligatory capital needs.

Strategic Planning

Given the capital-intensive nature of clubs and the need for clubs to continuously evolve the member experience to be compelling to future generations, strategic planning (and ensuring sufficient funds exist to implement the plan) is arguably a board's most important responsibility. As show in Chart 4 below, less than 50% of respondents reported that their club had a written strategic plan. Of those reporting they had plans, only 62% responded that it had a long-term financial plan (Chart 5), and less than half of those respondents reported a fully funded plan. In other words, only 14% of 2022 survey respondents reported that their club had a strategic plan that is funded to meet the given vision.

Chart 4: When asked if the club has a written strategic plan:

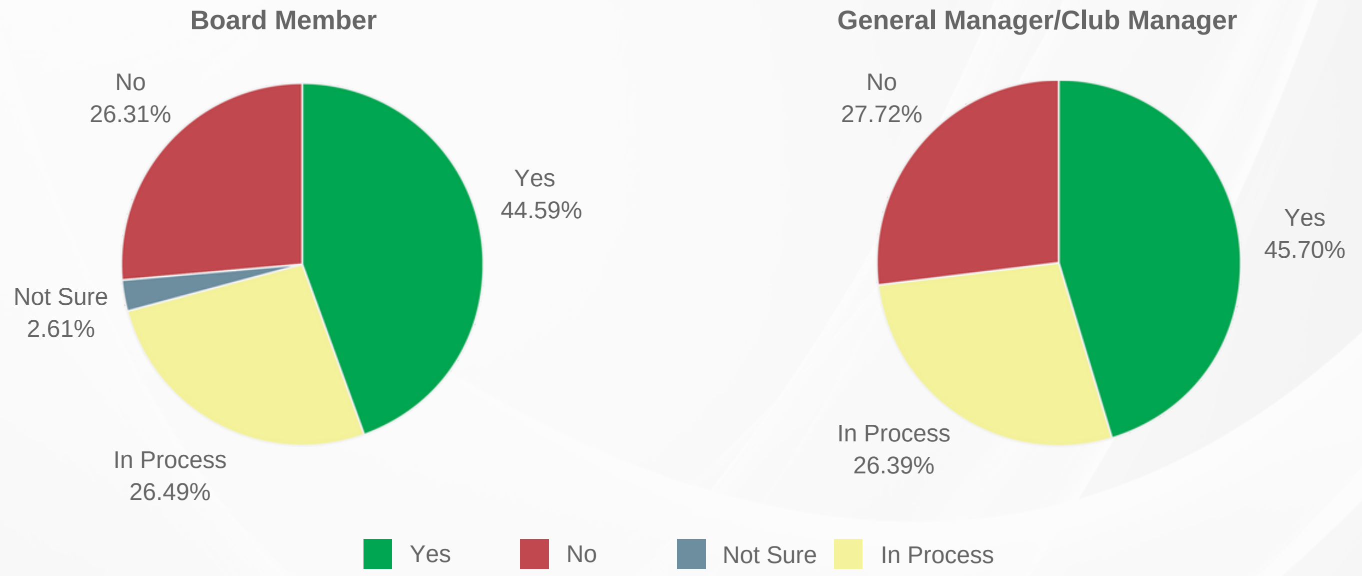


Chart 5: Does the strategic plan include a long-term financial plan?

