ADDENDUM TO THE REPORT

REVIEW OF THE

DELIVERY OF THE SPORT OF CANOEING IN AUSTRALIA

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INTRODUCTION

This addendum should be read in conjunction with the Australian Sports Commission (ASC) report entitled Review of the Delivery of the Sport of Canoeing in Australia dated 31 July 2006.

BACKGROUND

In response to serious financial difficulties faced by Australian Canoeing Inc (AC) which threatened its financial viability, the ASC intervened to facilitate the sport’s recovery. The following remedial action was initiated in February 2006:

- The Commission assumed responsibility for the Olympic high performance program;
- A restructuring of the national office was implemented to reduce costs;
- The AC Board was replaced with a new interim Board;
- A $200,000 loan was approved by the ASC Board to enable AC to pay outstanding creditors; and
- A review of the delivery of the sport in Australia to be undertaken by the ASC was agreed to.

The review commenced in March 2006 and after extensive consultations involving over 200 stakeholders in all states, the report was agreed to in principle by the joint ASC-AC Steering Committee and the AC Board on 29 September 2006.

The report contained 72 recommendations and covered all aspects of governance, management, sport development and high performance. The report was released to key stakeholders in October 2006 for comment and the reviewer and members of the AC Board undertook a process of further consultation in all states on the findings and recommendations between October and December last year.

In addition to this consultation, workshops attended by AC Directors and State Presidents or State Executive Officers were held in Sydney on 3-4 February 2007 and in Melbourne on 23-24 June 2007 to discuss future directions for the sport in the light of the report’s recommendations.

The purpose of this addendum is to consider the feedback received and to respond to that feedback. Before doing that, it is appropriate to review the main findings of the report and to recap on the rationale underpinning the report’s recommendations.
SUMMARY OF MAIN FINDINGS OF THE REPORT

The report summarised the findings of the review in the following terms:

- The constitutional changes made after the 2002 review of the AC constitution and the consequential changes to the State Association constitutions did not prevent canoeing’s (performance and compliance) problems;¹

- The whole-of-sport review methodology using program logic and gap analysis proved to be an effective means of problem diagnosis;

- There is a fundamental tension between the mass participation recreational side of the sport funded primarily by State Governments at the State Association level and the numerically much smaller high performance side of the sport funded primarily by the ASC at the NSO level;

- The structure and delivery of the sport of canoeing does not, at present, satisfy the principles used to guide the review, namely, streamlining and simplification, transparency, accountability and cost-effectiveness;

- The quality of canoeing’s national leadership prior to 2006 has been a major contributing factor to the sport’s underperformance in the areas of governance, management and sport development;

- The organisational capability of AC and almost all State Associations is very limited and this militates against AC taking full responsibility for the delivery of the sport from entry to elite competition levels for the foreseeable future until the ASC is satisfied, following review, that the sport has the organizational capability to do so;

- There have been dysfunctional antagonisms between AC and some states which have impeded effective co-operation;

- Canoeing at the state level has, for the most part, developed unevenly and has not been successful in developing a vibrant club structure with a strong talented athlete pool;

- There are good opportunities for AC to form a more effective strategic alliance with Surf Life Saving Australia (SLSA) in many areas of the delivery of the sport, especially in the Flatwater high performance program;

- The National Centre of Excellence (NCE) model for delivering the high performance programs in Slalom and Flatwater is not effective mainly because of blurred management accountability;

- The resolution of canoeing’s problems will require comprehensive constitutional, structural, management, system, resourcing, cultural and behavioural changes;

- The efforts of the interim AC Board, most notably the willingness to communicate, are appreciated by members.

¹ The changes arising from the 2002 review related primarily to making the AC constitution compliant with governance best practice principles. The changes did not address whether the governance structure was the most appropriate for supporting the sport’s business strategy.
A phased plan for the implementation of the report’s recommendations will be necessary so that the changes required can be prioritised and managed at a rate that is commensurate with the sport’s organisational capability.

CURRENT GOVERNANCE MODEL

AC currently has a federated governance structure. Affiliated club members are direct members of state associations (independent legal entities) and members of state associations become indirect members of AC on payment of per capita affiliation fees.

State associations are represented at AC general meetings by their delegates (one per state) who have the right to attend, debate and vote at general meetings for and on behalf of the state associations on a one-vote-one-value basis. Affiliated clubs may appoint a representative to attend general meetings but have no right to debate or vote at general meetings. Individual members may also attend general meetings but have no right to debate or vote at such meetings.

The AC Board comprises seven directors – the President (an interested director) plus four interested directors elected by state associations from AC members plus two independent directors coopted by the board. Directors serve two year terms with the President and two interested directors retiring each year and one independent director retiring each year. Directors are eligible for re-election or re-appointment.

GOVERNANCE MODEL RECOMMENDED IN REPORT

The governance model recommended in the report is referred to here as Option 1.

Option 1: Unitary Model – Direct AC Membership, State Advisory Boards and Dissolution of State Associations

Option 1 envisages a single unified constitution with affiliated clubs having direct membership of AC, with proportional voting entitlements, and with state advisory boards in each state responsible to the CEO of AC in lieu of having independent state associations2 The details are as follows:

Governance Structure

- The sport to be delivered in each State through branch offices of AC employing staff responsible to the CEO of AC;
- The voting members of AC to be the affiliated canoeing clubs which would be represented at General Meetings by their delegates on the basis of one vote per 50 members or part thereof;
- The non-voting members to be as per the existing constitution;
- The State Associations to be dissolved as separately incorporated legal entities;
- The State Associations to be replaced by State Advisory Boards (not separately incorporated legal entities).
- National technical committees each comprising a chair appointed by the AC Board with members being appointed by the chair following a call for expressions of interest.

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2 The report refers to this option as a hybrid (unitary-federated) model of governance. It is referred to in this addendum simply as a unitary model to facilitate comparison with the other options.
State Advisory Boards

- State Advisory Boards to be established in each State comprising the chairs of the state technical committees (with power to co-opt) for the purposes of:
  - advising and assisting the AC Manager responsible to the CEO for the delivery of the sport in that State;
  - acting as a key point of reference for the AC Board and the CEO in the national planning, policy-making and review process.
  - determining, in consultation with the AC Board, the type of technical committee structure best suited to facilitate the delivery of the sport in that State.
  - advising the AC Board, through the relevant State Manager, on the application of funds accounted for by the former State Association as net equity.
- State Advisory Board members to serve two-year terms.
- The Chair to be elected by and from the State Advisory Board annually at the first Board meeting for the year.

AC Board Structure

The AC Board structure to incorporate the following features:

- A composition comprising four elected directors and three appointed (co-opted) directors;
- Four directors to be elected by affiliated clubs from AC members on the basis of one vote per 50 club members or part thereof;
- Retention of the provision for appointed (co-opted) directors (currently called independent directors) not necessarily being members of AC but having skills to complement other directors;
- An appropriate balance of skills, age and gender diversity;
- Three-year terms for elected and appointed directors (with transitional arrangements in place) with a minimum of two directors retiring each year and being eligible for re-election or re-appointment;
- The Chair to be elected by and from the Board annually at the first board meeting following the AGM and serve a maximum of six years;
- The Chair to also serve as President of AC;

BARRIERS TO CHANGE

To bring about enduring change in the way sport is delivered can be an extremely challenging task. It is important, therefore, to recall the significant barriers to change in the sport sector so that stakeholder expectations are not raised unrealistically. The barriers include the following:

- There are multiple, independent, levels of governance within sport - at the NSO, SSO and club levels – often with differing priorities.
- The Commonwealth funds NSOs primarily to achieve elite high performance outcomes whereas state governments fund the constitutional owners of sport (SSOs) primarily to achieve mass participation outcomes.

3 The links between mass participation and elite competition are acknowledged in the report and in the addendum.
Some SSOs are not particularly interested in the elite high performance side of their sport and are unwilling to vote for constitutional change affecting ownership if they perceive that, under a different model, their mainly recreational interests could receive less attention.

State government policy might not be supportive of proposed ownership changes.

The “cottage industry” culture found in many sports reflects a strong reliance on the efforts and goodwill of unpaid part-time volunteers who often exhibit strong emotional attachment to their sport. If volunteers carry through threats to withdraw support because they are opposed to changing the status quo, successful change can be prejudiced.\(^4\)

Unlike promoting change in government agencies and in for-profit companies, sport typically does not have much money or other resources available to facilitate change.

Change often takes place in a hostile environment characterised by a lack of trust because of some precipitating event or problem.

There is often a wide divergence of views on how sport should be delivered with the strength of those views depending in part on where the sport sits on the cottage industry-professionally run business continuum.

Many sports operate primarily with a member-services mind-set while others focus more on pursuing commercial opportunities.

AIS and SIS/SAS preferences do not always coincide.

Proposed changes can give rise to perceptions of “winners” and “losers” with attendant dysfunctional behaviour.

There is a perception among some sports that the ASC has a hidden unitary model agenda.

Constitutional change requires at least three quarters of voting members supporting the change; in AC’s case, this means that five of the six states must vote in favour of the change.\(^5\)

All of these factors have played a role, to varying degrees, in shaping the response to the report. It is a very big ask for state associations who control the sport to vote themselves out of existence on the promise that the replacement model will produce better outcomes.

**RATIONALE FOR REPORT’S GOVERNANCE RECOMMENDATIONS**

The rationale for recommending Option 1 in the original report is summarised under the headings:

- Current Model Deficiencies; and
- Structure follows Strategy.

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\(^4\) In the for-profit corporate sector, change tends to be less influenced by emotional considerations because paid professional staff and paid directors operate within a different culture that is more directive and focused on just one outcome – shareholder value.

\(^5\) The ACT and NT do not have separate associations.
Current Model Deficiencies

The fundamental governance problem for canoeing is that the sport is over-governed for such a relatively small sport of some 5,500 members\(^6\) with a total gross income for all jurisdictions of $3.84 Million in 2004-05.\(^7\) In this connection, the sport’s governance/management structure involves seven constitutions, seven boards, almost 50 directors, seven membership databases, seven strategic plans, seven operational plans, seven budgets, seven different charts of accounts, seven annual reports, seven audit reports, seven annual general meetings and seven sets of legal entity compliance obligations.

The report advanced the proposition that for AC to be capable of delivering competitive advantage for the sport in the future with consistently high national standards of service delivery, the governance/management structure chosen must be able to satisfy the following principles:

- Streamlining and simplification;
- Transparency;
- Accountability; and
- Cost-effectiveness.

Canoeing’s current structure does not satisfy these principles.

Two key elements in the design of NSO governance structures are - who constitutes the voting members and what are their voting entitlements?

Voting power and hence control of AC currently rests with state associations and this interposes a layer of governance between AC and the grass roots members in affiliated clubs. State associations have control over grass roots membership. Standards of service delivery to, and fees payable by, grass roots members differ widely from state-to-state. There is no consistent national standard.

It is a well-known marketing axiom that to be successful in the selling of products and services, the principal accountability must be as direct as possible to the customer. In the case of canoeing, this means being accountable to grass roots members and being able to directly reach out to prospective grass roots members as well as to participants who have no interest in becoming members of the organised sport. In AC’s case, however, the principal accountability is currently to another layer of governance, the state associations. In numerically small sports with very limited resources, cumbersome, multi-layered structures with weak accountability arrangements (like those found in canoeing) impede the responsive and well-coordinated planning and execution necessary to create and exploit commercial opportunities in a competitive environment.

A good example of unexploited commercial opportunities is the case of NSW Canoeing. NSW is a State with some 35% of the national population and is blessed with a benign climate and many attractive, safe and accessible waterways suitable for canoeing. NSW Canoeing should therefore have the highest number of members and the largest non-government revenue base but on a per capita basis, it compares unfavourably with most other states on a range of key performance indicators.

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\(^6\) The membership figure quoted in the report of 6,696 was taken from the AC annual report for 2004-05. The 5,500 figure (paid-up members) was provided by AC at the Melbourne planning workshop on 24 June 2007.

\(^7\) This figure includes fund transfers between the NSO and the SSOs.
It has been argued that this is due primarily to the very modest funding provided by the NSW Government to the state association which makes the employment of sufficient staff to undertake business development difficult. From a financial perspective, NSW can be seen as a problem but from a marketing viewpoint, NSW is a big opportunity (an investment rather than an expense) to grow the sport and to generate more income.

