



**UNIVERSITAS INDONESIA**

**A TALE OF TWO FOOTBALL CODES**

**MAKALAH NON SKRIPSI**

**PINKAN FEDRIA TAROREH**

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**FAKULTAS EKONOMI UNIVERSITAS INDONESIA  
PROGRAM STUDI KELAS KHUSUS INTERNASIONAL**

**AKUNTANSI**

**UNIVERSITY of QUEENSLAND**

**ACCOUNTING**

**DEPOK**

**SEPTEMBER 2015**



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**Diajukan sebagai salah satu syarat untuk memperoleh gelar Sarjana Ekonomi**

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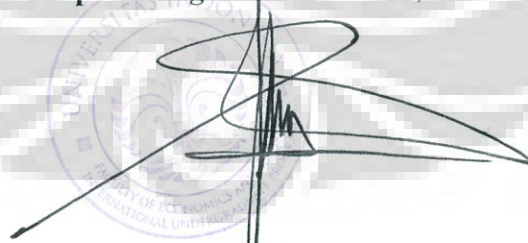
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## ABSTRAK

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### **Abstrak**

Kode etis dalam *corporate governance* sebuah perusahaan adalah aspek paling penting bagi profesi Akuntan. Tesis ini membahas tentang bagaimana Klub Sepakbola mengatur tata kelola perusahaan sehingga berjalan sesuai dengan kode-kode yang ada. Saya akan menjelaskan kode apa saja yang seharusnya Klub aplikasikan kepada perusahaan. Tesis ini akan menjelaskan tentang bagaimana Klub mengelola pemainnya dan adanya beberapa masalah pelanggaran kode etis yang dialami oleh Klub.

Kata Kunci :

Kode etis, *corporate governance*, analisis, klub sepakbola

## ABSTRACT

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### **Abstract**

Ethic codes in corporate governance is a very essential aspect, especially for those who are in Accounting field. This assignment discusses about the influence of corporate governance in National Rugby League and Australian Football League. I will explain the codes that should be applied to the company. This assignment also examines about how National Rugby League and Australian Football League govern its company structure as well as members and players and how they breach certain codes of ethics.

Key Words :

Ethic codes, *corporate governance*, analysis, football club

## 1. Ethics

Last year, the former Ministry of Justice, Jason Clare, claimed in joint media release that Australian Crime Commissions (ACC) has found professional sport in Australia is highly vulnerable to infiltration by organized crime. In fact, two Australian sport clubs from National Rugby League (NRL) and Australian Football League (AFL) had been caught for consuming illegal drugs.

In February, ACC reported Cronulla Sharks from NRL regarding the drugs in sport. Cronulla denied that none of their players had tested positive to performance enhancing substances. Later in March, ASADA discovered up to 14 players were involved in illegal supplements (News 2013). In fact, the players were unaware about these illegal performance-enhancing substances that evidently, those were actually given by the club staff. Following head coach Cronulla, Shane Flanagan, Damian Irvine the Chairman stood down and stated that sport scientist Dr Stephen Dank had injected horse drugs to players in 2011. However, at that time, Dank was actually never employed and not listed in payroll (Meldrum-Hanna 2013). It was strange that he worked at no cost. Former interim chief executive Bruno Cullen then confirmed about it and said there weren't any direct payment to him. Furthermore, ABC television's investigation had figured out that there was an account in Westpac bank to fund HPU being run outside the club's books. In December, NRL declared the results that Cronulla coach Flanagan was suspended for 12 months, the club fined for \$1 million, as well as trainer Trent Elkin who injected the players without proper qualification, has had his registration cancelled (ABC 2014). In other words, Cronulla was charged for breaching the NRL Code of Conduct.

What was captivating is that the same Doctor served both Cronulla and Essendon Football Club. In March 2013, public revealed that Essendon players were encouraged to have up to 40 injections each last season including anti-obesity drug (Herald Sun, 2013). Dank, who was in charge, claimed that Essendon coach



James Hird was the one who took drugs banned for players (Herald Sun, 2013). Thereafter, club chairman Mr. David Evans apologized and promised 'zero tolerance' (Herald Sun, 2013). The CEO, Mr. Ian Robson later resigned and stated he was accountable for everything despite knowing nothing (Herald Sun, 2013).

In August, AFL announced that Essendon, Hird, assistant Mark Thompson, manager Danny Corcoran and club doctor Bruce Reid had been charged with the conduct likely to bring the game into disrepute or prejudicing the interests of the AFL (Herald Sun, 2013). It was announced that the sanction is to pay fine to AFL amounting \$2,000,000, sacrifice its place in 2013 finals series and prohibited from 2 round exercising at the AFL national draft (AFL, 2013).