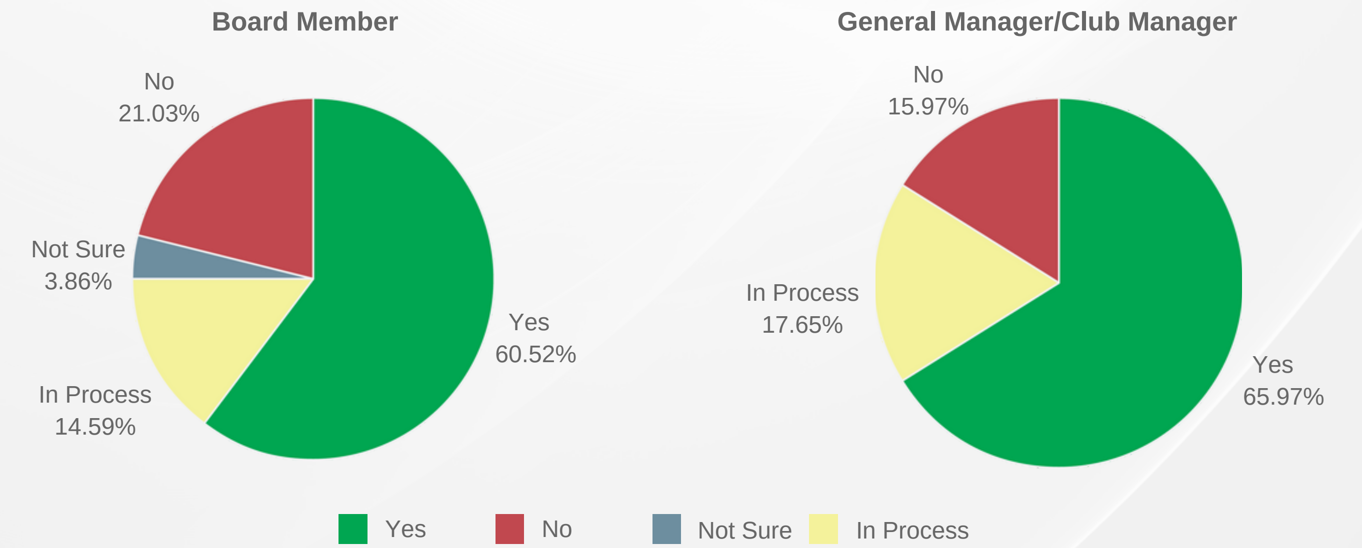
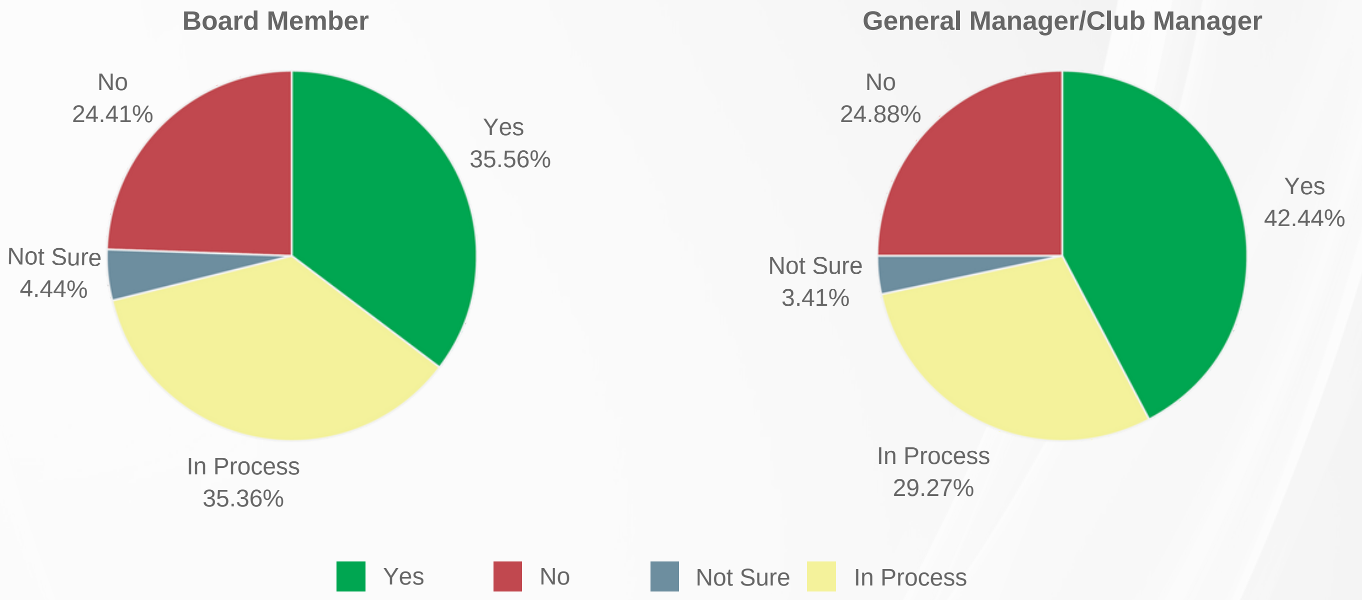
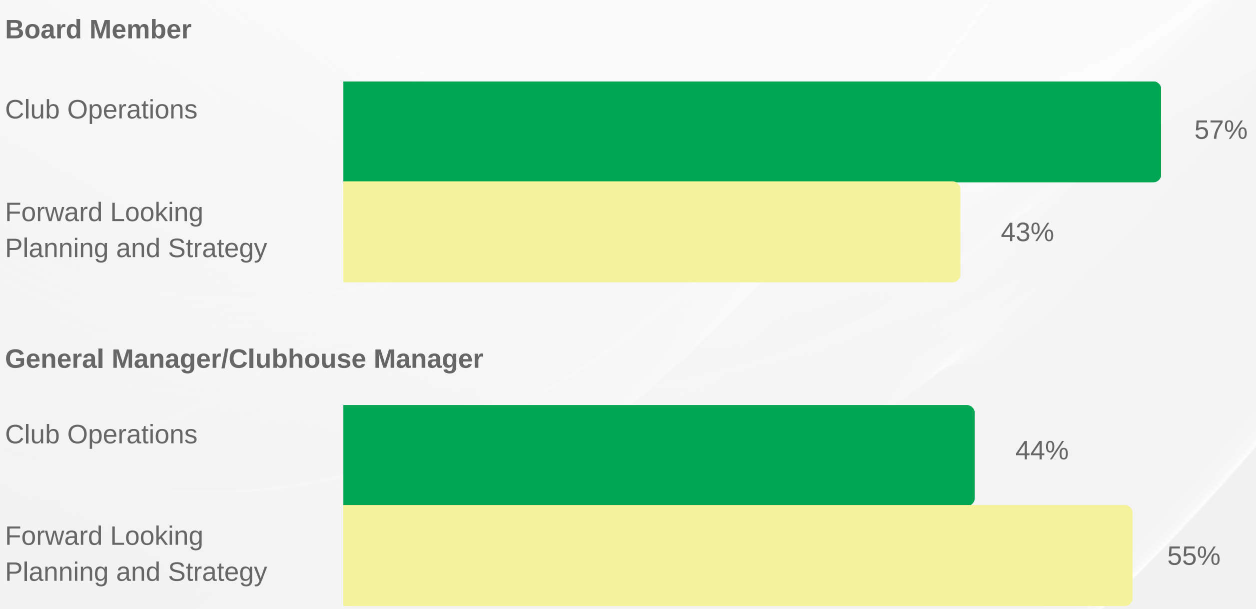