However, at the June 2007 planning workshop in Melbourne, it was clear that, under the present federated model, the member states were generally unwilling to allocate additional funding to enable NSW to engage additional resources to grow the sport. Moreover, the other states were concerned that NSW was unable to contribute its full share of affiliation fees to AC.

If AC were a unitary structure, it would be much easier for the NSO to provide additional support for NSW with the object of lifting that state up to at least the per capita average of the other states on a range of key performance indicators, including membership and non-government income.

Responsiveness to, and accountability for, outcomes at the grass roots level are best achieved when voting power is devolved as close as possible to grass roots members. This is the main reason why the report recommended the dissolution of state associations and the devolution of voting power at AC general meetings to the affiliated club level and for affiliated club members to become members of AC on payment of per capita affiliation fees.

In addition to these considerations, the present Board arrangement of having only two appointed (co-opted) directors out of seven leaves the need for more commercial acumen on the Board too much to electoral chance. This is a concern for the reasons outlined below.

Finally, the limited director accountability obligations under AC’s incorporated association status are not appropriate for an enterprise that needs to operate in a more business-like way and pursue commercial opportunities more actively.

**Structure follows Strategy**

The report took the position that canoeing is an intrinsically attractive and marketable activity whose potential for growth in Australia is far from being fully exploited. The potential has not been fully exploited because canoeing’s leadership has not yet determined what constitutes the sport’s competitive advantage vis a vis other sport/recreational activities nor how that competitive advantage might best be realised.

The report argued that organised canoeing would continue to operate as a small, poorly resourced “cottage industry” with little capability to innovate and achieve significant growth unless it was run along business lines aimed at delivering superior customer value. The report argued that it was possible and desirable for canoeing to achieve its full potential by actively seeking to attract and retain a much larger pool of paying participants (not just members) through the use of professional marketing methods.

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8 The reference to poorly resourced does not relate to the Olympic high performance program. The reference relates to the non-Olympic high performance disciplines and to the recreational side of the sport.

9 This addendum draws no distinction between the terms participants, consumers and customers in the context of the community consuming (paying for) AC-sponsored products and services.
Consistent with the *structure follows strategy* principle, the recommendation for the adoption of Option 1 was not made until the reviewer had formed an opinion regarding the sport’s current business strategy. The reviewer recognized that AC’s capacity to generate non-government revenue was closely linked to the effectiveness of canoeing’s business strategy.

The report’s basic proposition was that in an increasingly competitive environment, sports such as canoeing will not achieve anything like their full potential unless they have the necessary organisational capability. Organisational capability depends first and foremost on having financial strength and this is contingent on having an effective business strategy.

Irrespective of whether the sector is for-profit or not-for-profit, an effective business model requires there to be close alignment (sometimes called “fit”) between:

- Strategic intent (the vision of what is to be achieved);
- The external environment (competitors, consumers, suppliers, partners);
- Business strategy (the priorities and how are they to be executed);
- Organisational capability (structure, culture, competencies, information, IP, business systems, distribution networks, other assets).

AC had not done any significant business modeling at the time the report was written. There was very little evidence that AC had thought seriously about such fundamentals as:

- The market in which canoeing competes for participants;
- Canoeing’s market segments;
- Canoeing’s “value proposition”;
- How to create value in the eyes of potential participants;
- How the structure, culture and other capability elements might need to change to make canoeing more competitive.

Given the widespread acceptance of the view that business modeling along these lines is fundamental to building competitive advantage, the absence of any business modeling in AC probably reflected the lack of commercial background of almost all of the former directors and, in addition, a culture that tended to see the delivery of the sport more as a small “kitchen table” cottage industry than as a commercially valuable activity with medium-sized business potential.

In the case of not-for-profit sporting organizations, proper business models are often absent or are poorly developed because directors do not regard such enterprises as businesses. But they are businesses in that although they do not generate profits for private benefit they should try to generate surpluses for the benefit of members and other participants in the form of improved products and services.

In business, this is the so-called “virtuous circle” which links increased revenue to the provision of better products and services and *vice versa*. This requires directors and CEOs to have commercial mind-sets that systematically look for opportunities to develop products and services that either meet an existing demand (demand driven) or which create demand through the provision of new or improved products and services where the demand may not presently exist (supply driven) – sometimes referred to as *build it and they will come* marketing.

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10 Structure follows strategy is sometimes referred to as the form follows function principle.

11 The value proposition is the statement that describes the products and services to be sold in defined market segments in terms of the benefits to consumers that differentiate them from other products and services supplied by competitors.
In the case of canoeing, there was a poor understanding of what the commercial opportunities might be and little appreciation of how they might be exploited in ways that mitigated risk. Rather, the sport concentrated on trying to service member’s needs (preaching to the converted) with little evidence of innovation aimed at attracting non-member participants and non-paddlers. Indeed, the conventional wisdom among many paddlers was that the sport will always be fairly small (around 5,500 members) because it lacks glamour and market appeal.\(^{12}\) This is a very restricted view of the opportunities that are available. The focus should not just be on members; rather, the focus should be on generating additional net revenue from any legitimate source - by providing products and services that are highly valued by the wider community, paddlers and potential paddlers alike.

Members, volunteers, staff and ultimately the wider paddling community, benefit most from being engaged with a financially strong organisation not a financially weak one. AC and the state associations, taken together, could not reasonably be described as financially strong. The report recognised that substantially increased income from government in the years ahead was unlikely and that the sport would have to become more financially self-reliant and generate additional revenue by becoming more entrepreneurial. For canoeing to become a growing and dynamic sport, it will need to generate substantially more revenue from non-government sources in order to provide the products and services that existing and potentially new consumers (not just members) want. In order to manage risk, planned initiatives should be based on professional-quality market research. At this point of time, AC has not undertaken such research.

Subject to the findings of future market research, canoeing produces, or could potentially produce, many products and services with revenue-generating potential but in many cases, these opportunities have not to date been exploited. Delivery of these products and services could be direct through AC or via franchising and licensing arrangements with AC-accredited partners where the risk could be shared. Marketing would need to be supported by brand and logo development, with appropriate legal protections, aimed at strengthening consumer “value perception”.

Possible options include:

- intellectual property such as “turn key” business systems related to the design, sanctioning, promotion, regulation, conduct, record keeping and accounting for events and competitions;
- new disciplines and new rules for existing disciplines to reach a wider audience;
- single-sport and multi-sport events, school programs, masters and extreme events;
- local, state and national competitions and access to international competitions;
- “iconic” events including location sourcing, logistics research and design of events with sponsorship and media expressions of interest;
- social events;
- community recreation programs for local government and community organisations such as churches, scouts, disadvantaged, ethnic and indigenous groups;
- education programs and credentials;
- coaching programs for every level of paddler skill;
- personal trainer programs using persons with accredited paddling credentials and supported by information on the special health/fitness/anti-obesity benefits of paddling compared with other forms of sport and recreation;
- accredited officials for commercially operated events;
- national and international canoeing guide tourism packages;

\(^{12}\) Compared with the relatively unattractive but highly profitable products and services marketed by some enterprises, canoeing is inherently attractive and very amenable to professional marketing.
sport and recreation information including maps, dining and accommodation guides;
member benefit packages including insurance;
facility provision;
equipment and merchandise sales;
canoe/kayak design patents and production;
advertising;
product endorsements;
media production and media licensing (concept development, scripting, marketing images, fillers and documentaries);
athlete pathways from entry to elite levels;
team selection and support;
talent search and development programs;
marine safety; and
industry representation and advocacy.

These products and services are best described as outputs that contribute to preferred outcomes such as podium success, higher participation rates and increased revenue.

In marketing nowadays, emphasis is increasingly being given to promoting individual products and services as unified solutions to perceived problems and to defining consumer needs as problems requiring answers. This approach could have relevance to canoeing. Depending on the market segment and the particular canoeing discipline, the value proposition for canoeing as a lifestyle “solution” could focus on those attributes that good market research tells the sport’s leadership that people value as lifestyle enhancing. The marketing message could then be targeted to how canoeing provides better value in meeting their needs than other comparable sport/recreational activities.

If it is agreed that increased revenue coming into the sport will enable improved products and services (or “lifestyle solutions”) to be provided, business model thinking requires consideration to be given to removing any structural impediments that might get in the way of cost-effective execution of the business strategy. Given the business modeling approach outlined above, Option 1 was considered necessary because the present federated model does not facilitate the delivery of the sport along commercial lines.

Planning and execution of the business model is dependent on having easy access to high quality, uniform, national performance data covering financial and non-financial matters. There need to be national data sets which compare “apples with apples” and which distinguish between the different varieties of apples, if planning and execution are not to be risky. Unless valid comparisons can be made of performance on a state per capita basis to assess where extra effort should go into boosting under-performing states up to a consistently high national standard, there is likely to be, except by chance, a continuation of the very uneven state-by-state standards currently evident.

Currently, there is no need or requirement for canoeing to consolidate its financial information because each of the seven independent bodies produce separate financial statements. Indeed, in the absence of a common chart of accounts, consolidation would be less than meaningful even if it were attempted. Under Option 1, however, each state’s accounts would be prepared from a common chart of accounts and would be consolidated into a single national set of financial statements showing the financial health of the sport as a whole, including the relative health of the constituent state branch offices.¹³

¹³ AC would assign a separate cost centre for each state to facilitate reporting and acquittal of funding received at the state level.
POST-REPORT EFFORTS BY AC TO REBUILD THE SPORT

The Interim Board which held office from February 2006 to April 2007 has played a major role in helping to rebuild the sport. In addition to providing leadership on the usual day-to-day matters, the Interim Board has given particular attention to:

- managing debtors and creditors in ways that meet legal obligations and cash flow requirements while at the same time enabling AC to improve its negative net equity position from $461,073 as at 30 June 2005 to negative $134,554 two years later;
- regaining the confidence of the state boards and members through open and transparent communication;
- engaging key stakeholders within the states in a planning and rebuilding process through meetings and workshops;
- managing AC more like a business, including exploring opportunities to expand the sport by identifying the value of becoming a member and remaining a member through promoting a heightened perception of membership value.\(^\text{14}\)

There are indications that the new Board elected on 29 April 2007 is continuing to build on the priorities initiated by the Interim Board. Moreover, since the report was prepared, state associations have exhibited a greater willingness to cooperate with AC’s efforts to put its house in order.

FEEDBACK TO THE REPORT

Most of the feedback was received from persons who participated at meetings organised by state associations and was expressed orally and in writing. In addition, the discussions that took place at the two post-report workshops also provided very useful feedback on possible future directions. The addendum will not focus on the positive responses to the report but will instead concentrate on the matters that respondents would like to see given greater recognition.

The feedback has been summarised under three headings:

- Structures, Behaviours and Options;
- Resources and Risk; and
- Report Focus.

Structures, Behaviours and Options

- Canoeing was confronting many performance problems but these were due to inadequacies in past leadership; such problems could be satisfactorily resolved by carefully recruiting a new leadership team with the necessary skills rather than through major structural change;
- The option of making the existing structures work more effectively has not been explored sufficiently;
- Effective “joined-up” planning between AC and state associations would obviate the need for a unitary model;
- The focus in the report was pre-2006 when there were dysfunctional antagonisms between AC and some states but in the period since then, these antagonisms had disappeared and with them one of the bases for recommending a unitary structure;

\(^{14}\) This has been done primarily by recruiting competent staff, by addressing a number of ACAS accreditation problems, by developing a new membership benefits package and by improving administrative procedures including the development of common chart of accounts to operate nationally.
• Since the release of the report, the more cooperative relationship between AC and state associations provided greater opportunity for more effective national planning and execution within a federated structure;
• In the period since the release of the report, there has been clarification within the sport on the areas of responsibility that should be assigned to AC and on the services that state associations want from AC;
• State Advisory Boards would have no power to deliver the sport because they have no decision-making role;
• Without the protection afforded by independent state associations, it would not take long before smaller states such as Tasmania and distant states such a WA were disadvantaged by decisions favouring the larger eastern states;
• The proposed proportional voting arrangements could be expected to favour the club structures common in larger states because they have more clubs with memberships of fewer than 50 persons;
• There are many tasks undertaken by state associations that are local-specific and which might not be effectively addressed by a centralised management structure;
• The proposed Athletes Commission might not be effective because of the difficulty the President would experience as an ex officio member of the AC Board when trying to reflect the views of very different Olympic and non-Olympic disciplines;
• The assignment of responsibilities could involve the concept of national centres of excellence in particular states based on existing expertise and systems; these centres could operate satisfactorily within a federated structure and relieve some of the resourcing pressure currently experienced by AC;
• Hiving off the Olympic program to a separate entity might be an effective way of resolving the tension that exists from having most of AC’s resources being devoted to a handful of athletes and coaches in that program and neglecting the large majority of members interested primarily in recreational paddling and non-Olympic competition;
• Surf Lifesaving Australia (SLSA) has reiterated its wish to develop and manage the Flatwater Olympic High Performance Program post-Beijing with the view to providing a seamless pathway for talented surf-ski paddlers to achieve at the elite level in Flatwater;
• The solution to the sport’s problems might eventually lie with the adoption of a model along the lines of Option 1 but to move towards such a model without the right commercial strategies in place to grow the sport and to generate the necessary resources would not be successful.

