

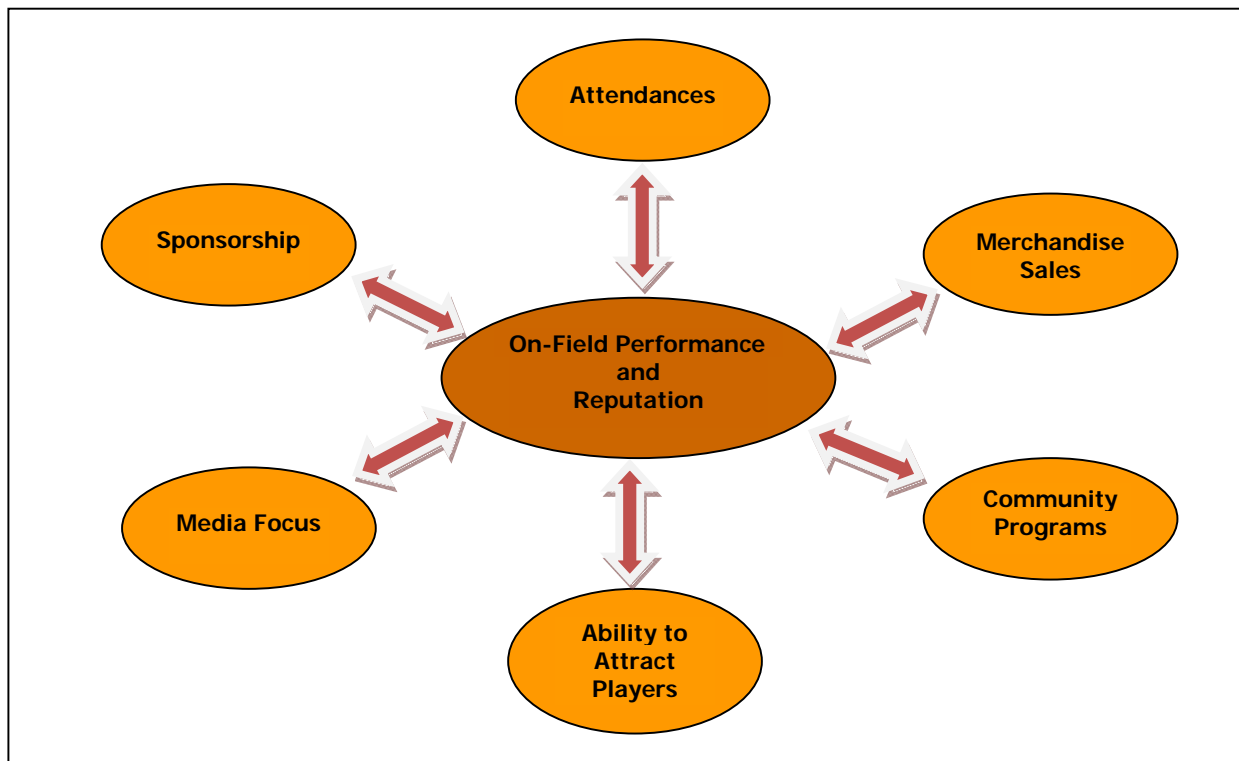
Managing Risk – the Key to Success – and Rugby League is no Exception

When Manly met the Storm in May of this year, a rivalry that has arisen out of successive Grand Finals meetings was rekindled. The game was held on a pleasant Friday evening at Brookvale Oval and Club officials could be forgiven for believing that the game would draw a bumper crowd keen to prove to the Southern visitors that the 40 nil score-line the previous October was no fluke. The crowd that showed up that night, however, was a meager 10,000 – well below that which was forecast and budgeted.

So what has this got to do with Risk Management?

We hear it continuously from Club Officials and commentators from within the game that unlike the 'good old days' rugby league in 2009 is a business – a business like any other business – that is required to generate more revenue than is expended in order to generate a profit. It goes without saying that organisations that continuously expend more than they generate are not sustainable in the long term. The stark reality is that very few clubs within the NRL at present are able to display a consistent profit. Revenues are down; costs for players are up; competition in the form of other football codes is drawing sponsorship dollars away and then there is the impact of the global economic crisis. Even in the best of times, the financial viability of most NRL clubs remains tenuous.

If clubs are to remain viable and sustainable in this climate, it is also extremely important that the game remains in the headlines for positive reasons, however, as we have seen over the last few years, any positive headlines have been overshadowed as the game seems to stumble from one crisis to another. Each of these crises has had a profound impact on not only the game but the Clubs involved. The reason for this impact is best explained by the diagram below:



What we conclude from this diagram is that on-field performance is only one of the primary drivers for clubs – reputation also has an enormous impact.

If we relate the Manly example to the diagram above, we can get a sense as to why such a relatively small crowd turned up for the Melbourne Storm game. On field performances were well below the expectations of the Manly faithful (based on the fact that the club were the reigning Premiers and had won the World Club Challenge) and the incidents arising from the infamous season launch function meant that the reputation of the club had also been significantly tarnished.

So if this is the environment in which Clubs operate, what can they do to ensure that their long term viability is assured? One option Clubs have is to approach their business in the way that most other multi-million dollar businesses do – develop and maintain a risk management program aimed at preventing incidents occurring in the first place and reducing the severity of incidents that do occur. The other option, of course, is to hope that incidents won't occur and crisis-manage when they do.