Chart 6: If yes, is the long-term plan financially funded?



As stewards with a fiduciary obligation to protect, preserve and grow the club's assets, a private club board must function as a strategic body and relegate operational issues to the management team. Based on more than a decade of direct engagement with club boards, Club Benchmarking recommends that club boards spend 65%-70% of each board meeting discussing forward-looking planning and strategy. Chart 7 below illuminates a significant difference of perspective as to what is actually happening in the boardroom.

Chart 7: What percentage of each board meeting is spent talking about operational issues versus forward-looking planning and strategy?

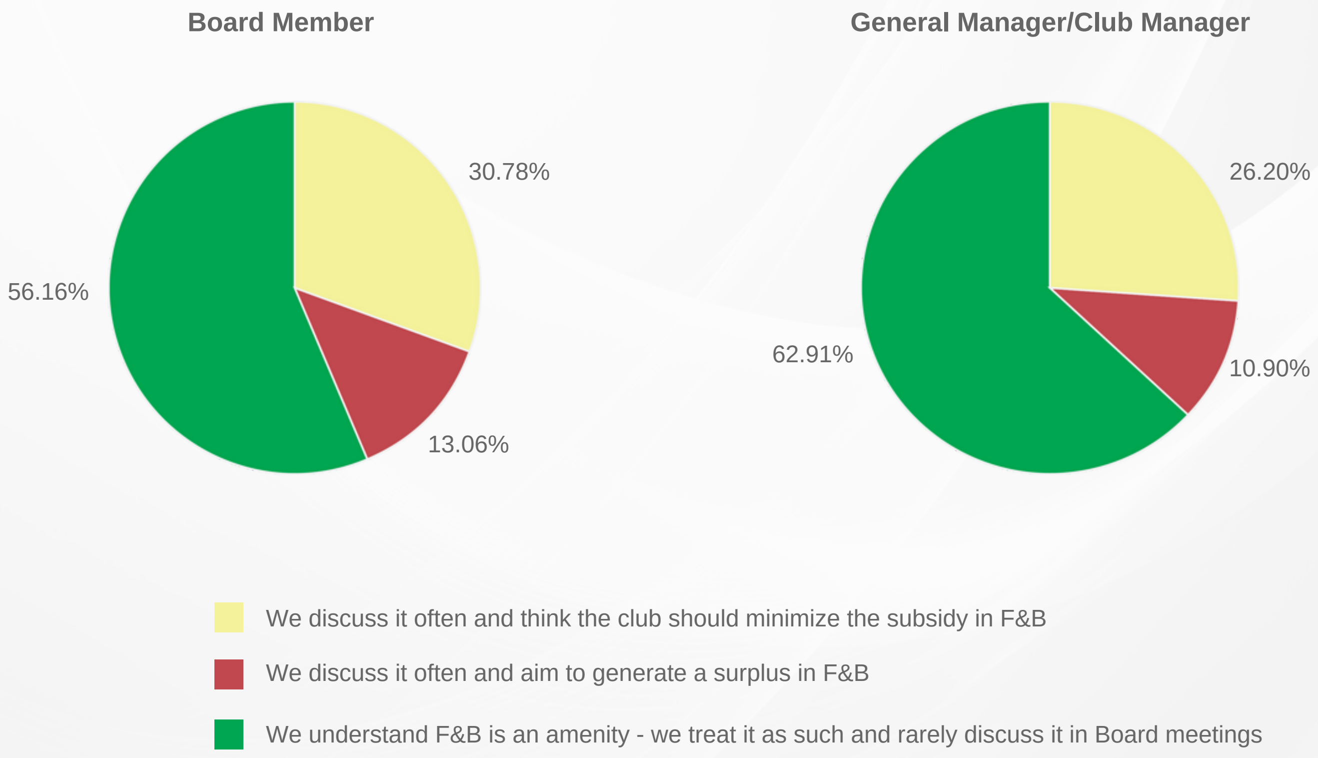