The facts obviously show that there were some ethical issues going on the club both Cronulla and Essendon. The coaches are the ones behind all these fraudulent. The main actors, Shane Flanagan from Cronulla and James Hird from Essendon were completely dishonest during his tenure.

According to APESB 110.1 'Code of Ethics for Professional Accountants', there was a breach of the fundamental principles of the code, Integrity. The lack of honesty Flanagan was serving to the club leading to a disaster. The highlight here is that he intentionally keeping away the Westpac bank account from Cullen, indicating suspicious thing going on the club. Moreover, Cronulla was charged for failed obtaining full information of the supplement to players, leading to exploitation issue (AFL, 2013). Similarly, up to 40 injections were given to the Essendon players without them knowing the effects of the substances.

Second, there was a breach of the Objectivity. This issue is clearly seen from how the coaches giving supplements to players to meet certain goal. The players were under strong influence of the coaches and forced to consume the illegal supplements to win the games. Further, often in sport, there is a strong link

between on-field and financial performance. The coach might be doing this for the sake of club revenue.

Equally important, there was also breaches in professional competence and due care. Both clubs have been charged for exposing their players to potential risks to health. This means that they failed to ensure the players receive a competent professional service. Players, who should have had more exercise, were instead, being given drugs that endangered their lives. For Cronulla, they exposed the players to possible breaches of NRL anti-doping rules. They as well failed to ensure proper supervision and controls, provide safeguard, and take appropriate action regarding unsafe practices to players. Likewise, EFC was charged for exposing players to potential risk of using substances prohibited by AFL anti-doping code and fail to ensure the supplements were adequately supervised (AFL, 2013).

The last fundamental principle is professional behavior. The club had instead shown it, rather than breaching. As the board in Essendon, Evans and Robson as the club chairman and CEO, gave adequate respond to the case, saying they will be responsible for everything happened and promise 'zero tolerance'.

To summarize, Cronulla and Essendon have breached the code of ethics of the Australian accounting profession.

## 2. Corporate Governance

Corporate governance describes the relationship between the board, management and its owners (Foreman, 2006). Good corporate governance acts to ensure that sport organizations are viable and effective in the present and future (Australian Sports Commission, 2005 as cited by Yeh & Taylor, 2008). It is believed that what had happened to both Cronulla and Essendon are attributable to poor corporate governance.

According to the report made by former Telstra boss, Ziggy Switkowski, Essendon had experienced failures, starting from high staff turnover over the last 4 years. It leads to changes in coaches, CEOs and strategies. The football department seems peculiar. Problems occurred in selection and recruitment processes and hierarchy and decision-making (EFC 2013). Who was in charge of football department was still vague. Furthermore, failures happened in terms of risk management. The senior coach, who was in his first coaching role, emphasized the principles about the supplement program that any supplement must be WADA and ASADA compliant (EFC 2013). However, it turned out to be inadequate. The contractors placed orders on suppliers outside normal procurement and used new suppliers that were not in approved list vendors, including the acquisition of exotic compounds, and there was no separate internal audit function in the club (EFC 2013)

From Cronulla's side, Dr Stephen Dank who injected horse drugs to the players, was not listed in payroll, indicating a lack of precision of who was actually accountable for what and the inexistence of internal audit. Moreover, Cronulla did not have CEO that time before finally appointed Cullen to be the former interim (Rothfield 2013). However, Cullen resigned due to the reinstatement of the four sacked staff members without seeking advice from him (Cuddihy 2013).

Well-regulated corporate governance in both Cronulla and Essendon should comply with Australian Sports Commission (ASC)'s principles. The first principle describes proper board composition and roles. In Essendon's case, it was revealed that the one who responsible for what in football department was unclear and the responsibility of two key staff overlapped. Problems occurred even from recruitment process, lead to poor decision-making. The senior coach, it was his first coaching role, indicating the recruitment process was not strict, bringing failure of risk management. Similarly, there was unawareness in Cronulla regarding Dr Dank who was not in payroll. Moreover, they didn't have CEO at that time whereas the appointment of successful professionals is needed to key executive positions (Hamil, Walters, Watson, 2010). Therefore, they violated first principle.

The second principle explains about board processes and effective board meeting. In Essendon's Annual Report 2011, almost all directors had attended meetings they eligible to attend, but still there had been secrecy existed regarding Dank. Hence, a member democracy and communication improvements needed in transparency of club governance (Hamil, Walters, and Watson 2010).

