

O'CONNOR | SINCLAIR  
*Leading Effective Decision Making.*

Ministry of Business, Innovation and  
Employment

**New Zealand Major Events  
Governance Guidelines**

30/04/2013

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This document is a guide only; it does attempt to 'signpost' key areas for consideration, it does not attempt to provide advice. In seeking to determine the most suitable governance framework for their Major Event, owners, promoters and/or other stakeholders, as appropriate, should seek independent professional advice.

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# 1 EXECUTIVE SUMMARY

This document emphasises the importance of establishing Major Event governance arrangements that are designed with the purpose of serving the needs of the Event, as opposed to perceived control needs of stakeholders. A governance structure designed upon the identified and unique needs of the Event will increase the likelihood of Event success and also of meeting stakeholder expectations.

When we look beyond the excitement that can be attached to an Event, it is a business venture (often a high risk business venture) and as such, the disciplines associated with best practice governance should apply.

The New Zealand Institute of Directors publication entitled 'The Four Pillars of Governance Best Practice for New Zealand Directors' observes all good governance guides and codes are underpinned by common principles and values, particularly the RAFT principles of responsibility, accountability, fairness and transparency.

For Major Events there is sometimes an underestimation of the extent to which early investment in proper governance structures and processes can result in more effective decision making, risk management and outcomes.

Clarity on the roles and responsibilities of the Board, the determination of policy and strategy and the effective leadership, culture, standards and operation of the Board are important in any governance situation. For Major Events, this document identifies unique aspects that should be accorded particular attention. These include:

- In seeking to determine the most appropriate governance arrangements, there must be in depth understanding of the unique characteristics of the Event. The responsibility of the Event governance is to serve the needs of the Event. When this is compromised risk increases;
- The Board should complete a detailed stakeholder mapping process and ensure there is a documented stakeholder engagement strategy including roles and responsibilities. It should not be assumed that stakeholders have to be in governance positions in order to achieve their particular aims;
- The Board should be made up of expertise based appointments (i.e. competencies relative to the needs of the Event). Where there is inclusion of representation based appointees, relevant expertise remain the primary criteria. The reasons for the appointment and the expectations on the appointee should be documented;
- Often it is best practice to establish a special purpose separate legal entity with its own Board and management team, as opposed to a Committee within an existing organisation. This decision requires objective analysis of the needs of the Event, the size and scale of the Event and the governance expertise and processes required to reduce risk and increase the probability of success.

This document advocates customised governance arrangements based on objective needs analysis. It also highlights Governments expectations of Major Events Development Fund applicants and preference for expertise based, independently



chaired external governance frameworks (or clear risk mitigation measures if other governance structures are being promoted for the Event).



## 2 INTRODUCTION

### 2.1 BACKGROUND

This document is a Major Event governance best practice guide for publication within the New Zealand Major Events Resource Bank. This document has been prepared by O'Connor Sinclair and it was peer reviewed by the following professionals:

- Peter Stubbs, Partner, Simpson Grierson;
- Kerry Price, Partner, Grant Thornton;
- Carl Rowling, Director, Rowling Law and Strategy.

Major Events bring significant economic, social and cultural value to the New Zealand economy. Recent Major Events hosted in New Zealand include:

- Winter Games New Zealand 2011;
- Volvo Ocean Race Stopover, Auckland 2012;
- ITU World Triathlon Grand Final 2012;
- Fast 5 Netball World Series 2012.

Upcoming Major Events include:

- FIFA U20 Men's World Cup 2015;
- UCI BMX World Championships 2013.

For other past and upcoming events refer to the following website:

<http://www.majorevents.govt.nz>

The challenges in securing and delivering Major Events are increasingly demanding, exacting and competitive with international rights owners requiring:

- Significant host nation investment and commitment;
- High quality delivery standards;
- Ever evolving commercial and operational assurances.

In establishing the operating model for delivery of a Major Event, ensuring the most appropriate governance framework is the most important organisational factor in increasing the likelihood of the following:

- Successfully delivering the Major Event (i.e. financially and operationally);
- Taking full advantage of the opportunities and benefits;
- Managing associated risks.

In the absence of an effective governance framework, the needs of a diverse range of stakeholders and the inherent enthusiasm and excitement of hosting the event can lead to compromised decision making, increasing the risks to the organiser and resulting in disappointing outcomes.



## 2.2 DOCUMENT INTENT

It is expected this document will be of interest to National Sports Organisations, National Arts or Entertainment Organisations, international event owners, investors and promoters, Local Government and other Central Government Agencies.

Each Major Event has unique characteristics in ownership, funding structure, commercial drivers, operational challenges, stakeholder profile and dependency and risk factors. Therefore, in relation to determining the most appropriate governance framework for a particular Major Event, the purpose of this document is not to prescribe a particular model or structure; rather it is to ensure there is attention given to assessing the Event and to encourage objective analysis of key considerations in determining the most appropriate governance framework.

This document is a guide only; it does attempt to 'signpost' key areas for consideration, it does not attempt to provide advice. In seeking to determine the most suitable governance framework for their Major Event, owners, promoters and/or other stakeholders, as appropriate, should seek independent professional advice.

Note the terms Major Event and Event are used interchangeably in this document. The term Board is used to refer to an organising group tasked with Event governance, unless otherwise stated.