It is worth noting that GM respondents report 55% of board time spent on forward-looking planning and strategy which is an increase (improvement) over the 43% reported in the 2021 survey. Board member responses also suggest some improvement with a 57% to 43% split between operational and strategic focus in the 2022 survey versus 64% to 36% split in 2021.

Provided that a club is operating within its budget, or that budget variances have been adequately explained, and management provides the board with timely financial information and forecasts for the balance of the year, there's little need to spend a lot of time discussing financial results during regular meetings.

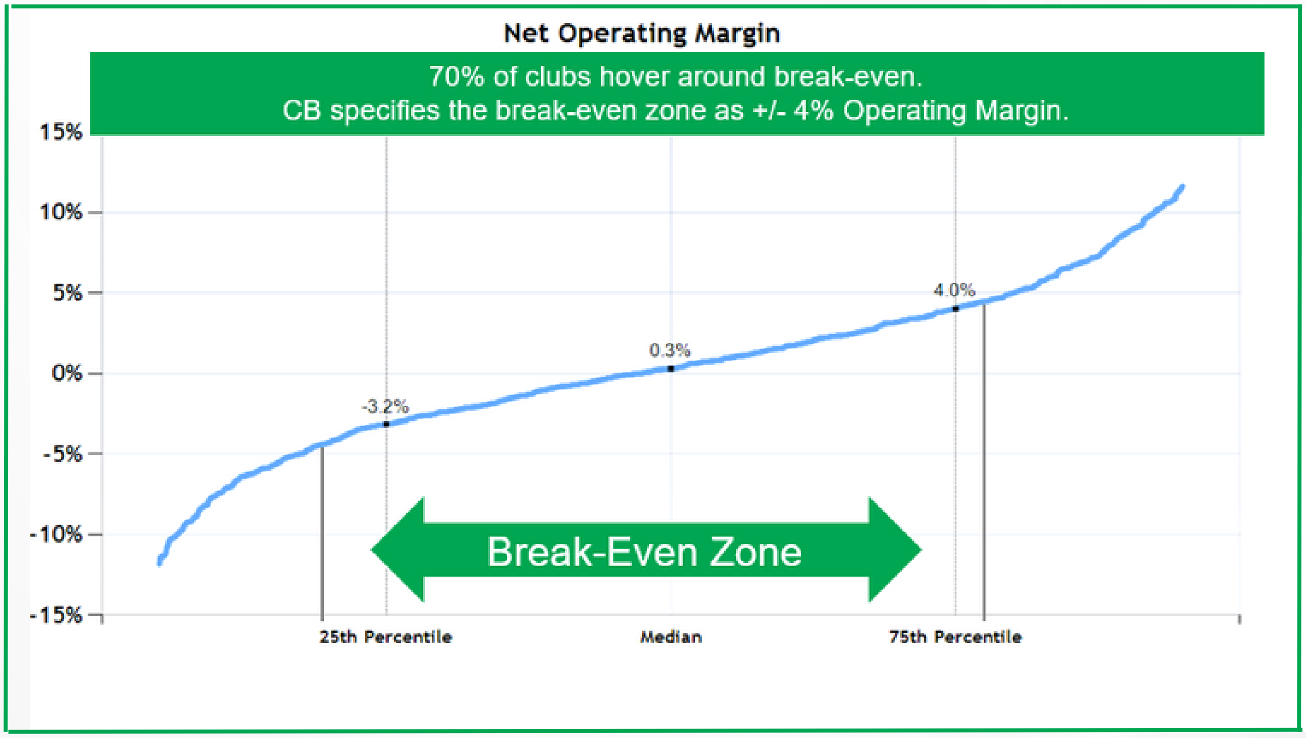
Food & beverage is one example of an operational area that can be a dangerous magnet for boards. Chart 8 below reflects board and GM responses when asked to select the best description of their club's view of food & beverage financial outcomes.