Resources and Risk

• There were no guarantees that moneys raised in particular states would be spent in those states;
• There is a risk that the states might lose control over state assets built up over many years of saving using funds provided by local members and state governments;
• Even under a unitary model, state associations should not be dissolved as it would be difficult to re-establish the associations and reclaim state assets in the event that AC was not able to deliver services to the states at the level and cost required;
• If AC concentrates too much on meeting ASC high performance objectives at the expense of mass participation recreation, state government support for the sport might be reduced;
• There would be no savings from removing the state layer of governance because all of the acquittal and accountability obligations associated with the receipt of state funding would remain;
• If there had been a unitary system in 2005 when AC was in financial difficulties, the NSO would have had access to state funds and could have put those funds at risk; this was not possible under the current federated model;
• There were no guarantees that employment contracts for existing staff would be honoured; this could disadvantage some staff and result in a loss of corporate memory during a transitional period when continuity was especially important;
• Dissolving state associations could cause volunteers to withdraw their support for the sport because they would feel that they had no local connection with shaping the delivery of the sport in their state;
• It is difficult to contemplate moving to a unitary model when AC’s organisational capability is so modest with only two staff, a negative net equity and virtually no control over the Olympic high performance program which attracts the great majority of the sport’s funding from government;
• The report did not include a costed financial plan so the financial viability of the proposed structure can’t be assessed;
• The report did not include an assessment of the risk of making the proposed changes;
• State association directors are not able to recommend dissolution to their members unless they are satisfied that AC will be financially viable and will be able to deliver services at least comparable to present arrangements at an affordable cost.

Report Focus

• The report gave too much attention to the Olympic high performance program and not enough to the recreational side of the sport; this was inappropriate given that the large majority of participants were interested in recreational canoeing rather than Olympic canoeing;
• The recommendations were based on input from only about 200 persons which is about 3.60% of the membership yet large scale reforms were recommended;
• The focus should be on strengthening ACAS as this is where the income growth potential is rather than devoting too many resources in trying to develop other new products and services.

Summary

The most repeated concerns expressed at feedback sessions were that:

• the proposed State Advisory Boards would have little opportunity to influence future directions in the sport and would not give sufficient weight to recreational canoeing as they were not independent of AC and, in addition, their proposed composition (the chairs of state technical committees) was not representative of the sport as a whole; and
• the electoral franchise for general meetings and for electing AC Directors was based on a proportional voting system of one vote per 50 club members (or part thereof) which could, depending on the number and size of clubs, disadvantage some states and be open to manipulation.

At the national planning workshop held on 23-24 June 2007, there was strong acknowledgement of the imperative for the sport as a whole to generate increased revenue through more commercial initiatives but this did not extend to a commitment that the model proposed in the report (Option 1) was necessarily the best way to support this objective at this point of time.
The most that could be said is that a small number of workshop participants expressed a willingness to consider a variation of Option 1 if it can be shown that the states would have a meaningful leadership role in the sport and provided the model was financially viable. The test of financial viability was whether sufficient positive net equity could be sustained while at the same time providing services at a level at least comparable in terms of quality and cost to those that were provided prior to the financial difficulties that emerged during 2005.

These sentiments are not unreasonable given the well known saying that how matters are decided often determines what is decided.

It is entirely justifiable for stakeholders to require assurance that recommended governance arrangements incorporate structures that are highly responsive to, and accountable to, the members.

In response to these concerns, a number of additional options are now canvassed. These options are:

**Option 2:** Unitary Model – Direct AC Membership, Elected State Councils and Dissolution of State Associations;

**Option 3:** Hybrid Model – Direct AC Membership and Retention of State Associations;

**Option 4:** Federated Model – Indirect AC Membership, Retention of State Associations and Separate Incorporated Legal Entity to Manage Olympic High Performance Program;

**Option 5:** Federated Model – Indirect AC Membership, Retention of State Associations and Unincorporated Management Group to Oversee Olympic High Performance Program.

**POSSIBLE OPTIONS**

Each of the following options focus only on those features that differentiate one from the other. Hence, they do not comment on the recommendation in the report that the preferred option envisages AC becoming a company limited by guarantee because all of the options in the addendum are based on that assumption.

**Option 2: Unitary Model - Direct AC Membership, Elected State Councils and Dissolution of State Associations**

Option 2 envisages a single unified constitution with affiliated clubs having direct membership of AC, with one-vote-one-value voting entitlements, and with state councils to be elected by the affiliated clubs in each state (rather than comprising the ex officio chairs of state technical committees as in Option 1) and with the state councils having the additional power to elect a majority of the AC directors. The details are as follows:

**Governance Structure**

- The sport to be delivered in each State through branch offices of AC employing staff responsible to the CEO of AC;
- The voting members of AC to be the affiliated canoeing clubs which would be represented at General Meetings by their delegates on the basis of one vote one value;
- The non-voting members to be as per the existing constitution;
- The State Associations to be dissolved as separately incorporated legal entities;
- The State associations to be replaced by elected State Councils (not separately incorporated legal entities).
State Councils

Affiliated canoeing clubs in each State would elect a State Council for each State incorporating the following features:

- A composition comprising not more than seven members for the purposes of:
  - electing four members of the AC Board;
  - advising and assisting the AC Manager responsible to the CEO for the delivery of the sport in that State;
  - acting as a key point of reference for the AC Board and the CEO in the national planning, policy-making and review process.
  - determining, in consultation with the AC Board, the type of technical (including recreation) committee structure best suited to facilitate the delivery of the sport in their State.
  - advising the AC Board on the disposition of assets located in their state.
- State Councillors to serve three-year terms (with transitional arrangements in place) with a minimum of two Councillors retiring each year and being eligible for re-election.
- The Chair to be elected by and from the State Council annually at the first Council meeting following the election and serve a maximum of six years.

AC Board Structure

The AC Board structure would incorporate the following features:

- A composition comprising four elected directors and three appointed (co-opted) directors;
- Four directors to be elected by State Councils from AC members;
- Retention of the provision for appointed (co-opted) directors (currently called independent directors) not necessarily being members of AC but having skills to complement other directors;
- An appropriate balance of skills, age and gender diversity;
- Three-year terms for elected and appointed directors (with transitional arrangements in place) with a minimum of two directors retiring each year and being eligible for re-election or re-appointment;
- The Chair to be elected by and from the Board annually at the first board meeting following the AGM and serve a maximum of six years;
- The Chair to also serve as President of AC.

Option 3: Hybrid Model – Direct AC Membership and Retention of State Associations

Having direct membership of the NSO does not necessarily require the dissolution of state associations. In June 2007, Ski and Snowboard Australia Limited (SSA), the NSO responsible for competitive snowsports in Australia, voted to move away from a federated structure in favour of adopting a hybrid structure with provision for the retention of the state associations as separate legal entities.

Under the new constitution, SSA will be responsible for competitive snowsports from entry to elite levels leaving the state associations to concentrate on recreational skiing and trying to ensure that there are effective pathway opportunities from the mass participation side of the sport to the sub-elite level within their jurisdictions.
Under the new structure, individuals and incorporated entities (including state associations), are all eligible to become direct members of SSA and all enjoy equality of voting power. State associations will provide support to SSA for the management of the athlete pathways and will receive funding from SSA from direct membership fee income (50% of the membership fees paid to SSA by members domiciled in their state) for the services set out in an enforceable services agreement.

Individuals applying for membership of SSA will automatically obtain membership of the association in the state in which they are domiciled for no additional fee unless they elect not to take up that option. In the latter case, however, they would still be entitled to access the full benefits of SSA membership, including those provided by their state association under the services agreement with SSA.

If a similar model were adopted by canoeing, AC would gain control of membership from state associations and state associations would no longer have voting control at AC general meetings nor in the election of AC directors. At the same time, state associations would have a guaranteed role in the delivery of the sport pursuant to the terms and conditions of an enforceable services agreement and be paid an agreed proportion of the membership fees remitted to AC by the members resident in their state.

Unlike in the case of SSA, the application of Option 3 to AC would not be focussed on competitive sport. Option 3 would be applied to AC so it continues to be the NSO constitutionally responsible for the delivery of all aspects of the sport (competitive and recreational) while at the same time working to rebuild its capability to reclaim a more substantial role in the Olympic High Performance Program at a future time to be agreed with the ASC.

**Option 4: Federated Model – Indirect AC Membership, Retention of State Associations and Separate Incorporated Legal Entity to Manage Olympic High Performance Program**

Under the current governance arrangements, the Olympic disciplines, with their considerable financial resources and expertise, co-exist within AC with other disciplines that have far fewer resources and much less access to expertise. The high performance professional culture of elitism and excellence in the Olympic disciplines stands in contrast with the traditional recreational cultures of the other amateur disciplines.

The view was put during the review that the Olympic disciplines and the non-Olympic disciplines were so different culturally, materially and in their objectives that they should not co-exist within the one organization.

This view contended that it would be best for AC (remaining a federated structure but reconstituted as a company limited by guarantee) to establish, as a controlled entity, a separate company with a small skills-based board drawing upon AC, AIS, SIS/SAS and other (commercial/legal) expertise to oversee the running of the Olympic disciplines and employing expert staff of the kind currently attached to the two NCEs. It was argued that this model, where directors were legally obliged to act in the best interests of the company, would also

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15 A controlled entity is one set up by the parent body where the latter holds the majority of the shares and/or appoints a majority of the directors and, in addition, where the accounts of the controlled entity are consolidated with those of the parent body. In order to enjoy the protection of the so-called “corporate veil”, the parent body should not have any operational involvement in the running of the controlled entity. Rather, the parent body should confine its involvement to ensuring that the controlled entity has appropriate processes in place so that the latter is able to comply fully with its legal obligations.
have the advantage of ameliorating the tensions that were sometimes evident among the NCE partners under the PEF Agreements.

A precedent for having a separate legal entity managing an Olympic high performance program already exists in Australia in the form of the Olympic Wintersports Institute (OWI). Given that some stakeholders external to the canoeing community suggested that the OWI concept could be transferable to canoeing, it is appropriate to consider this in the context of Option 4.

The OWI was formed by the Australian Olympic Committee (AOC) as a company limited by guarantee with the members comprising the current executive of the AOC. The OWI is technically a controlled entity of the AOC in that AOC executive staff are the voting members at the AGM and the voting members appoint the OWI Board.16

The OWI operates high performance programs across six disciplines in partnership with three NSOs participating in the Winter Olympics, namely Ski and Snowboard17, Ice Racing and Ice Skating. The OWI’s focus is primarily on those events where Australia has good potential for podium success.

In addition to partnering with the AIS, the OWI works in partnership with the VIS and NSWIS and several of Australia’s major ski resorts. The OWI is funded primarily by the AOC and the AIS and receives major funding from the ASC via the partner NSO’s high performance grants.

A June 2006 report prepared by the ASC found that the OWI model had been very effective in achieving the purpose for which it was set up. However, there are significantly different factors operating which make outsourcing of wintersports to OWI highly appropriate but which may not be as relevant to canoeing should an OWI-type model be contemplated for that sport.

In this connection, the OWI was established by the AOC for a very specific purpose to leverage results in a very focused area and is not a model that the AOC would want to replicate for sports in the Summer Olympics.18 Whereas the OWI has a unique and central role in preparing athletes for the Winter Olympics, canoeing is just one of 28 disparate sports participating in the Summer Games. Canoeing’s relationship with the AOC is no different from that which applies to all Summer Olympic sports. There is no “controlled entity” relationship between an NSO and the OWI, rather there is an outsourcing relationship.