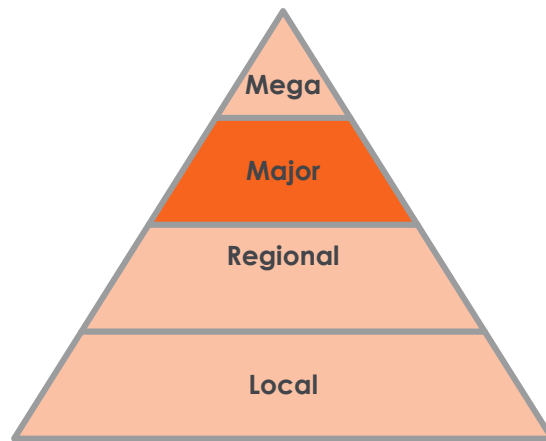
## 2.3 DEFINING MAJOR EVENTS

The New Zealand Government through New Zealand Major Events, a team within Ministry of Business, Innovation and Employment (MBIE) describes Major Events as outlined below. A Major Event:

- Generates significant economic, social and cultural benefits to New Zealand;
- Attracts international participants and spectators;
- Has a national profile outside of the region in which it is being run;
- Generates significant international media coverage in markets of interest for tourism and business opportunities (i.e. Australia, Asia, United States and Europe/United Kingdom).

Events can be categorised as mega, major, regional and local as depicted in Diagram 1 below.





*Diagram 1: Categorising Events*

From Government's perspective, Major Events have a significant proportion of international participants, an international and New Zealand audience and significant international media coverage. They include Events in the arts, cultural, sports and business (e.g. conventions, exhibitions) sectors. Examples of Major Events are provided in section 2.1 above. Examples of Mega Events include Rugby World Cup 2011 and APEC, Regional Events include events like Queenstown Winter Festival and Local Events include events such as Upper Hutt Summer Carnival.



## 3 GOVERNANCE AND THE MAJOR EVENT

### 3.1 WHAT IS GOVERNANCE?

The New Zealand Institute of Directors publication entitled 'The Four Pillars of Governance Best Practice for New Zealand Directors' notes that there is not one universally applied definition of governance; however it observes that all good governance guides and codes are underpinned by common principles and values, particularly the RAFT principles. These are:

- Responsibility;
- Accountability;
- Fairness;
- Transparency.

The publication provides two definitions of Corporate Governance. In respect of Major Events, the definition attributed to the 1992 report entitled Financial Aspects of Corporate Governance (i.e. the Cadbury Report) appears to this writer to be the most practical definition. That is:

- "Corporate governance is the system by which companies are directed and controlled."

We also note the definition by Johnsons and Scholes, below:

- "To determine whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided."

The Johnson and Scholes definition is particularly apt for Major Event governance. In corporate governance the Board would typically be concerned primarily with the interests of the owners (e.g. shareholders). In Major Events there is more likely to be dependence on and interest from a range of stakeholders for successful outcomes.

### 3.2 MAJOR EVENT = BUSINESS

The Major Event owner and/or organiser may reflect at this point and ask "how do these references to corporate governance apply to me?" The answer is that a Major Event, when one looks beyond the excitement and emotional elements that can be attached to an Event (e.g. sports event, festival event etc.), is a business.

Diagram 2 on the next page summarises this point.





Diagram 2: Major Events = Business

Major Events have several characteristics that warrant the application of best practice governance disciplines. For example performance drivers and risks associated with the following:

- Sourcing and deployment of capital and/or public investment and funding support;
- Stakeholder expectations and relationships;
- Financial outcomes;
- The contractual environment;
- Operational delivery;
- Reputation;
- Major Event leverage and legacy.

The Major Event owner is typically dependent on a number of stakeholder organisations for effective planning, delivery and leverage of the Event.

The nature of Major Events, with a long build-up (sometimes years) before actual delivery of the core service, realisation of revenue and delivery of customer experience (i.e. event day or event days) can lead to underestimation of the extent to which early investment in proper governance structures and processes result in:

- More effective decision making;
- Prudent risk management;
- Successful outcomes.

When there is lack of regard and discipline in setting up the appropriate governance arrangements we observe two inherent risks that can adversely affect the likelihood of success. These are:

- The Board becomes predominantly operationally driven (i.e. management focused instead of governance focused);
- Purposes, objectives and culture of the Board become compromised, for example;
  - A collegial culture instead of performance/accountability culture;
  - Stakeholders roles undefined;
  - Decision making drivers become politically based instead of Event objectives based.

### 3.3 THE ROLE OF GOVERNANCE

The role of the Board for a Major Event includes policy, strategy and direction setting.

It is important to draw a distinction between governance and operations / management. This distinction is outlined below:

- Governance (i.e. the Board) defines where the organisation is headed and how it will get there;
- Management and operations undertake the activities required to achieve the goals and objectives set by the Board.

Major Event governance arrangements are designed with the purpose of serving the needs of the Event and this becomes the prime responsibility of the Board. The Board will determine the organisational purpose, vision, strategies and values (e.g. through a strategic planning process) and in doing so will have responsibilities in the following areas:

- Business and Environment: Understanding of and insight into the business and external operating environment for the Event and the Event organiser, including legal, regulatory and compliance obligations;
- Impact of Unique Event Characteristics: Identifying the unique characteristics of the Event and how these impact on the risk profile for planning and delivery of the Event and thereby the required Board and management competencies; For example:
  - In regard to revenue is the critical dependency a) spectator ticketing income, b) participant registration income, or c) broadcast contracts?
    - A) If the dependency is spectator ticketing income, then experience in event marketing, ticketing supply, pricing strategies and yield management and campaign planning are advantageous.
    - B) If the dependency is participant registration income, then understanding of the sport or activity from a participant perspective is advantageous. Experience in identifying and delivering to participant needs in the lead up to the Event, and

during the Event period is critical. Knowledge related to participant entry fee sensitivity and whole of experience cost sensitivity (e.g. travel, accommodation, special training requirements etc.) adds value.