Chart 8: Which best describes your club's view of food & beverage financial outcomes?



While the majority of respondents acknowledged that they understand F&B is an amenity that is rarely discussed in board meetings, 44% of board members and 37% of managers said that it gets discussed often. Provided the club has a robust budgeting process and remains on budget, time can be better spent in board meetings on forward-looking planning and strategy. As an aside, Club Benchmarking data shows 90% of clubs subsidize their F&B operations, often substantially. As shown in Chart 9 below, the majority of clubs budget at or near operational breakeven in keeping with the dues-driven private club business model in which member dues revenue is used to fund operating expenses including subsidizing amenities such as F&B and golf.

Chart 9: Net Operating Margin

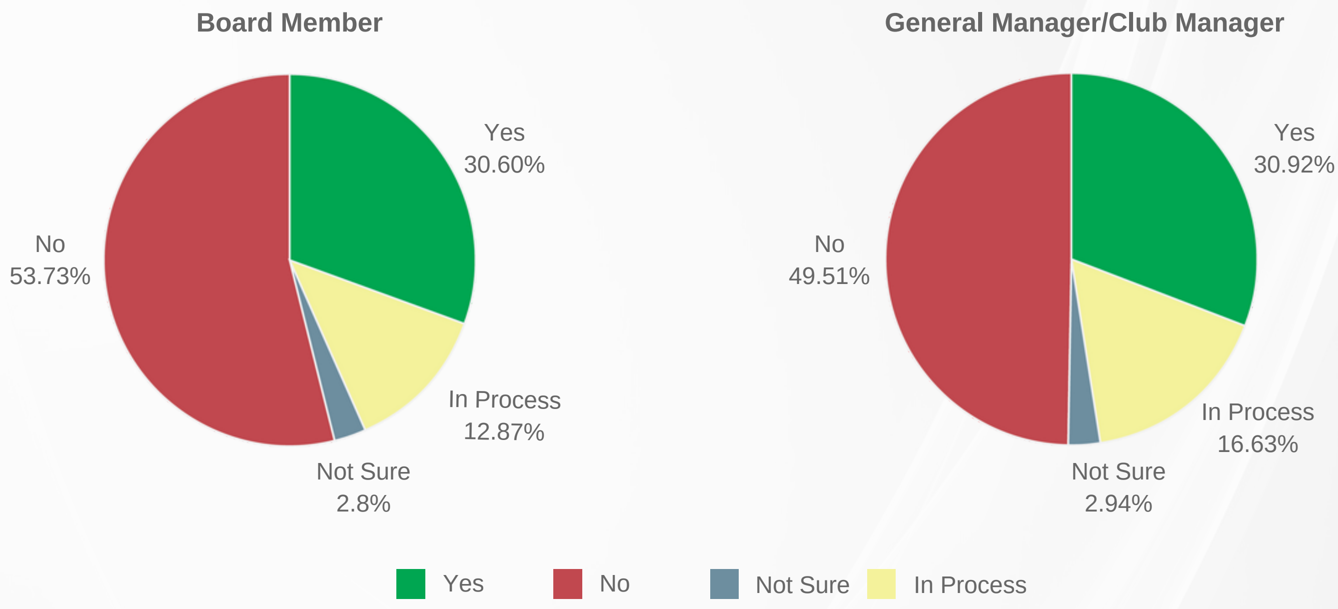


Annual Agenda & Goals

We recommend that the board, under the direction of the club president, establish an annual agenda outlining the board's goals and objectives for the coming year. The focus of that agenda should be items of long-term strategic importance to the club. Committees should also be given an annual charge from the president that is consistent with the board's annual agenda.

When asked if their club's board sets written annual goals and objectives for itself in the form of an Annual Agenda, board and GM responses were roughly aligned, with 31% responding in the affirmative:

Chart 10: Does the board set written annual goals and objectives for itself in the form of an annual agenda?



Boards that choose to operate without an annual agenda risk having meetings devolve into operational discussions which are of no benefit to the long-term success of the club.

Succession Planning and Board Education

The majority of board members will begin their service with no formal club-specific governance training, 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. Many simply "don't know what they don't know" which is why we consider effective succession planning and continuous board education to be among the most critical of the best practices in club governance.

In the section of this year's survey addressing succession planning, board members and managers seemed to agree, with less than 45% of either group reporting that their club had appropriate succession planning for board members. One possible indication of progress is that the percentage of board members indicating work underway (in process responses) in the area of succession planning for board members has increased, from 11% in the 2021 survey to nearly 16% in the 2022 survey.

Chart 11: Is there appropriate succession planning for board members?

