

# Winning Strategies

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## *Club Governance Practices*

### **Does Your Finance Committee Have Cirrhosis**

There is a lot of effort around the industry to implement green or sustainability concepts. We all want to be better stewards of what we can control. The problem becomes ‘what does being a better steward actually mean?’ This concept of proper stewardship is taken to a whole new level when considering the club’s resources. In some cases, vying to control the club purse strings has become a political issue that can limit progress.

Cirrhosis is a disease normally associated with the liver, where inflammation and clogging of the cells causes degeneration. The normal process slows down and the cells don’t work right. The disease impedes activity.

Unfortunately we have experienced some club finance committees that have become an impediment to organizational progress. You have heard the old saying “Can’t live with them, can’t live without them.” Well, in these specific instances the saying is shortened to “Can’t live with them.” Let me assure you that these problems are not universal and with many of our club clients the finance committee has been instrumental in positive change. However, there are some.....

What does fiduciary responsibility really mean? The Board has the fiduciary responsibility to the owner members to act in a responsible manner when handling club assets. Many times that responsibility is delegated in some ways to the Finance Committee. Let’s look at the definition of the Finance Committee from the Board Policy Development Manual (BPM):

**Finance Committee.** This committee shall develop and recommend to the Board those financial principles, plans, and courses of action that provide for mission accomplishment and organizational financial well-being. Consistent with this responsibility, it shall (1) review the annual budget and submit it to the Board for its approval. In addition, the committee shall (2) make recommendations with regard to the level and terms of indebtedness, cash management, investment policy, risk management, financial monitoring and reports, employee benefit plans, signatory authority for expenditures and other policies.

#### **1. What Budget Review Means**

Let’s look at a couple of items where the problems can start. Item (1) above states ‘review.’ What does review the annual budget really mean? Some Finance Committees take that responsibility to a whole new level. They believe it is their responsibility to do a line item review. This is a totally false presumption. Controlling line items impacts every aspect of club operations, level of services, and asset maintenance. It is not the responsibility of the Finance

Committee to set club standards. They forgot the sentence before review which states ‘provide for mission accomplishment.’

The Board, along with committee input and management support, has established a club mission that provides value to the membership and supports the overall club brand within the marketplace. Finance Committee should provide warnings when they believe the departmental budgets from year to year have negative trends. However, they should not be in control of how money is spent within any specific department.

There has been significant input into the normal budget process. Department heads have researched areas of need, established programs to solve problems and developed new concepts to enhance service and member satisfaction. Club committees may have done likewise. They have offered suggestions regarding operations within their area of review. Many times new authorized initiatives have been generated by committees. There is normally a direct correlation between the budget line items and the resources required for initiatives to be accomplished. Finance Committees have no responsibility or authority to make line item decisions.

## **2. What Making Recommendations Mean**

The other definition that is misread is that of ‘make recommendations.’ What does that mean? What it does not mean is giving the Finance Committee the authority to establish capital priorities. This is a huge issue in some clubs. They also do not have the final say on authority to proceed with those expenditures. Their job is to recommend actions. The board may decide to proceed on a capital project even if the Finance Committee is concerned with the expenditure. It is now the Finance Committee’s responsibility to recommend the best course of action for funding or financing.

William Bowen in his book *Inside the Boardroom* states “that a cardinal principle is that committees should report to the Board as a whole and should not abrogate to themselves decision-making power.”

## **What are the Responsibilities of the Finance Committee?**

Their job is to help maintain the financial integrity of the organization. As the BPM states above, they have responsibility for ‘level and terms of indebtedness, cash management, investment policy, risk management, financial monitoring and reports, employee benefit plans, signatory authority for expenditures and other policies.’ This would include insuring a proper audit of the finances of the club is undertaken.

Why have Finance Committees in some clubs gone rogue so-to-speak? What caused these problems to take root or become the tradition? Unfortunately, it was normally the lack of management capability. Either the club did not have a GM so some of the financial responsibility fell on the Finance Committee, or the GM was weak and did not take control and establish proper governance practices. There is an old saying about an employee who fails. Is it their responsibility? The answer is no. It is the responsibility of the person who hired them. They