C) If the dependency is broadcast contracts then experience in the media sector is advantageous particularly understanding how to package media content properties and to realise maximum value for these properties.

- Transactional Process: Clarity in relation to the transactional processes, for example:
  - If the revenue based transactional processes are domestic and immediately prior to the Event, the risk and cost profiles are typically lower and it may be that with suitably qualified management the Board requires general financial and risk oversight experience.
  - If the revenue based transactional processes are international and years in advance the risk and cost profiles are quite different (for example exchange rate exposure, cash-flow management, use of funds received) and so particular Director level expertise in international transactions environments would be advantageous. Supply-side dependencies including availability driven costing risks (e.g. temporary seating, big screens), significant commitments required prior to revenue generation, contractual obligations and so forth.
- Critical Success Factors: Identifying the critical success factors operationally pre event and during the Event? This will vary by Event type:
  - For an international stadium based sport event with a predictable on field outcome it could be that the critical success factors are minimum thresholds in pre event sales whereas for such an event that is expected to be sold out six months in advance the critical success factors are around pricing and yield management strategy.
  - The former requires expertise in marketing and promotion, the latter in revenue and financial management.
  - For the same two events, event delivery critical success factors might be, for the former, how the event is positioned to television audiences and for the latter it could be operational matters around traffic and venue access and security.
  - Some of the required competencies in the examples above will be at management level, however some Board level expertise or at least literacy would be advantageous (even if it is solely for asking the challenging questions of management to drive optimum outcomes and accountabilities).

- Stakeholder Management: Understanding of stakeholder needs and expectations, balancing these interests with the interests and priorities of the Event and having explicit strategies for stakeholder engagement.

For the purposes of this document we define stakeholders as those organisations (or groups) that will depend on the Event to fulfil their own goals and whom in turn the Event will depend upon for its own success.<sup>1</sup>

Stakeholders can include:

- Event Owners/Rights Holders;
  - Event licensee/Event Organising Body;
  - Investment and funding partners for example Central and Local Government Agencies;
  - Customers, for example, competitors, spectators and other participants for example volunteers;
  - Commercial partners, for example, broadcasters and sponsors;
  - Suppliers for, example, stadiums, security, catering, ticketing, transport, Councils and promotional companies.
- Board Competencies: Expertise needs analysis at Board level. There are some governance level Director characteristics that would apply in any Board composition situation, for example, demonstrated integrity, judgement, commitment and dependability.
  - The mix of specific expertise required of Directors will vary depending on the situation however in Events, expertise in financial management, analysis, marketing, legislative compliance and risk and the sector the Event operates within are advantageous. Skills required of the Board five years ahead of the Event may differ to those required six months ahead of the Event, depending on the expertise in management and learned competencies over time on the Board. For example:
    - Five years ahead the expertise needs could be based around international rights holder management, investment stakeholder relations, establishing and negotiating key supply and commercial contracts, establishing a suitably competent management team. Six months out, operational experience or insight into traffic, venues, and participant management, investor leverage needs, risk management processes and problem solving would become more prominent.

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<sup>1</sup> Adapted from Johnson and Scholes Exploring Corporate Strategy

- It is possible the same Board expertise would be suitable for the full planning and delivery period, and Board stability (presuming excellent Board performance) is often an organisational strength. Equally periodic review might highlight Board and/or expertise gaps as the context of the business changes and requirements for Director succession planning, commissioning external expertise or management succession planning may become important.
- Culture and Standards: Establishing the culture and internal operating environment for the Event organisation. These are achieved through effective leadership of the Chair, the conduct of the Directors and disciplined processes and documentation (e.g. Policies and Procedures Manual, Charter Document, Terms of Reference, Memorandums of Understanding, Role Descriptions, Reporting Templates etc.) in relation to the following:
  - Delegations of Authority at Board, CEO and management and sub-committees levels including documented allocation of responsibilities;
  - Establishing clear demarcations between governance (strategy, policy and direction) and management (implementation, operations, tactics);
  - Setting standards and expectations in financial and management and reporting, policy, procedures and timelines, risk register management and reporting;
  - Setting standards and expectations in regards to Board meetings procedures, timing, papers, attendance, agenda setting, minutes;
  - Establishing standards and policies in regards to organisational values, ethics, integrity, behaviour and conflicts of interest;
  - Recruit and induct new board members and assess board performance;
  - Ensuring effective Board performance evaluation processes;
  - Ensuring adequate resources including in Sub Committees where there should be clear and explicit delegations (ideally powers of recommendation not decision making) and reporting. There will usually be a need for a Risk and Audit Sub Committee; the need for others depends on the mix of skills at senior management level. The Chair of the Risk and Audit Sub Committee must have financial capability and should not be the Board Chair. Diagram 3 on the next page shows a sample Board/Sub Committee structure.
- *Appointing the CEO: The processes associated with recruiting, appointing, directing, supporting and evaluating the performance of the CEO.*

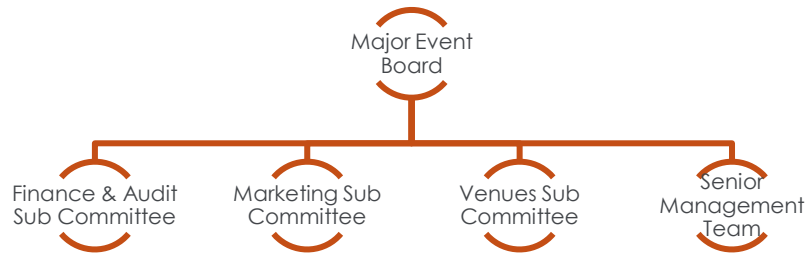


Diagram 3: Sample Board/Sub Committee Structure

### Role of the Chair

The Chair has an important leadership role. If the Board is overseeing the organisation, the Chair is overseeing the Board. It is important that he/she understands the strengths and weaknesses of each Board member and ensures each Board member understands why they are there collectively and individually (i.e. to serve in the best interests of the Event).