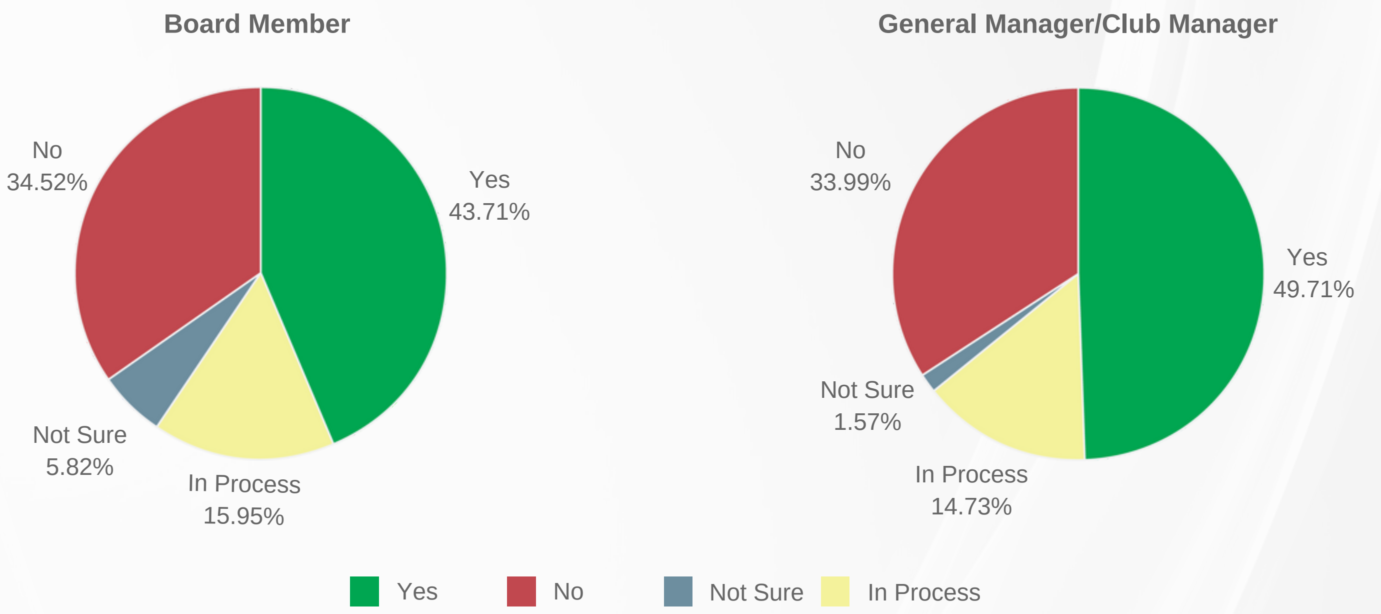
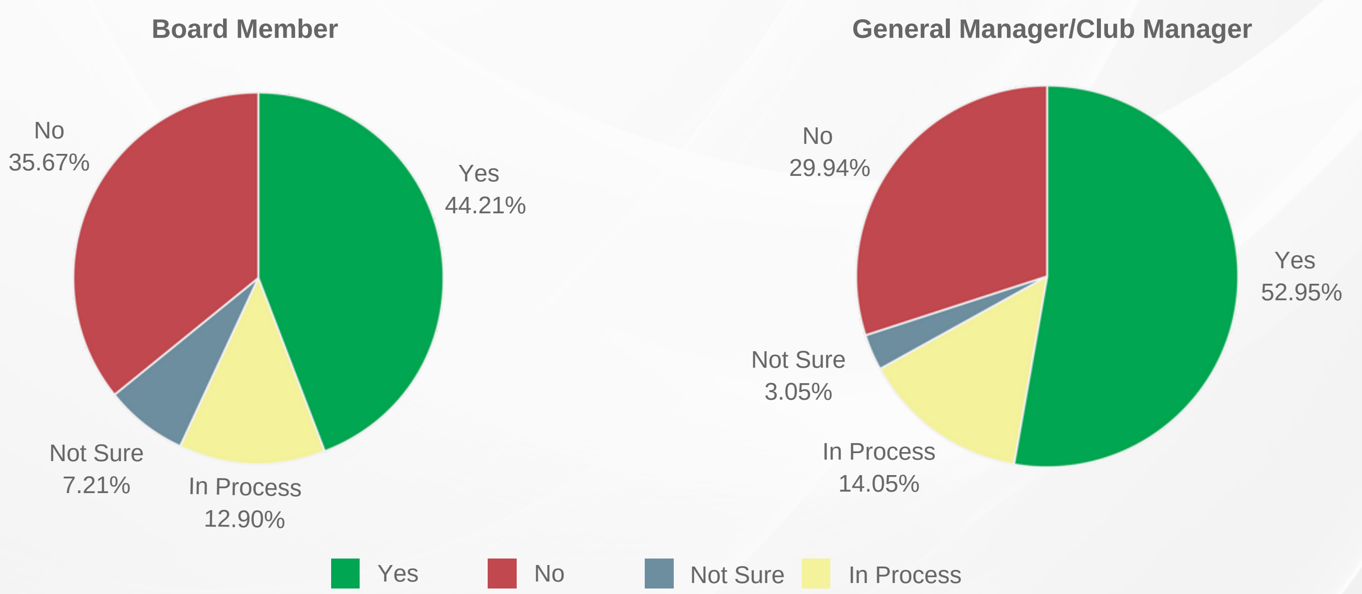