The third principle recommends organization to have performance management system to monitor legal compliance and performance against plans. In this case, inadequate monitoring processes happened in compliance with the principles about the supplement program in Essendon (EFC 2013). In addition, contractors in Essendon placed orders on suppliers outside normal procurement and used new suppliers that were not in approved list vendors, reflecting that the medical staff, who should have signed off all medical supplements, were improper. Therefore, performance management system is needed to document clearly any interaction, supervise any processes and ensure it went properly.

The next principle according to ASC tells about effective system of reporting and performance management. The directors and board committee

members should be knowledgeable and well informed about the appropriate information; however, Cullen did not acknowledge the reinstatement of four sacked staff members. Moreover, Cullen found that there was a Westpac bank account running outside club's books (Cuddihy 2013). This happened because Cronulla did not have internal audit team nor did Essendon. It is then against the fourth principle. Therefore, fraud is likely to happen and it is important to strengthen the governance structure by reinforcing the inner audit (Andreff, 2007).

The last principle requires the organization to have ethical and responsibility in decision-making, followed by the people with integrity. It works when there is an effective code of conduct and ethical standard (ASC 2012). Moreover, principle six also requires a system of governance to have timely and accurate disclosures. In both cases, Cronulla and Essendon had breached NRL Code of Conduct and AFL Rules with exposing players to risk of health, indicating a lack of integrity and protection. It also has been shown from recruitment process in Essendon that was broke down and lead to poor management process. The clubs also failed to inform the players about the substances, pointing out the inappropriate disclosure. This shows that both clubs were lack of integrity in terms of management and had inadequate disclosure. The sixth should have been applied to both particularly in drugs case.

The governance of professional sport has been understood in relatively straightforward, indeed taken for granted, terms, (Hassan, Hamil, 2010). Therefore, sport clubs must comply with ASC principles. As a whole, transparency and disclosure are the safe foundations of good governance practice (Andreff, 2007)

### 3. Governance in Practice

In general, difference between Myer and NRL is defined through their goals. In the annual report, corporate governance in Myer, company limited by shares, seems focus on the shareholders and management performance, while NRL, company limited by guarantee and a non-profit organization, is more focus on how they foster, develop, extend and adequately fund the game (NRL, 2013).

Myer clearly defined the board's role and responsibilities. The role is more emphasizing about company's performance and responsibilities to shareholders. The chairman is to oversee the Board while CEO is oversight by the board. Whilst in NRL, the commission's role is mainly focusing on organizing the games. The commission comprises eight persons who are not officer but the Director of ARLC and NRL Limited (NRL, 2013). The CEO in NRL is neither a commissioner nor a director of the board and is appointed by CEO (NRL, 2013). Further, Myer is more responsible to shareholders who motivated towards financial rewards while NRL is more to stakeholders who most of them are the supporter who motivated for entertainment purposes.

Corporate governance in Myer should comply with principles and recommendations set out by ASX to achieve good governance outcomes and meet reasonable investors' expectations (ASX, 2014). While NRL should comply with sport governance principles set out by ASC that provides guidelines to manage good governance.

Myer has comprehensibly outlined adequate corporate governance. They clearly defined the board's role and responsibilities, which fulfills first ASX principle. The second principle requires majority of the board to be independent directors and it is stated in annual report that 5 of 6 people in the board are independent. The third principle is very important, discussing about ethics and responsibility in decision-making. Myer has set out code of conduct that requires

awareness and compliance with laws and regulations and that all group employees, directors and contractors must comply with it (Myer, 2013). Afterward, they fulfill the fourth principle about safeguard integrity in financial reporting by establishing audit committee. They established remuneration committee and disclosed the report, which is complied with the last ASX principle.

Nevertheless, NRL has adequately published corporate governance system in their annual report and has to comply with ASC principles. The first principle describes board composition and roles. In annual report, they stated the role and composition of the commission and CEO; however, they did not provide directors and company secretary's roles. They also fulfill the second principle by almost attending all meetings the board eligible to attend. The third principle explains about effective organization. Dave Smith, the CEO, said they strengthened their executive functions and established highly competent team with clearer lines of responsibility (NRL, 2013). They defined the strategic agenda to focus in three key areas. Further, Smith stated they keep establishing the facts to help ASADA investigation and it is their responsibility to provide safe environment for the players (NRL, 2013).

Regarding stakeholders, Myer's stakeholders include employees and loyal customers while stakeholders in sport like NRL are usually the spectators, governing bodies, and club's members. Corporate governance in Myer is supported by its Code of Conduct, team member training and a whistleblower program that enhance stakeholders' needs (Myer, 2013). Overall, Myer is very concern about attaining stakeholders' needs by conducting good corporate governance.

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