The Chair sets the culture of the organisation and leads the relationship between Board and Management. He/she must be strong in terms of ensuring appropriate focus of the Board and Management, ability to empower and delegate, ability to lead effectively in challenging stakeholder and political environments and disciplined on ensuring suitable organisational monitoring.

He/she is also most likely to be the public face of the Board and in some instances, the Event. The role includes ensuring appropriate strategies and protocols for stakeholder engagement, including the media.

Given the role and responsibilities of the Board, the most effective Chairs in the Major Events sector are most likely to be those who are independent of any stakeholder organisation or political agency connected to the Event. Therefore the preference is that a Chair appointment based on relevant expertise and independence represents best practice governance in Major Events.

## Induction

For the effective performance of the Board, induction of new Directors is important. The new Director should not be placed in a position of learning the business through attending the monthly Board meeting. Preparing papers for the Director that include key documents (e.g. Charter, Strategic Plan, Financial Reports) and completing briefing meetings with the Chair, CEO and Heads of Sub Committees in a short space of time would be logical steps. The Chair would also outline the Board expectations of the Director in both a generic context and in the context of his or her particular skills. Updating the new Director on particular problems, opportunities or projects the Board is dealing with or anticipates, in particular, in areas of the same where it is expected his or her experience will be valuable is also important.

Periodic appropriate social interaction among the Board and Senior Management is helpful for relationship and team building.



## 4 GOVERNANCE FRAMEWORK – BOARD COMPOSITION

### 4.1 EXPERTISE BASED BOARD = BEST PRACTICE

A fundamental question to address relates to Board composition. That is who to appoint to the Board.

A critical aspect in the formation of a Board is the quality of the people appointed. Governance experience combined with experience that is relevant to the purposes, objectives, challenges and responsibilities of the Event is ideal.

Best practice for Major Events is that the Governing Board is predominantly expertise needs based (as opposed to predominantly representative based appointments). The skills and experience required ideally align to the aspects of governance as outlined in 3.3 above.

By expertise based, we mean appointments to the Board that are predominantly based upon the competency needs of the organisation in fulfilling its purposes and objectives. The Board member is appointed to protect and/or promote the specific interests of the central entity under the Board's governance. That is to protect and promote the interests of the Event (as opposed to other interests).

Boards based around appointments driven by accurate understanding of the expertise required at governance level for the planning and delivery of the Event are more likely to result in the following:

- Appropriate expertise mix;
- Accuracy of function i.e. operating at governance level;
- Clarity and focus in setting policy and strategy;
- Robust and effective decision making.

Presuming a decision to establish a predominantly expertise based Board, the logical initial priority tasks include:

- Completion of an objective needs analysis process to clarify the skills and expertise required of Board members;
- Designing specific Board role definitions and responsibilities with consideration for both individual roles and collectively across the Board.

A predominantly expertise based Board will also want to ensure, if it is not inherent in those members appointed, that they develop as soon as possible:

- Insight and understanding of the business (i.e. the Event and the sector the Event operates in);
- Stakeholder engagement strategies.

## 4.2 REPRESENTATION BASED BOARD = HIGHER RISK

By representation based, we mean appointments to the Board that are predominantly based upon stakeholder organisational interests. That is the Board members are appointed, at least in part, to protect and/or promote specific interests of a stakeholder or stakeholder group. Appointments on this basis can bring inherent stakeholder inclusion, relevant sector knowledge and direct influence on critical external matters. However these elements are likely to be outweighed by increased risk (at governance level) that may compromise Event outcomes. These governance risks include the following:

- Expertise gaps;
- Too many Board/Committee members;
- A predominantly political environment (due to board or committee members representing their organisational interests);
- Conflicts of Interest – stakeholder interest vs. Event interests.

Examples of conflicts of interest are:

- A Board decision regarding confirming a new sponsor whose brand and activation expectations may 'crowd out' current investment partners priorities, where the investment partner has representation on the Board;
- The Naming Rights sponsor, who is represented on the Board, seeks event benefits outside the scope of their Agreement, and the delivery of these benefits will result in increased operational risk, and/or venue Agreement conflict and/or higher costs for the Event;
- A National Sports Organisation, represented on the Board, demands access to a high volume of below market price tickets, which may be a legitimate promotional opportunity or a risk of compromising revenue. Either way the Board approach must be based on independence, objectivity and the interests of the Event.

## 4.3 MANAGING RISK WHEN INCLUDING REPRESENTATIVE APPOINTEES

While we would expect Major Events best practice to be expertise based Board appointments as outlined above, there may be occasions where representation based appointments are included in an expertise based Board, for example, in the case of regional or local level events (see Diagram 1).

In order to reduce the risks inherent in representation based appointments, the following measures should be taken:

- Requisite governance skills and relevant experience should remain a priority. For example:
  - Ensuring appointments are made based upon the alignment of the needs of the Event organisation at governance level and the relevant experience of the appointees;

- Clarifying and documenting the basis or case for the representative appointment/s and the expectations of the appointee.
- The role definition and description for the appointees should be clear in relation to the reason for the appointments. It should include:
  - The expectations of the persons being appointed for the governance of the Event including reference to Board member accountabilities.
- Impact of representation based appointments on procedures relating to Board setting priorities, decision making, confidentiality, conflicts of interest, meetings, minutes and reports;
- Specific protocols, demarcations and responsibilities in relation to stakeholder engagement and communication;
- A critical risk management measure would be ensuring independence of the Chair so his/her priorities in relation to the purposes and objectives for the Event are not compromised by stakeholder interest and expectations.