Chart 12: Is there appropriate succession planning for club officers?



Succession planning is particularly important in private clubs because board and officer terms are so short. Continuity of thought and action across multiple administrations is critical to implementing long term plans and achieving strategic goals and a thorough and thoughtful nominating process is the key to success:

Benefits of Effective Nominating Process:

- Ensures the most qualified people are nominated
- Ensures that all constituencies are represented
- Facilitates a balance of power on the board
- Builds confidence and trust with the members
- Encourages a more seamless transition of officers

Boards must maintain long-term perspective despite their relatively short terms of service. Some of the risks of not having an effective succession planning process include:

- Strategic plans shelved
- Short-term thinking versus strategic thinking; boards inclined to pursue projects versus cohesive long-term plans
- Personal agendas creeping into governance
- Inconsistent planning and implementation

Consider the following in developing or improving your club's nominating process:

- The nominating committee should be active year-round versus only meeting when nominations are due.
- Look at needs not only for the current cycle, but for future years as well
- The best candidates often come from committees where they have played an active role. Continual recruitment of members to committees is important.
- Move away from contested elections where they exist.

Board Education

More than 50% of board members and 60% of GMs indicated that that their club has an annual orientation.

Chart 13: Does your club have an annual orientation program for board members?

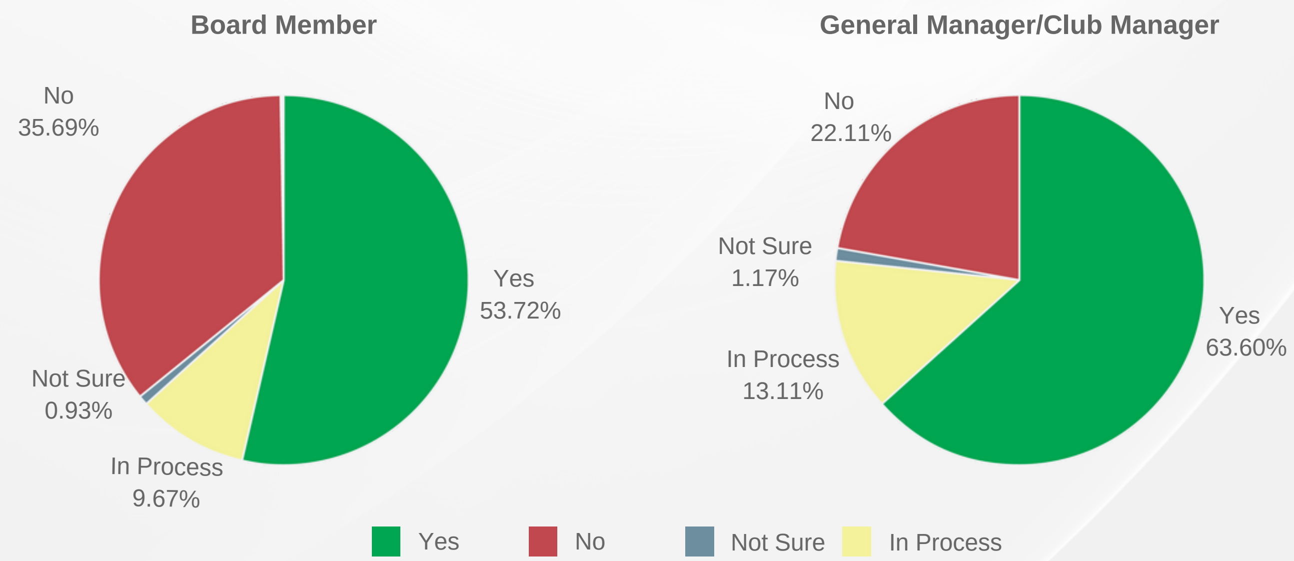
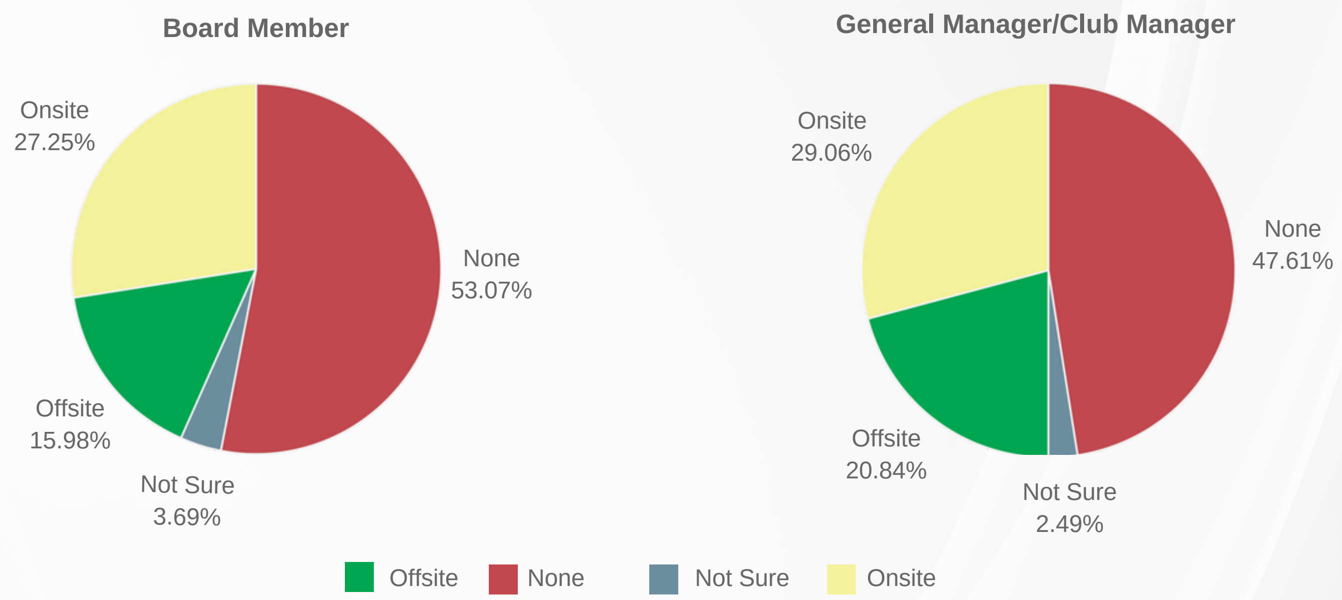


Chart 14: Which best describes your annual retreat process:



We encourage clubs to prioritize continuous board education and thorough annual orientations. The content of those sessions should go beyond basic topics such as the purpose of the board and its legal responsibilities to include topics such as:

- Roles and responsibilities of officers, executive committee and management
- Private club finances and financial planning
- The board's objectives for the coming year
- Financial statements, together with any benchmarking data
- Tax returns
- The annual budget
- Overview of any debt arrangements