As the foregoing suggests, the legal relationship between AC and a separate legal entity to manage the Olympic High performance Program is an important issue. Consistent with the “sport runs sport” principle, most of those canoeing stakeholders who commented indicated that if the separate company model were to be pursued, the preference would be for AC to have a “controlled entity” relationship with the separate company.

16 The registered office of the OWI (not the principal place of business) is the AOC office and the company secretary role is performed by the AOC Director of Corporate Services. The OWI’s financial statements are not consolidated with those of the AOC because they are special purpose financial statements prepared for distribution to the members of the company as well as to the Australian Olympic Committee for internal management information purposes and to comply with the company’s constitution – refer OWI Annual Financial Report for the year ended 30 June 2006 Note 2(a), page 11.
17 In the case of SSA (by far OWI’s largest NSO partner), the focus is limited under its constitution to competitive snowsports. AC on the other hand has constitutional responsibility for both high performance and recreational canoeing, an important consideration for coordinated pathway development and management.
18 Reference Michael Mercer, AOC Director of Corporate Services (and OWI Company Secretary), telephone conversation with Robert Kidston, 26 October 2007.
Given the considerations canvassed above and the need to avoid setting unhelpful precedents, there would be significant philosophical, constitutional and operational issues to address if the OWI-type model were to be applied to the Canoeing High Performance Program. This would be especially so if the model adopted were to involve control being transferred to an inappropriate external body in exchange for the sport receiving significant, ongoing, additional funding.

Under this option, state associations would be retained and would concentrate primarily on the matters they were mainly interested in and for which they received most of their funding, namely, recreational paddling and building the mass participation side of the sport. At the same time, the separate company set up to manage the Olympic program could concentrate entirely on that without any other distractions.

While this model has some advantages, it was rejected in the original report because it was not consistent with the principles established to guide the review. In this connection, the bifurcated structure would fragment the delivery of the sport and, in so doing, make it more difficult to achieve cost-effective whole-of-sport coordination.

Since the release of the report, however, there has been some support expressed for this option. The view has been put that AC could best be employed in coordinating the efforts of the state associations and ensuring that there were effective linkages between the sport and the Olympic program run by a separate company. This arrangement would avoid the need for AC to have detailed day-to-day management responsibilities for the Olympic program and would give appropriate recognition to the more specialized skills required to manage it.

In the post-report consultations, the view was put that rather than recommending major structural change, the report should have concentrated on, at least in the first instance, making the existing arrangements work better. This is a legitimate option that warrants comment here as part of Option 4.

Some modification of the existing relationship between AC and the state associations is necessary because outsourcing oversight of the Olympic program to a separate structure does not, of itself, deal comprehensively with the service delivery problems evident in the non-Olympic side of the sport. In this connection, there was a considerable body of opinion among those who contributed their thoughts to the review that the current federated model is defective because a number of the state associations are not effective in delivering the sport.19

Option 4 envisages a better alignment of responsibility and authority between AC and the state associations. The improved cooperation and accountability expected to flow from this would be dependent on having a legally enforceable contract specifying the roles and responsibilities of the parties as well as the outputs to be produced and the financial arrangements that would be applicable.20

Because of the dysfunctional antagonism between AC and some states, Option 4 would not have been a realistic possibility until now. In the recent past, and especially since the release of the report, however, advocates for the retention of a federated structure have suggested that cooperation has improved to the point where this option might now be feasible.

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19 It must be noted, however, that these views were generally not shared by persons who participated in the consultations arranged by the state associations.

20 It should be noted that Option 4 does not contemplate the use of a Memorandum of Understanding because such an instrument is typically unenforceable.
The reviewer agrees that there are now opportunities for better coordinated (sometimes called “joined-up”) planning and execution under a federated structure. These opportunities would need to be seriously explored, and implemented where feasible, if Option 4 were to be relied upon to take the sport forward.

The opportunities on offer relate primarily to avoiding wasteful duplication and achieving economies of scale. The most productive avenue to explore under Option 4 would be for AC to have primarily a national planning role and a centralised corporate support role and for the states to concentrate mainly on execution of the national plan with a particular emphasis on business development aimed at growing the sport.

For example, in the corporate support role, there are opportunities to re-engineer a number of business systems to improve efficiency and service. By way of illustration, the process currently followed by a person seeking to become a member is inefficient and can take up to three months from the completion of the application form to the receipt of the membership card that gives entitlement to membership benefits such as access to AC-sanctioned competitions.21

This time-consuming process would be unacceptable in an organisation that prides itself on building competitive advantage by providing superior customer value. There is scope for the development of an integrated national membership database based on common membership categories and fees. Such a database would require once-only data entry at a common source (the club) to trigger automatic real-time generation of state association and AC membership.

Another option for greater AC-state association cooperation under Option 4 would be the centralised provision of accounting services under an outsourcing agreement between the states and AC. WA and NSW have already expressed interest in doing this in the near future on a pilot basis. The recent agreement in principle between AC and state associations to adopt a common national chart of accounts will facilitate not only a possible extension of the pilot but will also enable valid state-by-state financial benchmarking.

The option of particular states becoming national centres of excellence in respect of delivering particular products and services also warrants examination. At the planning workshop in February 2007, a number of potential centres already possessing specialised expertise were identified. These included mass participation events (WA), local government/community events (Queensland), indigenous programs (SA) and school programs (Victoria). Other national services could be identified in the future and the provision of these services could be offered to state associations or to external providers through a tender process or via expressions of interest.

The outsourcing of services would need to be accompanied by direct payment for their provision or by an adjustment to affiliation fees to cover the cost.

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21 Under the current arrangements, a member joins a club by completing an application form and by signing an AC declaration acknowledging that, if their application is accepted, they will automatically become members of the state association and AC and will be bound by, and comply with, the constitutions, regulations and policies of those entities. Applicants pay a fee which includes the state association membership fee. The club sends the AC declaration and the state association fee to the state office for input to AC’s online database. The database automatically creates a list of new/renewed members which is downloaded monthly by AC so that membership cards can be issued. Most memberships are initiated at the club level but some states have direct memberships whereby applicants are able to join the state association and AC without joining a club. Membership categories and fees vary significantly from state-to-state.
In addition to these considerations, AC and the state associations would need to cooperate under Option 4 on the development of a performance management system. Such a system would require the collection of a dataset of perhaps a dozen standard key performance indicators from each state for compilation by AC into a national dataset for distribution to all jurisdictions.

Discussion of this dataset should be one of the main inputs to the annual strategic forum (already provided for in the AC constitution) to assist the strategic planning process and, in addition, the dataset should be used to inform meetings of the AC CEO and state executive officers.22

Option 5: Federated Model – Indirect AC Membership, Retention of State Associations and Unincorporated Management Group to Oversee Olympic High Performance Program

Option 5 incorporates all of the features of Option 4 except for having a separate incorporated legal entity to oversee the Olympic High Performance Program.

The use of a separate incorporated entity to manage the Olympic high performance program for canoeing could be seen as structural overkill given that, unlike the more complex OWI example, the canoeing program involves only one NSO and two disciplines. It is arguable that many of the benefits of having a separate incorporated entity to manage the program could be achieved, without the costs, by using an unincorporated management group.

Under this model, a reconstituted BAP Committee to include AC, ASC/AIS, SIS/SAS, SLSA and NTID representation would serve as the unincorporated management group. It should exercise the existing Committee’s current terms of reference as set out in the BAP Operating Framework (June 2006) document.

The focus of the Committee should be on advising the AIS as the program deliverer (as presently occurs) and the AIS should continue to employ the High Performance Director and the Head Coaches. There would be virtue in this group meeting as required, but at least quarterly, rather than six-monthly as typically occurs with most BAP committees at present.

If at some future time, the AIS withdraws from its present role, the reconstituted BAP Committee, should be given a delegated authority from the AC Board to run the program on its behalf with all of the operational autonomy necessary for this to work effectively.

While the AC Board would, under such a future arrangement, have formal control over the Olympic High Performance Program, the reconstituted BAP Committee would be able to operate in the knowledge that the BAP processes already allow for escalation to the BAP Strategic Management Group (comprising representatives of the ASC Executive and Board and the President and CEO of the sport) to deal with strategic issues, including the resolution of matters that the BAP (Operational) Committee were unable to resolve.

Hence in an extreme case, after these processes had run their course and if the NSO was still considered by the ASC to be not operating in the best interests of the sport, the Commission could indicate that it would be obliged to discontinue the funding relationship if the dysfunctional behaviour persisted.

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22 Face-to-face meetings could be held twice per year (before or after the AC AGM and six months after the AGM) supplemented by teleconferences as required.
Hence, Option 5 is essentially concerned with ensuring that the present arrangements involving the AIS’ role are continued but with improved integration and management of pathways through having SLSA and NTID input formally incorporated into the management structure. Option 5 also seeks to ensure that the existing constitutional arrangements relating to structure are enabled to work as cost-effectively as possible through the use of extra-constitutional means such as enforceable services contracts, re-engineering business systems, outsourcing services to national centres of excellence and reducing duplication in the provision of corporate support functions.

**STRATEGIC CONSIDERATIONS**

The notion that canoeing’s problems can be resolved primarily by governance reform is wrong. Governance is simply one of the enablers in helping canoeing deliver its business strategy.

So the first priority is for the sport to settle canoeing’s business strategy and the second priority is to ensure that the governance structure helps, rather than hinders, the implementation of the business strategy at particular stages of the NSO’s developing capability.

It follows from this that the notion that “one-off” type governance reform leading to significant structural change obviates the need to revisit these matters for years into the future is mistaken. Whenever sport undertakes significant changes to its business model, consideration should also be given to whether the governance structure in place is the best one to support the new business model. If it is not, the governance structure should be changed. Incremental change undertaken at a pace that does not get too far ahead of member opinion is more likely to win the support of members than more comprehensive reform.

For these reasons, it is sensible to view governance reform in terms of what is best for the short, medium and long-term in recognition of the fact that the sport’s requirements can be expected to change significantly over that period. Structural change should be managed at a pace that is commensurate with the sport’s changing capability.

It follows from this that the sport of canoeing is currently facing a threshold decision that goes to the heart of the sport’s future strategic direction. The strategic choices are these:

**Choice A**

*Do AC and its state affiliates wish to remain a relatively small sport and recreational activity with modest revenues, limited staff resources, poor market penetration, uneven levels of service delivery, meagre organisational capability and vulnerable to competition from recreational activities being managed on more business-like lines? or*

**Choice B**

*Do AC and its state affiliates wish to become in the medium to long-term, a much larger, better resourced sport and recreational activity characterised by a more commercial outlook based on the efficient execution of a well-developed business model capable of delivering, at a nationally consistent quality standard, improved products and services that are valued by a growing proportion of the wider community?*

The answers to these questions are of critical importance and will be referred to again in the conclusion. The answers are crucial because they will shape future strategy for the sport and future strategy should determine the type of structure best able to deliver the strategy in the most cost-effective way.
If canoeing chooses the first pathway, then the ASC should consider reducing its support for the non-Olympic side of the sport and reallocating those resources in favour of sports that are more committed to building their capability.

If, on the other hand, canoeing chooses the second pathway and in so doing demonstrates that it is willing to stretch itself to achieve ambitious goals, then this commitment to reform must be deep and long-term rather than superficial and short-term. This will require a measured approach that recognises the need to embrace business-oriented cultural change that places a premium on customer value.

Given the non-commercial culture dominating the sport and the lack of organisational capability at the present time, it would be unwise to advocate adoption of major structural reform of the sport in the short-term. More time is needed for members of the canoeing community to become comfortable with the argument for cultural change and to come to their own conclusion that the present governance arrangements are unsustainable in the medium to long term.

Organisational capability depends to a significant extent on having sufficient discretionary income and AC clearly lacks this at the present time. AC is presently unable to provide effective national leadership because it does not have the means to manage nationally coordinated programs.