#### 4.4 SIZE OF BOARD

In determining the appropriate size of the board, the number of Directors required to achieve optimum efficiency and effectiveness should drive decision making.

The New Zealand Institute of Directors publication entitled 'The Four Pillars of Governance Best Practice for New Zealand Directors' notes the weakness of a Board with too many Directors includes Directors lacking opportunity to fully participate in discussions and decisions, and proceedings being too long. A Board that is too small, risks limiting the breadth of knowledge and experience of the Board.

The document observes that as general rule a Board numbering between six and eight members is usually found to be the most appropriate in medium to large size companies.

#### 4.5 BOARD APPOINTMENTS

The process for Board appointments will usually involve an appropriately qualified appointments panel.

In seeking to appoint Board members, the panel will ideally be briefed by the Event owning organisation and investment stakeholders including on the matters raised in this document. In particular the brief would include:

- The key expertise mix required on the Board;
- Information related to the structure of the Board (i.e. internal or external to parent organisation);
- Board role definitions based on individual roles and collective needs across the Board.

The panel should have insight into the experience required of the Board and would prepare ideal candidate profiles prior to approaching potential suitable candidates.

The panel will be considering candidates both at individual level and with a view to team dynamics and balance of experience and expertise.

## 5 GOVERNANCE FRAMEWORK - STRUCTURE

In determining the most appropriate governance model, the Event owner needs to objectively and critically address the four key aims set out below in Diagram 4.

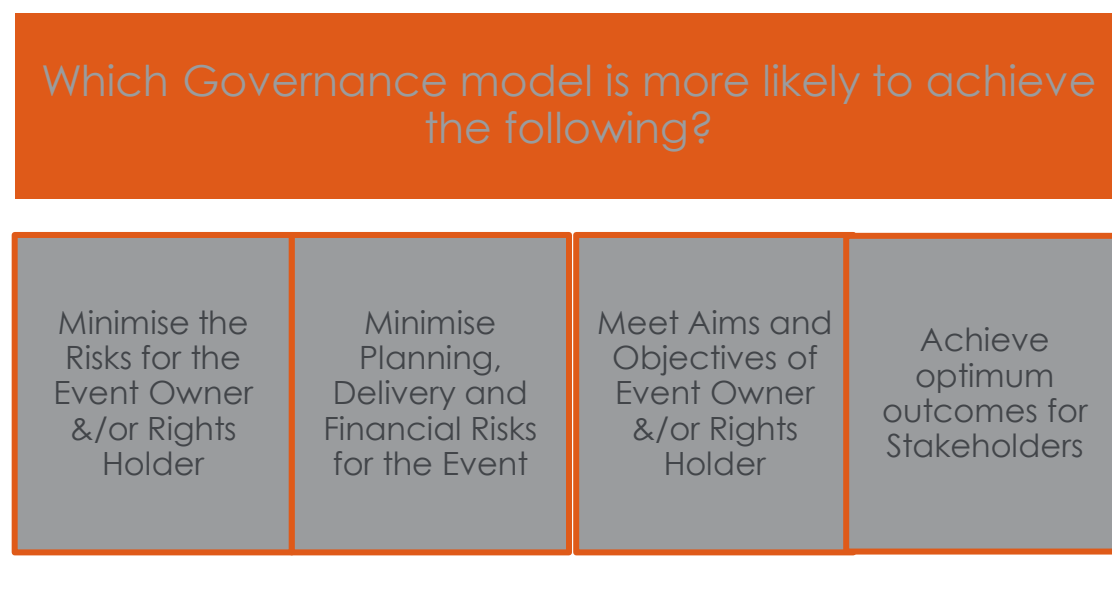


Diagram 4: Four Key Aims

In addressing the questions above, the key challenge is preparedness to 'objectively and critically' assess the options and solutions.

For example, what is the core business and competency of the Event owner or Event delivery rights holder? How does this translate into the demands and risks associated with the Event under assessment?

- It could be the Event delivery rights holder is a very well governed and managed national or regional sports entity.
  - However if the Event is a high dollar value event (i.e. operational cost, revenue turnover) with operational and stakeholder complexity, an objective and critical review of governance models may establish it is not the right organisation for achieving the four aims/outcomes highlighted in Diagram 4.
- It could be the Event is a new concept, a start up being created by enthusiasts with a vision and a passion.
  - Again, an honest appraisal under the question above may reveal that these are not the appropriate people for governance of the Event.

One risk in the Major Events sector is the presumption that Major Events do not require specialist expertise, experience and processes at governance level. In seeking to establish the appropriate governance framework for the Event, honest and analytical assessment of the requirements should be similar to setting up a significant business or subsidiary organisation. That is recognising the unique purposes and objectives of the

Event as distinct from the established and on-going purposes and objectives of the Event owner or Event delivery rights holder.

## 5.1 INTERNAL OR EXTERNAL GOVERNANCE

Having established the principle of best practice being expertise based Board composition, we can now consider the governance structure. The initial question to address is highlighted in Diagram 5 below. That is, should the governance and management structure operate within an existing organisation (e.g. a National Sports Organisation), or external to it?



*Diagram 5: Contrasting Approaches to Structure*

For the purposes of this document, 'Within an existing organisation' refers to governance and management being organised within the current legal structure of that organisation for example a Committee within a National Sports Organisation governance and operating structure.

A Committee would have clear terms of reference and would be established for reporting purposes under the National Sports Organisation line management, albeit with some operational separation.