What has been evident during 2009 (and it has been the case for many years) is that Clubs (and to a certain extent the NRL) have adopted the latter of these two options and have been reactive. What I mean by this is that after an incident occurs, it is dealt with and measures are put in place to prevent such an incident occurring again. In the case of Manly, the players are now no longer permitted to consume alcohol at sponsor's/fan functions. What this reactive approach is not acknowledging is that in many cases the incident could have been avoided in the first place.

It is often said that hindsight is 20-20 vision, and as long as we learn from the incident – at least some good will come of it. I would contend, however, that all CEOs would prefer that incidents like those that have plagued the game in recent years do not occur in the first place.

After the Manly season launch, the following statement was issued by the Board Chairman Scott Penn on the 11th March 2009:

“The Board would like to state for the record that we are very disappointed by the events that took place after our Season Launch last Friday. **There is no doubt if we had our time again we would do things differently**”

If we accept that hindsight is 20-20 vision, then surely foresight is invaluable – and that is the challenge for club administrators – to understand the culture of the organisation to the degree that potential issues can be identified and strategies put in place to minimize the risk that they occur.

A risk is defined as “the chance of something happening that will have an impact on an objective” (AS/NZS 4360:2004 *Risk Management*). One of the key aspects of this definition is the impact on the objective. It follows, therefore, that clubs need to have clearly defined their objectives and have an understanding of what success looks like. The following table illustrates what such an analysis might look like:

Element	What Success Looks Like
On Field Performance	Example Club will consistently finish within the Top Eight of the NRL
Sponsorship	Example Club will ensure that the revenues generated through sponsorship are equal to or greater than 50% of revenue
Community	Example Club will ensure that 100 hours each year are dedicated to community engagement
Reputation	Greater than 90% of all media stories are positive
Membership	Example Club attracts and maintains greater than 4,000 members
Spectators	Example Club will achieve crowds of greater than 13,000 per home game
Governance	Example Club will ensure that it meets all of its statutory governance and compliance requirements.

Once the club has gone through that exercise, the relationship between on-field performance and reputation and the overall success of the club becomes even more obvious. In short, on-field performance and reputation impact (positively and negatively) on **every criteria against which clubs measure their success**.

Once the club understands its objectives and what success looks like, it needs to identify the full range of activities that are undertaken by the club (e.g. football operations, administration, community programs .etc.) and the enabling elements that allow these activities to occur (e.g. sponsors, administrative staff, players, coaches, the NRL .etc.). Once this is complete, the following simple question is asked in relation to all of these activities and enabling functions – “what can go wrong”?

Some of the risks that may be common to a number of clubs include (but are not limited to):

- a. Loss of significant sponsor (financial consequences);
- b. Poor off field behavior by players (reputation consequences);
- c. Poor on-field performances (financial consequences);
- d. Disputes between club stakeholders (reputation consequences);
- e. Poor scheduling by NRL (financial consequences);
- f. Poor performance of merchandise provider (financial consequences);
- g. Poor financial management (financial consequences); and
- h. Poor state of home ground/oval.

Once identified, the risks need to be analysed to determine those that need to be treated and those that can be tolerated.

The difficulty for clubs, of course, comes from this final step – the risk treatment. The first challenge arises from the fact that some treatments may require changes to behavior that have been ingrained in the club's culture for many years. The further challenge arises from the fact that some treatments may require additional resources that may not be readily available. This argument, however, represents a false economy.

If we were to ask the Manly (or Cronulla) CEO to make an estimate of the direct and indirect costs to the club of the incidents that have surrounded them in recent months, I am certain that they would far outweigh the costs of preventing these incidents from occurring in the first place.

Let's use a fictional example as an illustration:

A Sydney based club has signed a lucrative sponsorship deal with the Roads and Traffic Authority (RTA) as a means of ensuring that the message in relation to drink driving receives a greater profile. In the sponsorship agreement, the RTA includes a "get out" clause which, in essence, states that if any player or club official is found guilty of drink driving the agreement can be terminated. As a result, the club now has a risk to manage:

There is a chance that the sponsorship agreement with the RTA will be impacted by a player or club official being convicted of drink driving.

So what can be done? Of course, the club could take the approach that the players and officials are adults and responsible enough to recognise the impact if they are convicted of drink driving. The club could also put clauses in the player's contracts that clearly identify the consequences of a drink-driving conviction.

One common theme in these approaches is that neither of them will actually prevent a player or official driving a vehicle under the influence of alcohol.

An alternate, and more proactive approach would be to issue all players a CABCHARGE Card to be used whenever there is a chance they will be in a location that they would be drinking. The club could pick up the full cost of club related activities and 50% of the cost of getting to and from non-club related activities. In this way, for a small cost (relative to the size of the sponsorship), the chances of any player or official being convicted of drink driving is greatly reduced.

For those that may think this is a far-fetched example, the Richmond Football Club in the AFL lost the TAC as its major sponsor in 2005:

"TAC Chief Executive Officer, Mr Stephen Grant, said the TAC was left with no alternative but to end its 16 year relationship with Richmond, following the drink-driving and speeding incident involving Tigers player, Jay Schulz."

"The last time a Richmond footballer was detected drink driving in late 2001, the TAC made it abundantly clear to the Club that it had received its first and final warning.

In summary, Rugby League Clubs and the NRL need to take a more pragmatic approach to managing their 'business' and ensure that the objectives of that business are fully understood and the risks to achieving those objectives effectively managed. If they are not, the clubs (and the NRL) will continue to struggle from crisis to crisis, the reputation of the game may be irrevocably damaged and more of the great clubs that make up the fabric of our great game may be confined to history. All successful businesses effectively manage their risks – Rugby League should, and cannot continue to be an exception.