The scope for AC to improve the delivery of the sport will be very limited unless the NSO obtains more revenue in future years. For the financial year ended 30 June 2007, AC achieved a profit of $160,513 and a negative net equity of $154,711. The comparable figures for the previous financial year were a profit of $145,849 and a negative net equity of $315,224 respectively. These results suggest that the focus of the AC Board and the CEO in rebuilding finances has been primarily on controlling costs rather than increasing revenue.23

At present, AC is outlaying around $98,600 per annum in repaying loans to the ASC ($50,000 per year until 30 June 2011), to the Penrith Whitewater Stadium ($33,600 per year until 30 September 2009) and to the International Canoe Federation ($15,000 per year until 31 December 2012).

The main priority for AC now is to rebuild its finances. Very little can be done to improve AC’s contribution to the delivery of the sport without additional disposable revenue. There are seven keys to this over the next few years:

1. The leadership of the sport to take measured steps towards achieving cultural change by promoting, at every opportunity, the value of building competitive advantage through a clear customer focus;
2. Undertake market research and develop a business strategy based on this research for execution as funds become available;
3. Give particular attention to exploiting the revenue potential of a revamped ACAS;
4. Pay off the outstanding loans as soon as practicable and allocate the funds liberated to programs of national priority;
5. Maintain tight control over costs by outsourcing, where feasible, the provision of services to those jurisdictions most competent to perform them cost-effectively;

23 It should be noted that the main cost-savings in AC’s operations came about as a result of the ASC’s intervention in 2005-06 to reduce the size of the AC office and to pay outstanding creditors through provision of a loan. Prior to this, in 2004-05, AC suffered a loss of $416,088 and had a negative net equity of $461,073.
(6) Re-engineer business systems such as the membership database so that the sport’s interface with paddlers is as positive as possible; and

(7) Draw-down a proportion of the Olympic high performance grant agreed with the ASC to offset the cost of legitimate high performance support functions, including a percentage of NSO overheads.24

FINANCIAL MODELLING

AC was provided with an early draft copy of the addendum to assist the Board to formulate its views on future priorities after assessing their affordability and to give the Board an informed basis for accurately estimating AC’s income and expenditure.

The attachment sets out AC’s financial modelling. The attachment contains 3 parts. The first part deals with AC’s existing ongoing operations. The second part covers the projects developed by the AC Board that are aimed at rebuilding the NSO’s capability to the extent possible over a 6 year period without any additional revenue from government for this purpose. These two parts are mutually exclusive. The projects include only the additional cash income and expenditure they generate. The third part adds the cash contributions from ongoing operations and projects.

The attachment shows that over the 6 year period, the closing cash balance for ongoing operations is forecast to increase from $95,743 (2007-08) to $527,222 (2012-13).

Existing income from the ASC/AIS ($228,800 per annum) is projected to continue but no additional funding from this source is assumed.

AC contends that it has been conservative in its income estimates. Evidence in support of this contention exists in the way AC has made no provision to draw down additional funding from the AIS High Performance grant in future years. In this connection, the addendum recommends that AC should aim to rebuild its capability to the point where it can credibly make a case to the ASC by 2009-10 for performing a larger role in the Olympic High Performance Program that would justify drawing down up to 15% of the AIS High Performance grant.

Applying 2007-08 figures, 15% of the $1,617,000 AIS High Performance grant amounts to $242,550. After allowing for the $110,000 that AC already draws down to offset the cost of providing its support role, this has the potential to yield additional income of up to $132,550 per annum from 2009-10. However, if AC were to assume a larger role in supporting the high performance program, this would likely require some additional offsetting salary expenditure thereby reducing the sum available from this source to help defray NSO overheads to perhaps around $60,000 per annum.

Affiliation fee income is forecast to remain constant at $269,952 (including GST) per annum over the 6 years compared with $250,000 (plus GST) per annum in AC’s Financial Recovery Plan (FRP) for the period 2005-06 to 2008-09 which was approved by the ASC in February 2006. The latest modelling includes $72,600 per annum from NSW which is substantially below what that State should be contributing if the affiliation fee contribution formula were to be applied in the same manner as occurs with other states.

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24 This should not happen until after Beijing, that is, 2009-10 at the earliest.
Even though NSW was able to make the agreed payment for 2006-07, it is reported that this required that State to draw upon its reserves. Hence, the NSW Board has been unable to make a commitment to pay a fixed amount in future years unlike the other states which have agreed to do so to provide a measure of budget certainty for AC. NSW has not been invoiced yet for 2007-08 and AC’s modelling includes a substantial provision for doubtful debts should the budgeted affiliation fees not be paid in full.

The Board identified 20 potential projects aimed at rebuilding AC’s capability and rated them according to 5 criteria. The criteria were the extent to which the project would:

- provide financial benefit to AC;
- improve internal processes;
- improve customer relationships;
- increase visibility with paddling communities; and
- increase participation in the sport.

The ratings were for financial benefit: 2 = minimum and 10 = maximum; and for each of the other criteria: 1 = minimum and 5 = maximum. Out of a maximum score of 30, the evaluation process yielded scores ranging from 11 to 28 with 11 of the projects scoring 24 or more.

The AC Board moderated the scores to confirm that they had identified the top 10 rated projects and then rescaled them out of a maximum score of 10 so they could be combined with separate scores out of 10 for risk, feasibility of execution and confidence so that out of a maximum score of 10:

- the higher the project score the better it is according to the original 5 criteria;
- the higher the risk score, the lower the risk;
- the higher the confidence score, the higher the confidence of each director in the estimates for the project;
- the higher the implementation score, the easier the project is to plan and execute.

The highest average score is therefore the composite of scores for the project that is characterised by AC directors as having: (a) the highest benefit to the sport (especially financial benefit), (b) the lowest risk, (c) the most reliable numbers and (d) the fewest implementation problems.

This evaluation process yielded the following scores for the top 10 projects in order of priority:

Project No 1: Charging tour management administration fees - 8.0;
Project No 2: ACAS improvements including new paddlefit instructor course - 7.1;
Project No 3: Paying off loans more quickly - 7.0;
Project No 4: Vendor accreditation - 6.8;
Project No 5: Accounting support for state offices - 6.7;
Project No 6: Better on-line member benefits - 6.5;
Project No 7: National process alignment - 6.1;
Project No 8: Market research marketing campaign - 6.1;
Project No 9: Lifestyle program - 5.9;
Project No 10: National recreational canoe polo program - 5.8.

The AC Board has incorporated these 10 projects into its financial modelling and this has yielded the projections summarised in the attachment.
Over the period 2008-09 to 2012-13, the projects are forecast to generate in total, cash surpluses in each year ranging from a minimum of $17,430 in 2009-10 to a maximum of $147,850 in 2012-13. The 2009-10 cash figure is relatively low primarily because it includes a one-off additional loan repayment of $41,670 (see below) and a one-off payment of $20,000 for market research. When these “one-offs” are taken into account, there is an underlying trend of steady incremental increases each year in the cash contributions from the proposed projects.

Two projects involve expenditure but no corresponding income. Project no 3 envisages AC paying an additional $41,670 in 2009-10 to extinguish the ASC loan one year earlier than is provided for in the loan agreement. This will release $50,000 per annum for other purposes from 1 July 2010. Project no 7 involves one-off spending of $10,900 in 2008-09 to achieve national process alignment through a nationally coordinated program focussing on strategic planning, accounting, membership categories and databases, sponsorship, event sanctioning and risk management.

AC’s modelling does not currently provide for the conversion of its status from an incorporated association to a company limited by guarantee as recommended in the canoeing review report. The reason for this omission is based on advice received from AC’s financial advisors that the costs involved could be as high as $43,450 in 2008-09 and $29,180 in each of the following years. Whilst recognising the benefits to be derived from converting to company status, the reviewer accepts that this measure is not affordable at the present time. Nevertheless, it should be revisited by the Board when the financial position improves and as other priorities permit.

Combining the cash from ongoing operations with the projects is expected to generate balances of $102,183 (2008-09), $126,152 (2009-10), $295,742 (2010-11), $462,282 (2011-12) and $675,072 (2012-13).

While the modelling indicates that AC should be financially viable in cash flow terms from its ongoing operations, it is also the case that AC is forecasting that the projects will supplement its cash flow to the extent of 23% (2008-09), 14% (2009-10), 35% (2010-11), 28% (2011-12) and 22% (2012-13). While this supplementation is significant, it does not suggest excessive dependency on projects for AC to remain financially viable, albeit at a fairly basic level of operations. However, the modelling confirms that AC is heavily reliant on the projects to go beyond basic financial viability and to start rebuilding the NSO’s capability.

Notwithstanding these generally positive forecasts, it should be noted that the projected cash balances compare unfavourably with the FRP. The relevant FRP figures are $122,738 (2007-08) and $164,414 (2008-09). The 2007-08 unfavourable variance of $26,995 is forecast to occur primarily as a result of projected higher expenditure, mainly in the salaries area. The 2008-09 unfavourable variance of $85,331 in respect of ongoing operations is also forecast to occur primarily as a result of projected higher expenditure, again mainly in the salaries area. The latter figure is reduced to $62,231 when offset by estimated net project income of $23,100.

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25 The projects are scheduled to commence in 2008-09.
26 The Penrith Whitewater Stadium loan due to expire on 30 September 2009 in accordance with the loan agreement will be allowed to run its term. When repaid, $33,600 per annum will become available for other purposes. The other loan (from the International Canoe Federation) requiring an annual repayment of $15,000 per annum will also be allowed to run its term until 31 December 2012 because it is interest free.
27 The FRP provided for 2 FTE staff to be paid a total of $105,000 in 2008-09 whereas the latest modelling provides for 4 FTE staff to be paid a total of $232,969.
These unfavourable variances are 3.18% and 7.12% of total income for 2007-08 and 2008-09 respectively. While the 2008-09 variance could be considered material, it needs to be viewed in the context that all of the subsequent years included in the modelling are expected to yield significantly larger cash surpluses.

In summary, the modelling suggests that the projects are necessary to improve the NSO’s capability. The modelling demonstrates that the Board is now thinking more commercially and showing a willingness to invest for the future. Evidence for these views is found in the growing recognition by the Board that the sport does possess properties that can be exploited commercially and that market research should be utilised even though this will involve spending scarce resources.

In this connection, AC is showing a willingness to invest, as distinct from just spending, which was a subject of critical comment in the original review report. Proposals to extinguish some of the debt legacy, to develop nationally co-ordinated programs, to improve internal systems and to subject proposals to a rigorous assessment process before proceeding with them all point towards a positive shift in AC’s culture. The emerging culture appears to be more customer-focused and the big challenge for the sport now is to translate this into sustainable behavioural change that follows through with genuine national cooperation in the execution of the projects in accordance with their plans.

**EVALUATION OF OPTIONS**

**Option 1: Unitary Model – Direct AC Membership, State Advisory Boards and Dissolution of State Associations**

**Advantages**

- Gives ultimate control of the sport to grass roots members in affiliated clubs in a way that recognises the widely differing sizes of clubs;
- Gives AC a direct relationship with the membership of the sport rather than through independent state associations;
- Aligns responsibility and authority for the delivery of the sport on a national basis to the NSO in a way that provides single-point accountability to the AC Board rather than dispersing accountability among one national and six state boards;
- Makes it easier to develop cost-effective national plans and for state level execution of those plans;
- Ensures that AC Board, CEO and state manager responsiveness to grass roots concerns by having valid, uniform, state-by-state performance data collections backed up by performance-based employment contracts;
- Makes it more likely to get seven high quality directors on one national board than to get approximately fifty high quality directors on one national and six state boards.

**Disadvantages**

- Is too far ahead of the sport’s existing culture and organisational capability;
- Gives the states an influencing role but not a decision-making role;
- The proportional voting arrangements may disadvantage some states and be open to manipulation;
- Even with a separate technical committee for recreational canoeing, the composition of state advisory boards (the chairs of the state technical committees) would not be able to reflect the diversity of the sport adequately;
- The loss of state associations could cause some volunteers to withdraw their support;
• Would require considerable administrative support (which currently does not exist) to implement in ways that mitigate risk;
• Would involve significant additional costs to set up;
• Could be a distraction from fixing business system dysfunctions requiring priority attention;
• Is not supported by many of those persons who made their views known in the post-report consultations, especially those who have an active involvement at the state association level.

Summary Evaluation

Option 1 was recommended in the original report but it was always recognised that successful implementation would be feasible only if significant additional resources became available to the sport. In the discussions following release of the report, it became clear that this additional funding could not be sourced within an acceptable time-frame.