A governance and management structure 'External to an existing organisation' refers to establishing a separate legal entity, for example, a Limited Liability Company or a Charitable Trust. This entity would have full governance, management and operating responsibility for the Event. The entity may report to the National Sports Organisation as subsidiaries report to parent companies (i.e. formally and with requisite productive tensions that underpin accountability and performance in the associated Chair to Chair, CEO to CEO relationships).

Table 2 on the next page summarises under a high level PMI template the strengths and weaknesses of each option.

Table 2: Pluses, Minuses, Issues

PMI	External to Existing Organisation	Within Existing Organisation
<b>Pluses</b>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• Higher likelihood of forming an expertise based Board</li> <li>• Clarity of objectives and decision making processes</li> <li>• Clarity in reporting and accountabilities</li> <li>• Clarity in the contracting environment (i.e. contracting parties dealing directly with each other)</li> <li>• Possibility that it will be a more credible employment brand in the international major events market.</li> </ul>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• Direct access to and influence with decision makers in other related organisations and service areas</li> <li>• Lower direct costs initially and in some cases ongoing e.g. no requirement for separate auditing processes, sharing of administration and finance functions</li> <li>• Development of valuable intellectual property and capability within the existing organisation.</li> </ul>
<b>Minuses</b>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• Higher direct costs of governance</li> <li>• Indirect connection to critical stakeholders.</li> </ul>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• Expertise gaps</li> <li>• Conflicts of Interest – existing organisation interest vs. Event interests</li> <li>• Lack of clarity in roles, responsibilities and priorities</li> <li>• Poor trading outcomes of the Event can adversely 'infect' the organisation</li> <li>• 'Event capture' i.e. adverse effect on and hidden event costs in the existing organisation</li> <li>• Priority and objectives of Event conflict with organisation priorities</li> <li>• Lack of transparency in</li> </ul>

PMI	External to Existing Organisation	Within Existing Organisation
		financial management and reporting.

<b>Issues</b>	<ul style="list-style-type: none"> <li>• Unique characteristics of the existing organisation constitution and political structure.</li> <li>• Existing organisation political cycles over the planning period represent disruptive risk.</li> <li>• Size, scale and risk profile of the Event, relative to the existing organisation.</li> <li>• Expertise in the existing organisation relative to the Event needs.</li> </ul>
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Determining which structural option, internal or external, is most appropriate will be driven by three underlying factors:

- The size, scale and complexity of the Major Event relative to the existing organisation;
- The extent to which there is, or is not, a strong alignment between the expertise required to govern and run the existing organisation and the expertise required to govern and deliver the Major Event; objectives?
- As an outcome of the above two points, the risk profile of the Major Event relative to the tolerance for risk of the existing organisation.

Diagram 6 on the next page summarises at a high level the contrasts.



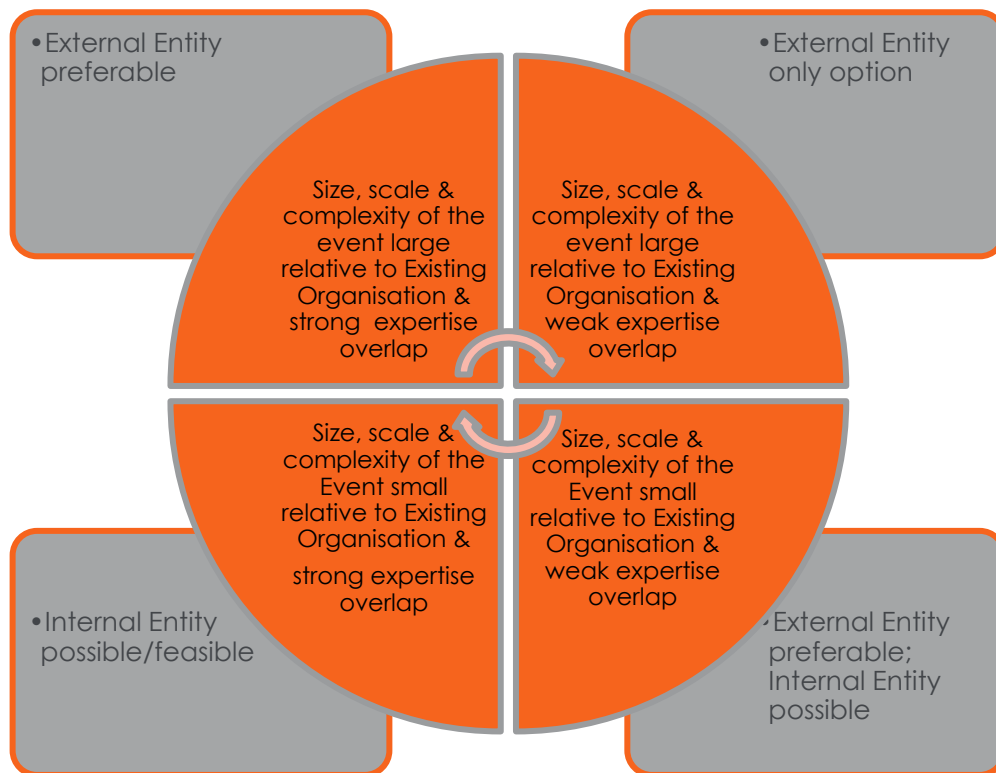


Diagram 6: Contrasting Structure Options

### Opposite Approach

Our observation, particularly in the sports sector, is that existing organisations go through a process of 'rationalising' the appropriateness of an internal structure and consider an external structure with reluctance.

In adopting this approach, existing organisations are sometimes confusing issues; that is a perceived need to directly control the Event in order to derive desired outcomes as opposed to the Event need for best practice governance arrangements so that there is increased probability of achieving desired outcomes.