- Strategic, facilities and/or golf course plans
- Long-term financial plan
- Membership data, including census, dues & fees
- Membership development plan
- Results of membership, employee and other surveys
- By-laws
- Board meeting agendas and minutes for the previous year
- A tour of the entire club

An in-depth comprehensive board orientation cannot be handled as part of a regular board meeting in the span of a few hours. Over the last several years, a growing number of our partner clubs have opted for an annual board retreat – either on or offsite – dedicated to education, orientation and strategic discussions.

Conclusions:

As previously stated, the purpose of this annual industry wide survey is to explore gaps in board education and alignment across the industry and to report those findings in a way that will provoke thought, fuel productive discussions, and promote adoption of best practices. It should be noted that this survey is also used by individual clubs as an annual tool for gauging alignment and knowledge gaps to be addressed through education.

While the 2022 survey does show improvement (or at least movement) is some areas, it is clear that the industry still has a long way to go in strengthening and evolving the governance model. After more than a decade of analyzing industry data and direct interaction with club leadership teams, we can say with absolute certainty that clubs choosing to embrace education and adopt best practices generally make good progress. Those that do not tend to tread water, make avoidable mistakes, or fall behind.

To receive a PDF copy of the complete 2022 survey results, or to discuss the option of using the survey as a board self-evaluation at your club, please don't hesitate to reach out. Authors Joe Abely and Dave Duval would be happy to help you:

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About the Authors

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- 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
- Dave has served on numerous corporate and non-profit boards.

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- 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. Currently serving as Chair of the Nominating Committee.
- Worked with talented general managers, board members and industry consultants to improve the membership experience and financial performance of clubs he served.

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