The position has not changed. The present lack of resources means that AC is not ready for Option 1. AC needs more time to build the level of capability necessary to manage the sport effectively as a unified national entity. Canoeing’s priority now should be to rebuild the sport’s finances and business systems (positioning for the future) and allow time for the sport to consolidate without the distraction of major constitutional change.

In any event, Option 2 could be expected to deliver, at an appropriate time in the future, most of the benefits of Option 1 without the perceived costs.

Option 2: Unitary Model - Direct AC Membership, Elected State Councils and Dissolution of State Associations

Advantages

• Gives ultimate control of the sport to grass roots members in affiliated clubs in a way that provides for equality of voting power among clubs;
• Gives AC a direct relationship with the membership of the sport rather than through independent state associations;
• The elective basis of state councils should give confidence to affiliated clubs that the diversity of their interests (recreation and competition) would be adequately reflected;
• Gives the states a more substantive role than in Option 1 in that state councils would elect a majority of the AC directors;
• Aligns responsibility and authority for the delivery of the sport on a national basis to the NSO in a way that provides single-point accountability to the AC Board rather than dispersing accountability among one national and six state boards;
• Makes it easier to develop cost-effective national plans and for state level execution of those plans;
• Ensures that AC Board, CEO and state manager responsiveness to grass roots concerns by having valid, uniform, state-by-state performance data collections backed up by performance-based employment contracts;
• Makes it more likely to get seven high quality directors on one national board than to get approximately fifty high quality directors on one national and six state boards.

Disadvantages

• Is too far ahead of the sport’s existing culture and organisational capability;
• Gives the states an influencing role but not a decision-making role;
The one-vote-one-value voting arrangements for affiliated clubs fails to recognise the wide range of club sizes in some states and could be open to manipulation;
The loss of state associations could cause some volunteers to withdraw their support;
Would require considerable administrative support (which currently does not exist) to implement in ways that mitigate risk;
Would involve significant additional costs to set up;
Could be a distraction from fixing business system dysfunctions requiring priority attention;
May have more support than Option 1 but it is still a unitary model and would be opposed by those who are aggrieved by any proposal to dissolve state associations.

**Summary Evaluation**

The electoral college concept underpinning Option 2 provides, in the context of a unitary model, answers to some of the stakeholder concerns raised in relation to Option 1. Option 2 would be more appropriate for canoeing’s anticipated development over the next six or seven years because it would enable more streamlined and accountable decision-making whilst acknowledging more directly than Option 1, the sport’s traditional states’ rights culture. However, for the financial and capability reasons given in Option 1, AC is not ready for Option 2 now and nor is it likely to be for some years to come.

**Option 3: Hybrid Model – Direct AC Membership and Retention of State Associations**

**Advantages**

- Gives ultimate control of the sport to grass roots members in affiliated clubs in a way that provides for equality of voting power among clubs;
- Gives AC a direct relationship with the membership of the sport rather than through independent state associations;
- The retention of state associations might make it less likely for volunteers to withdraw their support;
- Gives the states a more substantive role than in Options 1 and 2 in that state associations would continue to exist and be paid by AC to execute national policies pursuant to an enforceable services agreement;
- Aligns responsibility and authority for the delivery of the sport on a national basis to the NSO in a way that is an improvement over Options 4 and 5 but which compares unfavourably with Options 1 and 2;
- Makes it easier than Options 4 and 5 but harder than Options 1 and 2 to plan and execute the business model in a way that is cost-effective in generating higher revenue and achieving higher and more uniform standards of service delivery nationally;
- May attract support from state associations.

**Disadvantages**

- Is a little too far ahead of the sport’s existing culture and organisational capability;
- The one-vote-one-value voting arrangements for affiliated clubs fails to recognise the wide range of club sizes in some states and could be open to manipulation;
- AC would be dependent on the efficacy of the services agreement (effectively an outsourcing contract) with the independent state associations for the execution of NSO policy;
- With so many independent legal entities contracted, Option 3 might be cumbersome to operate in an environment where speed and responsiveness are essential when trying to build competitive advantage;
Enforcing the services contract could lead to unproductive litigation and the ultimate sanction of termination could leave a vacuum in service delivery that could adversely affect paddlers.

Summary Evaluation

In many ways Option 3 is a compromise that aims to balance competing interests. The structure incorporates features of a unitary model (direct membership of the NSO) with features of a federated model (retention of independent state associations having substantive decision-making roles in the delivery of the sport in their state.)

Option 3 warrants support from opinion leaders in the sport as AC’s capability increases and as more ambitious business strategies are developed. Given the sport’s existing culture and organisational capability, however, the need for Option 3 is probably several years away.

Option 4: Federated Model – Indirect AC Membership, Retention of State Associations and Separate Incorporated Legal Entity to Manage Olympic High Performance Program

Advantages

- Could provide a suitable vehicle for the effective management of the Olympic High Performance Program in the event that the AIS withdraws from its current management role in the program;
- Requires the directors of the controlled entity to act independently in seeking to advance the objects of the entity;
- Has the performance potential that comes from the controlled entity being an employing authority with the control associated with having an employer-employee relationship;
- Would enable a clear expert focus on the Olympic High Performance Program which is the area of the sport that attracts by far the most funding from a single source;
- Could inspire greater confidence with the AIS and SIS/SAS that AC, as a consequence of establishing a separate controlled entity, would have the expertise to reclaim a larger role in the Olympic High Performance Program;
- Could provide a suitable structure for SLSA and NTID to have strategic input to the Olympic High Performance Program;
- The OWI provides an example of how the separate entity model can work effectively in particular circumstances;
- Gives state associations the opportunity to demonstrate their claim that a federated structure can be made to work;
- Would enable the parent body to concentrate more on the non-Olympic side of the sport where the majority of paddlers have the greatest interest;
- Volunteers could be expected to remain connected to the sport;
- Would involve minimal constitutional change and hence be less disruptive than Options 1 to 3 although there would be a need to develop appropriate governance arrangements to regulate relations between the parent body and the controlled entity;\(^{28}\)
- Would be an improvement over present arrangements;
- Could be expected to attract some support from state associations.

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\(^{28}\) As stated earlier, all options envisage AC converting to a company limited by guarantee.
Disadvantages

- Application of the OWI model or the AC controlled entity model to the Canoeing Olympic High Performance Program (involving only two disciplines and just one NSO) could be seen as structural overkill;
- Could result in additional administrative costs;
- Neither the OWI model nor an AC controlled entity model would be optimal at the present time given that the addendum recommends that the AIS should retain its current role in the management of the Olympic High Performance Program over the next few years with a larger role for AC being subject to conditions to be agreed to by the ASC;
- Would split the sport and potentially reduce the opportunities for the seamless delivery of canoeing from entry level to elite competition level;
- Vests ultimate control of the sport with state associations rather than with grass roots members in affiliated clubs;
- Perpetuates the problem of AC being responsible for the delivery of the sport nationally but not having the constitutional authority to do so cost-effectively;
- Fails to gives AC a direct relationship with the membership of the sport;
- Attracting around fifty directors with the required competencies to the seven independent boards governing the sport would continue to be a challenge;
- Relies heavily on the competence and goodwill of individuals to compensate for systemic and structural deficiencies;
- Makes it difficult to plan and execute the business model in a way that is cost-effective in generating higher revenue and achieving higher and more uniform standards of service delivery nationally;
- Will condemn the non-Olympic side of the sport to remaining, in the long-term, a small, poorly resourced sport, offering highly variable service standards across the states and vulnerable to more effective competition offered by other recreational activities operating more along business lines.

Summary Evaluation

In an ideal world, for “sport runs sport” reasons, it would be preferable for all of the canoeing disciplines to be unified under one NSO structure that recognizes that long-term, sustainable, Olympic success is ultimately dependent on having a vibrant mass participation sport with well-integrated and systematically coordinated pathways from entry level to elite performance level. However, in canoeing’s case, for the short-term at least, other arrangements for the management of the Olympic High Performance Program are necessary.

The OWI governance model utilising a separate incorporated entity has little practical relevance to AC’s circumstances for the reasons stated earlier. At the same time, the OWI operational model works well and could be possibly be adapted for canoeing’s purposes in the future if circumstances change.

Option 4 is not recommended now because notwithstanding the success of the OWI operational model for wintersports and the potential for application to canoeing, the anticipated costs of a separate governance structure for running the Olympic High Performance Program (with the duplication and servicing expenses associated with this) are likely to exceed the benefits by a material amount. In canoeing’s current financial circumstances, the affordability issue and the fact that another option (see below) would deliver similar benefits at lower cost, disqualifies Option 4 from adoption.
Although adoption of Option 4 is not recommended at this point of time, it should be noted that the establishment of a separate incorporated legal entity to run the Olympic High Performance Program is not limited to AC remaining a federated structure. Rather, such a model could also be applied to the unitary model outlined in Option 2 and the hybrid model described in Option 3 if new circumstances warrant it in the future. The reviewer is of the opinion, however, that the need for a separate legal entity would diminish if AC moves towards becoming a unitary structure because of the more cost-effective management expected to follow such a development.

Option 5: Federated Model – Indirect AC Membership, Retention of State Associations and Unincorporated Management Group to Oversee Olympic High Performance Program

Advantages

- Is well aligned with canoeing’s current culture and organisational capability;
- Is relatively low risk because no structural constitutional change is required;
- Could provide a suitable vehicle for the effective oversight of the Olympic High Performance Program in the event that the AIS withdraws from its current management role in the program;
- Would enable a clear expert focus on the Olympic High Performance Program which is the area of the sport that attracts by far the most funding from a single source;
- Provides a suitable structure for SLSA and NTID to have input into the running of the Olympic High performance Program;
- Makes use of, and strengthens, an existing structure (Beijing Athlete Program [BAP] Committee) to oversee management of the program instead of setting up a new body;
- Would not involve significant additional costs;
- Gives state associations the opportunity to demonstrate their claim that a federated structure can be made to work;
- Would enable AC to concentrate more on the non-Olympic side of the sport where the majority of paddlers have the greatest interest;
- Volunteers could be expected to remain connected to the sport;
- Would be an improvement over present arrangements;
- Could be expected to attract support from state associations.

Disadvantages

- The AIS role in managing the Olympic High Performance Program is inconsistent with the “sport runs sport” principle if this model were to be applied indefinitely with only a support role for AC;
- Does not have the clarity of Option 4’s legal governance obligations in relation to the management of the Olympic High Performance Program;
- Vests voting control of the sport with state associations rather than with grass roots members in affiliated clubs;
- Perpetuates the problem of AC being responsible for the delivery of the sport nationally but not having the constitutional authority to do so cost-effectively;
- Fails to give AC a direct relationship with the membership of the sport;
- Attracting around fifty directors with the required competencies to the seven independent boards governing the sport would continue to be a challenge;
- Relies heavily on the competence and goodwill of individuals to compensate for systemic and structural deficiencies;
- Makes it difficult to plan and execute the business model in a way that is cost-effective in generating higher revenue and achieving higher and more uniform standards of service delivery nationally;
- Will condemn the non-Olympic side of the sport to remaining, in the long-term, a small, poorly resourced sport, offering highly variable service standards across the states and vulnerable to more effective competition offered by other recreational activities operating more along business lines.

**Summary Evaluation**

Option 5 is responsive to the strong feedback from the majority of the canoeing community who contributed to the post-report consultations that the sport can make a strengthened federated model operate cost-effectively. The reviewer believes, therefore, that canoeing should be given an opportunity to demonstrate this contention over a finite period of time.

Despite Option 4 being more consistent with the “sport runs sport” principle, Option 5 is preferred because it is expected to achieve most of the operational benefits of Option 4 but at a significantly lower cost.

Option 5 is a low-risk reform strategy to achieve limited gains in the short-term while the sport is at the infrastructure building and consolidation stage of its rehabilitation. However, Option 5 is likely to be high-risk (because of opportunities foregone) if it is retained in the long-term without change to align it with the sport’s evolving business strategy.

Again, the Olympic High Performance Program management arrangements envisaged with Option 5 could also be applied to the unitary model outlined in Option 2 and to the hybrid model described in Option 3 should new circumstances in the future warrant it.

Option 5 places a premium on the ASC encouraging AC to set challenging “stretch” targets so that the sport can properly test whether the structure helps or hinders the achievement of those targets.