As stated elsewhere in this document, every Major Event situation is unique, however we consider that in order to determine a best practice governance framework, existing organisations should apply their deliberations from the opposite viewpoint.

That is, assume an external structure is the most appropriate and design the governance framework around this. Reluctantly consider an internal structure if the external structure is not feasible, for example, the size, scale, complexity and risk profile of the event does not justify it. If establishing an internal structure, give consideration to appointing an external Chair.

It is also important to get legal advice from suitably experienced lawyers. This will be particularly important if the existing organisation is seeking to establish an external structure as there are several options in this regard (e.g. Limited Liability Company, Charitable Trust, and Incorporated Society).

## Internal

When the Event governance and management arrangements are to be delivered within the current legal structure of an existing parent organisation (e.g. a Committee within a parent organisation such as a National Sports Organisation), as part of risk management, the following matters should be addressed:

Explicit (in writing) clarity in relation to;

- Preparation of meaningful Committee objectives (i.e. as distinct from Event or Tournament objectives), through Terms of Reference or Charter documentation with desired outcomes described, and commentary on the principles behind the objectives (i.e. why and how);
- Leadership of the Committee (i.e. the Chair) should not be the same as the parent organisation and ideally the Chair of the parent organisation would not be on the Committee. He/she needs the ability of objective oversight from which to lead the parent organisation in seeking accountability and performance of the Committee;
- Roles and responsibilities of all personnel involved in the Committee including outlining and differentiating the Committee roles in governance and management;
- Accountabilities, performance expectations, deliverables and performance monitoring and review processes including clear demarcations between roles and responsibilities of the parent organisation as an on-going concern and the Committee;
- Financial management and reporting standards required;
- Budget ownership - who owns the Committee budget? How is the budget made transparent?
- Processes and protocols in relation to parent organisation resources being co-opted to the Committee;
- Identification and allocation of costs of parent organisation resources to the Committee.
- The existing parent organisation and the Committee will have contrasting objectives and priorities. It is prudent to establish protocols in relation to reporting lines and communications, and for consideration to be given to Committee location and office set ups so as to prevent the focus and performance of either the parent organisation or Committee, and the personnel within, being compromised.

## 5.2 LIMITED LIABILITY COMPANY OR INCORPORATED CHARITABLE TRUST

There are several options for the legal structure of an external entity. Two options often considered in the Event sector include a Limited Liability Company and Charitable Trust, as highlighted in Diagram 7 below.



Diagram 7: Contrasting Legal Structures

Each of these legal entity structures brings legal obligations and it is important to seek qualified legal advice to ensure an understanding of the inherent responsibilities, duties, obligations and compliance requirements for these and any other option under consideration.

Table 3 summarises under a high level PMI template the strengths and weaknesses of each option.

Table 3: Pluses, Minuses, Issues – Limited Liability Company or Charitable Trust

PMI	Limited Liability Company	Charitable Trust
<b>Pluses</b>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• A purpose specific organisation with an uncompromised singular focus</li> <li>• Can secure new commercial partnerships</li> <li>• Specialist governance, management, plans and tasks</li> <li>• Clarity and transparency in financial management and oversight</li> <li>• Accurate deployment of</li> </ul>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• Potential access to other funding sources e.g. Charitable Trusts</li> <li>• Can apply for Tax Exempt status</li> <li>• Specialist governance, management, plans and tasks</li> <li>• Clarity and transparency in financial management and oversight</li> <li>• Accurate deployment of resources</li> </ul>

PMI	Limited Liability Company	Charitable Trust
	<ul style="list-style-type: none"> <li>resources</li> <li>• Clarity in contracting services</li> <li>• Ability to limit liability to the legal entity</li> <li>• Established company law on how to operate and Director duties</li> </ul>	<ul style="list-style-type: none"> <li>• Clarity in contracting services</li> </ul>
<b>Minuses</b>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• Perception of lack of existing organisation control over the event</li> </ul>	<p><u>Can result in</u></p> <ul style="list-style-type: none"> <li>• Compromise to the core Event organisational purposes through customising for achievement of charitable status</li> </ul>

### 5.3 DIRECTOR RESPONSIBILITIES

The New Zealand Government Companies Office Website notes the following in relation to Director Obligations for companies.

#### *Responsibilities of Directors*

Directors are responsible for managing the company's day-to-day business. In doing so, directors owe duties to the company, to its shareholders, and to others dealing with the company.

Directors must act honestly in what they believe to be the best interests of the company and with such care as may reasonably be expected of them in all the circumstances.

Directors must not carry on the business in a manner likely to create a substantial risk of serious loss to the company's creditors (so-called "reckless trading").

#### *The Solvency Test*

The Companies Act requires directors to abide by a two-limb-test in certain situations, for example entering into a major transaction or making a distribution to shareholders:

1. The value of the company's assets must be greater than the value of its liabilities;
2. The company must be able to pay its debts as they fall due in the normal course of business.

The Directors must ensure the company abides by the second limb at all times.

It is important for both the organisation setting up a separate legal entity, the entity itself and those appointed as Directors of the entity (or considering the opportunity of appointment) to be fully informed as to the duties and responsibilities of Directors. If there is any uncertainty in this regard, then the organisation, the separate entity and Director should seek independent expert advice. The Institute of Directors has excellent information available in this area including a Code of Practice for Directors as a resource for members.

Key elements of Director Duties that we observe include the following:

- In depth understanding of the business;
- Differentiating between governance and management;
- Financial expertise or at least understanding of and literacy in financial matters;
- Ensuring effective reporting and decision making processes;
- Carefully and diligently reviewing all management and other reports provided;
- Seeking clarification and proactively making enquiries of management and auditors if there is anything in financial statements that they do not understand or that is not consistent with knowledge they have or should have;
- Taking responsibility for decisions and outcomes and proactively challenging and seeking clarification.