**SUMMARY - GOVERNANCE OPTIONS**

Having regard to these considerations, the reviewer envisages canoeing progressing in a measured way along a transitional pathway from “cottage industry” to a commercially savvy, high performance enterprise, over the next six or seven years.

*A key proposition advanced in the addendum is that there need not be a large gap between the culture in canoeing and the culture typically exhibited in successful for-profit corporations. Canoeing should in future see itself as “for-surplus” rather than as “not-for-profit”. Whereas the for-profit goal is usually to create “shareholder value”, in canoeing’s case, the goal should be to create “stakeholder value” with stakeholders defined as any individual or entity that uses, or could potentially use, the sport’s products and services.*

In the short-term, say until the end of 2009-10, AC should concentrate on rebuilding its capability by developing a more commercially oriented culture, by strengthening its finances, by re-engineering its business systems and by developing arrangements for better national cooperation without the distraction of major constitutional reform. **This is the infrastructure building and consolidation phase that should aim to position the sport for the future.**
In the medium to long-term, say from 2010-11 onwards, if canoeing’s house is in order and a pattern of national-state cooperation based on a well-embedded culture of providing stakeholder value has been demonstrated, the governance structure may not need to change further. Change would only be necessary if the sport, in consultation with the ASC, came to the conclusion that the structure in place at the time was a hindrance to canoeing’s ambitions to operate at a more cost-effective level as envisaged in an ambitious business strategy.

For business planning purposes, the period 2010-11 to 2012-13 (medium-term) should therefore be pictured as the cross-over consolidation and business development phase while the period from 2013-14 onwards (long-term) should be conceptualised as the growth stage where the pay-off starts to occur from earlier investments.

CONCLUSION- GOVERNANCE OPTIONS

Earlier in the addendum, reference was made to the strategic choices the sport is now required to make. They were:

Choice A

Do AC and its state affiliates wish to remain a relatively small sport and recreational activity with modest revenues, limited staff resources, poor market penetration, uneven levels of service delivery, meagre organisational capability and vulnerable to competition from recreational activities being managed on more business-like lines? or

Choice B

Do AC and its state affiliates wish to become in the medium to long-term, a much larger, better resourced sport and recreational activity characterised by a more commercial outlook based on the efficient execution of a well-developed business model capable of delivering, at a nationally consistent quality standard, improved products and services that are valued by a growing proportion of the wider community?

The conclusions stated here are based on the assumption that the sport’s leaders, in discharging their fiduciary duties, will reject Choice A and will select Choice B. If this assumption is correct, it suggests that the sport recognises that the present business model and structure will not enable the sport to realise its full potential. The corollary of this is that the sport acknowledges that selecting Choice B will require a new commercially-oriented business model and a new structure that is aligned to it, and capable of supporting, the execution of that model.

In considering the five options summarised above, the focus is therefore on activating Choice B.

Option 1

Option 1 is not recommended because the sport’s culture and capability are not ready for it and because the additional costs of becoming a unitary structure are not affordable at the present time. Moreover, the reviewer accepts that, notwithstanding the model’s consistency with the principles governing the review, Option 1 enjoyed little support among voting members because of the perception that other less invasive options had not been given sufficient opportunity to prove they can fix the sport’s problems.

Hence for the next few years, canoeing needs to concentrate on rebuilding its financial position and business systems rather than diverting its energies towards major governance reform.
Options 5, 3 and 2

It will be a sign of the sport’s maturity if, without prompting from the ASC, canoeing, as part of a process of continuous improvement, progressively challenges itself as to whether the structure in place at the time helps or hinders execution of the business strategy. Of course, this improvement process will only be meaningful if the business strategy incorporates genuinely “stretch” targets. If this happens, the reviewer anticipates that canoeing will conclude that its evolving business strategy will necessitate moving from Option 5 to Option 3 as a transitional step after a few years towards the eventual adoption of Option 2.

Notionally, and consistent with the thinking outlined in the summary above, implementation of governance reform in canoeing should follow the following indicative time-frame:

**Short-Term:** Option 5 - 2007-08 to 2009-10;
**Medium-Term:** Option 3 - 2010-11 to 2012-13;
**Long-Term:** Option 2 - 2013-14 onwards.

Option 5

Option 5 should be executed as soon as possible and be given up to three years, until the end of 2009-10, to position the sport so that it is ready to take the next step towards its potential development.

During this period, the AC Board should focus on positioning the NSO for the future by rebuilding its financial position, by re-engineering its business systems and by improving national-state cooperation. The services contract must reflect the principle that AC has the primary responsibility for developing national plans for the delivery of the sport in consultation with the states and that state associations have the principal responsibility for executing those plans in accordance with agreed national performance standards.

The object must be for systematic progress to be made towards achieving more uniform, and higher, service delivery standards across Australia. This will require the implementation of a uniform national performance data collection. The sport has already taken the first step towards this by agreeing in principle to prepare a nationally consistent chart of accounts.

For the reasons stated earlier, the reviewer does not believe that Option 5 is in the best long-term interests of canoeing if the sport wishes to position itself optimally for the future. Accordingly, canoeing should plan for the implementation of Option 3 (notionally after 2009-10) unless AC and its affiliates can convince the ASC that Option 5 is operating so well that reform along the lines of Option 3 is not necessary for the foreseeable future. Given the reluctance of most state associations to lose control of grass roots members (which would be a consequence of Option 3), this proposal will provide an incentive for AC and its affiliates to work collaboratively towards ensuring that Option 5 works as well as possible.

At one level, there could be some advantage in recommending a change in the AC Board structure, under Option 5, to provide for the appointment of one additional co-opted director to give more scope to recruit persons with well developed marketing and business skills. Such a change would involve having four directors to be elected by state associations from AC members and three co-opted directors not necessarily being members of AC being appointed.29

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29 A reconstitution along these lines would also involve a change to three-year terms for elected and appointed directors with a minimum of two directors retiring each year and being eligible for re-election or re-appointment. The Chair would be elected by and from the Board annually at the first board meeting following the AGM and would serve a maximum of six years. The Chair would also serve as President.
The main aim of these changes would be to enable the Board to recruit a sufficient number of directors who could lead the cultural change needed in the sport to plan and execute the sort of business model necessary to achieve competitive advantage through creating superior customer value.

A reconstitution of this kind is not recommended, however, because in the reviewer’s opinion, notwithstanding the advantages of such a change, it is more important that the directors elected only a few months ago be given the opportunity to settle down as a team and concentrate on rebuilding the sport without the distraction of the Board being reconstituted.

At the same time, it is noted that the present Board comprises only the five elected “interested” directors. While these directors possess valuable competencies in a range of areas, their backgrounds are generally not in business development or marketing. At present, the vacancies for two co-opted directors have not been filled. In view of this, the Board should consider filling both these vacancies, as a high priority, with persons who possess strong business development or marketing experience for the reasons stated above.

Options 3 and 2

For the sport to realise its full potential over the next decade, the reviewer believes that the sport will eventually need to adopt Option 2. The reviewer recognises, however, that the sport is not ready to adopt Option 2 at this point of time because too many changes (cultural, competencies, resources and business systems) are required before such a change could be successful.

Option 5 is expected to provide some short-term breathing space for the sport to rebuild its finances and to become more used to working together in a much more coordinated way than in previous years. However, the reviewer’s presumption is that the sport itself will come to the view that it does not wish to operate well below its potential in the medium to long-term and will want to move to a governance structure more aligned with its developing business model. Option 5 should therefore be seen as a transitional step towards adopting Option 3 (hybrid model). Option 3 should operate for as long as the sport finds that it cost-effectively supports a challenging business model which notionally could be for a further three years, that is, until 2012-13.

Given the reluctance of most state associations to support a unitary structure (Option 2), this proposal will provide an incentive for AC and its affiliates to work cooperatively towards ensuring that Option 3 works as well as possible. If Option 3 is not cost-effective and is assessed by AC and the ASC as being a hindrance to executing a challenging business model, then action should be taken to adopt Option 2.

It can be seen that the main criterion the AC Board should use in future determinations regarding governance structure is simply “what works best” in delivering the sport. If the Board concludes that in light of emerging circumstances, Option 3 or Option 2 need to be adapted by incorporating the Olympic High Performance management arrangements outlined in Options 4 or 5, then the Board should consult with the ASC/AIS and decide accordingly.
RECOMMENDATIONS: GOVERNANCE ARRANGEMENTS

Implementation of the various options should not exclude the possibility of adaptation in light of emerging circumstances. The options can be interpreted with some flexibility provided they are not modified in ways that violate their underlying principles. Any proposals to modify the options should first be discussed with the ASC/AIS to ensure they are not changed in material ways without the Commission’s prior approval.

Recommendation 1

That recommendations 1, 2, 3, 60, 69, 70 in the original report be set aside in light of the conclusions reached in the addendum.

Recommendation 2

That recommendations 5, 8, 9, 10, 56 in the original report be held over for further consideration by AC at a future time should new circumstances require it.

Recommendation 3

That implementation of recommendation 11 in the original report (conversion to a company limited by guarantee) be progressed as soon as AC’s financial modelling shows that it is affordable in the context of the other priorities identified as essential for rebuilding the sport’s capability.

Recommendation 4

That AC, in consultation with state associations, continue development of the sport’s business strategy, projecting 10-years ahead, to be updated annually, and with the object of showing how the sport intends to:

- grow participation and revenue to achieve challenging targets; and
- work effectively with the AIS, SIS/SAS, SLSA, NTID and other relevant bodies to maximise success in international benchmark competitions.

Recommendation 5

That the annual update of the AC strategic and business plans include consideration of whether the governance/management arrangements need to be realigned with significant changes to business strategy.

Recommendation 6

That AC aim to rebuild its capability to the point where it can credibly make a case to the ASC by 2009-10 for performing a larger role in the Olympic High Performance Program, to be agreed by the ASC/AIS, at a level that would justify drawing down up to 15% of the AIS High Performance grant.

Recommendation 7

That AC, in consultation with state associations, implement Option 5 as soon as possible to operate until the end of 2009-10 in the first instance, subject to that Option being evaluated annually to ensure that it remains the most appropriate structure to support the sport’s business strategy, including the achievement of challenging performance targets to be agreed with the ASC as soon as possible.
Recommendation 8

That AC, in consultation with state associations, adopt the hybrid model of governance set out in Option 3 from 2010-11 unless it can be shown to the satisfaction of the ASC that Option 5 is the most appropriate structure to support the sport’s business strategy, including the achievement of challenging performance targets to be agreed with the ASC as soon as possible.

Recommendation 9

That AC, in consultation with state associations, adopt the unitary model of governance set out in Option 2 from 2013-14 unless it can be shown to the satisfaction of the ASC that the model then in place (either Option 5 or Option 3) is the most appropriate structure to support the sport’s business strategy, including the achievement of challenging performance targets to be agreed with the ASC as soon as possible.

Recommendation 10

That the agreed performance targets be incorporated into a legally enforceable services contract specifying the roles, responsibilities and obligations of AC and the state associations to be settled between the parties in consultation with the ASC.

Recommendation 11

That the services contract recognises the AC Board’s role in providing national leadership in the delivery of the sport Australia-wide and the role of state associations in executing agreed national plans within their regional jurisdiction with the aim of achieving over time, uniformly consistent, national, standards of service delivery.

Recommendation 12

That the arrangements for the management of the Olympic High Performance Program proposed in Option 5 (or Option 4 if the cost can be justified in the future) be adopted as an adjunct to the implementation of Option 3 or Option 2 should future consultation between AC and the ASC/AIS conclude that this is desirable in light of emerging circumstances.

Recommendation 13

That the AC Board co-opt two directors with strong experience in business development and marketing as soon as possible.

OLYMPIC HIGH PERFORMANCE PROGRAMS

Of the 35 recommendations relating directly to the Olympic High Performance Program, 24 were implemented in full, 3 were implemented in part, 1 was deferred for later consideration and 7 were not implemented.

The addendum will refer only to those recommendations that have not been implemented in full.
Olympic High Performance Programs (Post December 2008)

Recommendations not Implemented

Original Report Recommendation 15

That responsibility for the high performance programs be transferred back to AC after the 2008 Beijing Olympics provided the ASC is satisfied, following review, that the recommendations contained in this report are adopted and implemented to an acceptable level and on condition that the ASC is convinced, following review, that AC has the organizational capability to do so.

This recommendation was not adopted because AC is not expected to have the capability to perform this role in the foreseeable future. The addendum envisages that responsibility for the delivery of the program at the strategic and operational levels will continue to be vested with the AIS, working in conjunction with SIS/SAS, although there is scope for AC to put a case to the ASC/AIS on playing a more substantial support role from 2009-10.

Original Report Recommendation 16

That the NCE model managed through a joint Management Committee be discontinued and the high performance programs be referred to as the AC/AIS High Performance Slalom Program and the AC/AIS High Performance Flatwater Program.

This recommendation was not implemented because AC’s role over the next few years at least is expected to be limited to a support role to the AIS. The NCEs should therefore be continued and be renamed the National High Performance Slalom Program and the National High Performance Flatwater Program to reflect the ongoing AIS/SIS/SAS/AC partnership.

Original Report Recommendation 17

That AC’s responsibility for the high performance programs be discharged through a delegation from the CEO to the National Performance Director (as a contract employee of AC) accountable for strategic program management and via an outsourcing agreement with the AIS for the operational delivery of the programs.

This recommendation was not implemented because responsibility for the Olympic High Performance Programs at least until 2009-10 should rest with the AIS in conjunction with SIS/SAS, with AC playing a support role. The National Performance Director should therefore continue to be employed by the AIS.

Original Report Recommendation 23

That the National Head Coach (Slalom) and the National Performance Director be advised by an Advisory Panel such as the current BAP Committee comprising, inter alia, experts from the AIS and SIS/SAS partners.

In view of the decision to retain the NCE structure, this recommendation is no longer relevant.

Original Report Recommendation 24

That the National Head Coach (Flatwater) and the National Performance Director be advised by an Advisory Panel such as the current BAP Committee comprising, inter alia, experts from the AIS, SIS/SAS partners and SLSA.
In view of the decision to retain the NCE structure, this recommendation is no longer relevant except in relation to the reference to SLSA.

The addendum envisages AC playing a greater support role to the AIS from 2009-10, subject to meeting certain ASC/AIS specified capability benchmarks. The potential expanded role for AC needs to be considered in the light of Surf’s claim for a larger role in the athlete pathway.

SLSA indicated as recently as July 2007 that it would like to:

- Implement a program that provides a seamless pathway for surf ski paddlers to enter into elite level flat water competition.
- Develop, manage and deliver a flat water high performance program on behalf of ASC post Beijing Olympics, through (SLSA) organizational and financial capabilities and capacity. SLSA will work with the AIS to transfer management of the flat water high performance program to SLSA.30

This proposal is consistent with the original SLSA submission to the canoeing review (12 April 2006). The earlier submission made it clear that Surf had in mind that the Flatwater high performance program would be “absorbed” into the SLSA organization and surf sports system.31

There is some sensitivity within the canoeing community, possibly arising from uncertainty, regarding Surf’s intentions, especially if the larger role contemplated by Surf could be at the expense of canoeing reclaiming a greater role in the management of the Olympic high performance program. These sensitivities are probably exacerbated by the fact that the precise nature and extent of an expanded SLSA role has not been spelt out at the level of detail necessary to assess how it might work in practice.

In this connection, it needs to be recognized that while SLSA undoubtedly possesses many capabilities that would be helpful to the development of Olympic Flatwater canoeing, there are also issues relating to Surf’s lack of experience in running such a program involving as it does, relationships with SIS/SAS and the application of SS/SM in elite athlete development, both areas where Surf’s experience in the past has been limited.

The current Flatwater NCE structure does not include provision for SLSA representation. Given the role of SLSA over the years in helping to produce Olympic and World Champion Flatwater paddlers, it is probably not unreasonable that, in future, provision should be made for SLSA to have a structured input to the NCE process so that promising Surf paddlers have better access to well-developed, and properly supported, surf-canoeing elite pathways. Whether this input ought to take the form of formal membership of the NCE, and the timing of such membership, are matters warranting consideration when there is greater clarity regarding Surf’s proposed role in the pathway.

What is needed at this stage is for the reconstituted BAP Committee recommended in Option 5 (which provides for SLSA representation) to give consideration to how Surf Lifesaving might best be able to play an optimally constructive role in advancing the objects of the Flatwater NCE.

31 The latest SLSA proposal also acknowledges the February 2006 changes made to the canoeing high performance programs involving the AIS taking the leading role in the management of the program in lieu of AC.
In addition, it should be noted that original report recommendation 25 proposed a strengthened strategic alliance between AC and SLSA involving a bi-annual meeting between the AC Board and the SLSA Board and a renegotiated MOU between both bodies. This will give further scope for Surf to influence the shape and form of surf-canoeing elite athlete pathways. However, given the ongoing leadership role proposed for the AIS at least until 2009-10 in the management of the high performance program and AC’s support role, it would be important for the AIS to be involved in these discussions as well.

**Transitional High Performance Programs (Now to December 2008)**

*Original Report Recommendation 29*

*That during this transitional period, the high performance programs be referred to as the AIS Slalom and AIS Flatwater programs.*

This recommendation was not implemented because it was agreed that the NCEs should continue as a partnership between AC, AIS and SIS/SAS without designating one of the partners as lead agency. In view of this, it was agreed that the programs would be named the National High Performance Slalom Program and the National High Performance Flatwater Program.

*Original Report Recommendation 42*

*That AC and the AIS jointly approach PWS with the view to negotiating a better deal for canoeing for the use of the whitewater facilities.*

This recommendation was not implemented because the Slalom Program is now satisfied that, having regard to the commercial objectives of PWS, the current user arrangements are appropriate.

**Recommendations Implemented in Part**

*Original Report Recommendation 39*

*That AC and the AIS seek the agreement of QAS to support the transitional Flatwater high performance program by continuing to provide a Senior Coach to work with Gold Coast based athletes, as well as assume responsibility for providing national coordination for junior development, with the appointment of a Flatwater National Junior Development Coach.*

This recommendation was partly implemented. Although the QAS has maintained the employment of a senior coach working on the Gold Coast which has allowed a group of talented Queensland-based junior development athletes to be assisted, no appointment has been made to take responsibility for national junior development in Flatwater.

*Original Report Recommendation 45*

*That AC and the AIS seek the agreement of NSWIS to continue its commitment to the Slalom underpinning programs, and until the time when AC reclaims the high performance programs, for NSWIS to be responsible for national coordination of the junior development Slalom programs. (This would take the form of appointing a Junior National Development Coach for Slalom.)*

This recommendation was partly implemented. NSWIS has maintained its support for underpinning programs but has not accepted a role for the national coordination of junior development in Slalom.
Original Report Recommendation 46

That the Junior National Development program should comprise NSWIS scholarship athletes who currently make up Team 22. Underpinning this program should be athletes in the WSAS development squad, Talent Search program, and Penrith Whitewater Stadium junior squad.

This recommendation was partly implemented. NSWIS has maintained the existing junior development squads but has not accepted a role in the national coordination of junior development in Slalom.

Recommendations Deferred for Later Consideration

Original Report Recommendation 49

That regarding the replacement of boats for the high performance programs:

- Confirmation be sought from the National Performance Director on the progress made in securing an appropriate formal agreement with the kayak supplier Nelo (or an alternative supplier) that either contains the cost of replacing high performance boats to a level that is within the financial means of the sport in Australia or provides acceptable alternative cost-effective access to suitable boats; and
- The arrangements made are appropriately reflected in the AC accounts.

This recommendation is currently under consideration by the National Performance Director and will be responded to in due course.

RECOMMENDATIONS: OLYMPIC HIGH PERFORMANCE PROGRAM

The decisions made by key stakeholders to the Olympic High Performance Program (primarily, AIS/SIS/SAS/AC) not to implement 7 recommendations and to partially implement 3 recommendations were the result of extensive post-report consultation and negotiation. These decisions are all justifiable in terms of the circumstances that have emerged following the publication of the report.

Recommendation 12

That the recommendations not implemented (Nos 15, 16, 17, 23, 24, 29, 42) be noted.

Recommendation 13

That, as provided for in Option 5, oversight of the AIS’ management of the Olympic High Performance Program be assigned to the Canoeing BAP Committee comprised of the present nominees from AC, ASC/AIS and SIS/SAS but reconstituted to include, in addition, representation from SLSA and NTID in recognition of the important role these two bodies play in identifying and developing talented athletes.

Recommendation 14

That the reconstituted BAP Committee meet as required, but at least quarterly, and exercise the existing Committee’s current terms of reference as set out in the BAP Operating Framework (June 2006) document, giving particular attention to ensuring the effectiveness of pathways planning and delivery at all levels of the pathways.
Recommendation 15

That the AIS and NTID be included in the proposed bi-annual discussions between representatives of the Boards of AC and SLSA aimed at strengthening the strategic relationship between those bodies in supporting the surf-canoeing Flatwater pathways.

Recommendation 16

That the recommendations partly implemented (Nos 39, 45, 46) be noted.

Consideration of recommendation 49 (policy on boat replacement) is subject to receiving advice from the National Performance Director. To date, this advice has not been provided.

Recommendation 17

That the National Performance Director report to the AIS, in the first instance, on his response to recommendation 49 by not later than 31 December 2007 and that the reconstituted BAP Committee proposed in Option 5 follow this matter up to ensure that the current risk exposure in relation to the replacement of boats is removed.

RECOMMENDATIONS: FINANCIAL MODELLING

Recommendation 18

That the financial model summarised in the attachment be agreed to and that it be supported by a complementary document to be produced by AC in the same line item format used in the original Financial Recovery Plan approved by the ASC.

Recommendation 19

That the documentation referred to in recommendation 18 be accepted as the updated Financial Recovery Plan and that it be reviewed and updated annually so it remains consistent with the sport’s evolving business strategy.

OTHER RECOMMENDATIONS

Recommendation 20

That necessary consequential amendments arising from the addendum be made to other recommendations in the original report.
IMPLEMENTATION PLAN

Summarised below is a suggested action plan for implementing the recommendations contained in the addendum.

<table>
<thead>
<tr>
<th>STEP</th>
<th>ACTION</th>
<th>TIMING</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Draft addendum incorporating financial modelling settled by Steering Committee</td>
<td>By 23/11/07</td>
</tr>
<tr>
<td>2</td>
<td>Draft addendum incorporating financial modelling settled by AC Board</td>
<td>By 08/12/07</td>
</tr>
<tr>
<td>3</td>
<td>Draft addendum considered at meeting attended by AC Board and State Presidents(^{32})</td>
<td>By 08/12/07</td>
</tr>
<tr>
<td>4</td>
<td>Final addendum settled by Steering Committee and AC Board</td>
<td>By 17/12/07</td>
</tr>
<tr>
<td>5</td>
<td>Final addendum posted on AC website</td>
<td>By 18/12/07</td>
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<tr>
<td>6</td>
<td>Draft services contract developed as part of the national strategic/business planning process</td>
<td>By 30/04/08</td>
</tr>
<tr>
<td>7</td>
<td>Draft services contract and national strategic and business plans considered at workshop attended by AC Board and State Presidents</td>
<td>By 31/05/08</td>
</tr>
<tr>
<td>8</td>
<td>Services contract plus national strategic and business plans settled by AC and state associations</td>
<td>By 30/06/08</td>
</tr>
<tr>
<td>9</td>
<td>Operation of Option 5 assessed by AC Board and state associations in consultation with ASC</td>
<td>By 30/06/10</td>
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Given that implementation of the recommendation for AC to become a company limited by guarantee is to be held in abeyance for the time being for affordability reasons, no constitutional change is required for the implementation of Option 5.

At the same time, Options 3 and 2 would, if adopted, require constitutional changes. However, no precise time-lines (other than the indicative dates referred to earlier) are specified for the possible adoption of these Options over the next six or seven years because progress in that direction is dependent on whether the operation of Option 5 has been successful or not. The model adopted should also be contingent on the progress being made in developing the sport’s business strategy and on an assessment of whether the governance structure in place is helping or hindering execution of the business strategy.

The recommendations contained in the original report that are not affected by the addendum should be implemented in accordance with the priorities stated in the report, commensurate with the progress being made in rebuilding AC’s capability.

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\(^{32}\) AC is holding its AGM on 8 December 2007.