It is important to point out that the responsibilities and duties of Boards and Directors of Boards represent a dynamic aspect of best practice governance, particularly in the commercial sector. There are changes and new requirements occurring (through relevant case law in areas such Directors reliance on advice) and Directors operate under obligations from a number of Acts (for example the Companies Act, the Financial Reporting Act). For clarity in this regard for your circumstances, seek specialist legal advice.

## 6 GOVERNMENT'S MAJOR EVENTS GOVERNANCE EXPECTATIONS

The Ministry of Business, Innovation and Employment's New Zealand Major Events team works in partnership with the event sector to support New Zealand's growing reputation as an attractive destination for major events of global significance. New Zealand Major Events is tasked with implementing the Government's Major Events Strategy which aims to attract, retain and grow Events to achieve a greater contribution to economic, social and cultural growth.

One of the ways Government supports the Events sector, is through investments from the Major Events Development Fund in selected Events that align with the Government's Major Events Strategy.

Government, as a key investor in the sector, considers it critical in forming Event delivery organisations and structures that there are objective and disciplined processes in place for determining the most appropriate governance delivery model.

It is Government's expectation that applicants to the Major Events Development Fund will have considered this document when looking to form Event delivery organisations and structures and that applicants demonstrate best practise governance disciplines and processes have been, and will be, followed. In particular, Government expects that Major Events Development Fund applicants can demonstrate the following:

- Governance framework options have been considered and applicants can explain the rationale behind the preferred framework (external vs. internal). It is government's expectation that best practice principles are followed and an external governance framework is considered;
- A robust appointment process is followed, including due diligence on potential directors;
- Board appointments are expertise based and the Board's composition includes relevant skill sets for that particular Event;
- A suitably qualified and experienced independent Chair is appointed;
- Roles and responsibilities of the Board and individual directors are clearly documented and understood;
- Appropriate Board level processes and procedures are in place (Terms of Reference, Sub-committee responsibilities, reporting lines, conflicts of interest etc.)

Government has found that the Events that result in the most successful investment partnerships and outcomes typically exhibit the characteristics listed above. It does however recognise that each Event and each Event situation is unique. If the governance structures and processes that are determined by the organisation as being appropriate for the unique Event situation are not aligned with the characteristics listed above, then Government would expect that Major Events Development Fund applicants have ensured that appropriate mitigations are established to reduce risk. For example, explicit (in writing) clarity in regard to the following:

- Roles and responsibilities of all personnel involved including Directors and co-opted personnel (e.g. from the National Sports Organisation) and including clear demarcations between governance and management roles;
- Leadership structures and processes, for example ensuring an independent Chair appointment with appropriate authority and scope to fulfil his/her obligations;
- Goals and objectives, accountabilities, performance expectations, deliverables and performance monitoring and review processes;
- Financial management and reporting standards required, including stating policy in relation to accurate cost allocation (e.g. if the governance entity is a Sub Committee of a National Sports or Arts Organisation);
- Protocols and rules in relation to reporting and communication lines including firewalls as appropriate (e.g. if the governance entity is a Sub Committee of a National Sports or Arts Organisation);

Government has accountability obligations to New Zealand taxpayers, particularly around the investment of public funding. As such, the Government may seek to ensure the suitability of governance arrangements as part of its due diligence processes to protect Major Events Development Fund investments. Major Events Development Fund applicants should be aware that this may include requesting a range of information and seeking an assurance that governance arrangements have sufficient capability to deliver an Event to international rights holders and key stakeholders expectations.

## 7 CONCLUSIONS

In establishing the governance framework for a major event it is important to ensure an objective analytical situation review with the aim of determining which governance model is more likely to achieve the following:

- Minimise the risks for the Event owner &/or rights holder;
- Minimise planning, delivery and financial risks for the Event;
- Meet aims and objectives of Event owner &/or rights holder;
- Achieve optimum outcomes for stakeholders.

It is a mistake to assume an existing organisation (e.g. a National Sports Organisation) has the scope or relevant governance expertise required for best practice governance of the Event.

The role of the Board of a Major Event includes the critical governance responsibilities of a corporate Board in establishing the culture and internal operating environment for the Event organisation, for example appointing and supporting a CEO and establishing standards and expectations in financial and management reporting.

It is critical that the Board has an in depth understanding of the unique characteristics of the Event and how they impact on the risk profile for planning and delivering the Event. For example revenue dependencies, transactional profile, operational challenges and stakeholder management are all factors that can differ significantly between Events.

Best practice in terms of Board composition is that the personnel of the Board are appointed based upon the alignment of the skills and expertise of the personnel with the identified governance needs of the Event. The Board is established to serve the needs of the Event owner and the Event itself, not the needs of other stakeholders. Where there is a stakeholder representation based appointment to the Board, relevant governance skills and experience should remain a priority and the role definition and description for the appointee should be clearly documented.

Often the Event is to be delivered by a New Zealand based Event rights holder. If the rights holder is an established organisation with its primary operations concerned with non Event matters (e.g. governing a sport, a venue or a division of Council) then there needs to be objective consideration given to the governance structure. Often it will be most effective for the Event to be governed by a separate legal entity particularly if the scale of the Event is large relative to the existing organisation and there is not a strong correlation in terms of governance expertise required for the organisation and the Event.

The Government, through the Ministry of Business, Innovation and Employment's New Zealand Major Events team works in partnership with the event sector to attract and deliver Events. There are clear Government expectations for Major Events Development Fund applicants and preferences for governance structures and processes, particularly expertise based, independently chaired external governance frameworks.