

Student's Name:

Institution:

Course:

Instructor's name:

Date:

## **Introduction**

Bally Total Fitness started as a medium-sized fitness and tennis club in 1962. At the time of its creation, the founders never imagined that Bally Total Fitness would stand today as a significant corporation. As the third largest fitness conglomerate in the United States today (second only to Curves and the YMCA), Bally Total Fitness is a major force in the \$14 billion fitness industry. With approximately 4 million registered members, there are a total of 420 facilities in operation. Of the 23,500 total employees, 6,700 are instructors and about 3,500 are personal trainers (Bally Total Fitness, 2011). Currently, Bally Total Fitness operates in 29 states in the U.S with other facilities in Asia, Canada and the Caribbean (Bally Total Fitness, 2011). However, one may wonder why Bally Fitness clubs are not located in many other places; the simple reason for this is the fact that the company runs its business using six different brand names. Thus, apart from Bally Total Fitness, there is Crunch Fitness, Pinnacle Fitness, Sports Clubs of Canada, Gorilla Sports and Bally Sports Clubs.

With this as a backdrop, this paper will critically examine the corporate governance at this company, taking into consideration such factors as the mission statement, corporate culture of the organization management and structure of the Board of Directors.

## **Products and Services**

Bally Total Fitness is a full service health organization offering a wide range of amenities including, but not limited to: aerobics; boxing; circuit training; group cycling; kickboxing; free weights; martial arts; nutrition program; spa and physical therapy (Bally Total Fitness, 2011). Such a variety of products and services enhances the company's competitiveness.

Bally states its mission clearly: "to be your total fitness resources by providing quality service and outstanding facilities to help you achieve results YOUR way" (Bally Total Fitness, 2011). Certainly, the company provides many different facilities and strives to provide every service to effectively meet customer. The company's personal training program was designed with the understanding that a person needs to combine exercise and proper food to achieve perfect health and fitness (Bally Total Fitness, 2011).

### **Mission Statement**

Bally Fitness club is a strong-brand name in the health club industry and has continued to provide high-value services to its members. The mission of the company is aimed at achieving three goals:

- i) To provide all benefits offered by a complete-service gym at a pocket friendly price.
- ii) To provide market-leading training programs, a positive work-place environment and provide their workforce competitive compensation
- iii) To be positioned properly in health and fitness industry so as to create significant rewards to its partners, investors and its franchisees (Bally Total Fitness, 2011).

### **Bally Total Fitness Organizational Structure and Leadership**

Organizational structure depicts an organization's power tier; indicating exactly how leadership flows, top to bottom. The structure of an organization is determined primarily by the

size, type and leadership style of the organization. There are various organizational structures an organization can adopt. Bally Total Fitness's organizational structure is founded on a divisional management structure. Hatch (1993) noted that this type of organizational structure allows the organization to divide into small management units (depending on their functions), that operate with a measure of autonomy. A divisional management structure allows the company to manage each department separately, thereby increasing efficiency (Bally Total Fitness, 2011).

### **Corporate Culture**

The traditions of an organization can be described as its culture; Hatch (1993) speaks of organizational culture as shared basic assumptions in the organization that have been developed over a long time which are used in guiding the internal relationship of employees in an organization. Hatch (1993) also points out three main aspects of organizational culture:

- i) Artifacts, visible organizational structures, and methods.
- ii) Espoused values, strategic goals, and intent of the organization.
- iii) Underlying assumptions, assumed beliefs, and perceptions.

An organization's structure has a profound influence on its employees. That culture also affects employees' thoughts and perceptions of the organization. As a dynamic function, organizational culture is continually evolving over time. Furthermore, organizational structure and the mission, vision and values of the organization influences its culture (Hatch, 1993).

Every organization has a unique culture. Many companies have strong cultural practices, although it is not unusual for that strength to be accompanied by a few unpleasant aspects. Thus, organizations with strong cultural practices need not formulate new practices, but it is essential

that weak areas be identified and improved accordingly. Though this may sound easy, Clarke (2004) explains that a clear plan of action must be formulated and implemented.

It is apparent that organizational culture is significant with regard to ensuring the successful achievement of stated objectives and missions. The working environment of Bally Total Fitness has been geared towards the optimization of a better culture in line with its values of respect and excellent service to its employees (Bally Total Fitness, 2011). This has enabled the company create a good working environment, where employees feel valued.

### **Board of Directors**

Bally's Board of Directors operates with the belief that adhering to the highest standards of business conduct, ethical practices and fair business conduct is necessary for long-term success of the company. Key to this achievement is supporting every company employee. Though does not a detailed business code conduct, guidelines are available that ensure adherence to ethical and behavioral standards (Bally Total Fitness, 2011).

The business code conduct is applicable to every Director of the company in regard to the activities they carry out on while representing the company. However, as stated before, the code only acts as a guideline on how the company carries out its daily activities. There is a clear understand that every aspect cannot be included in the code of conduct.

### **Committees' Structures and Memberships**

Bally Total Fitness has three chaired committees, including: Audit Committee headed by Eric Langshur; Compensation Committee chaired by Barry Elson; and Nominating and Corporate Governance, chaired by Charles Burdick (Bally Total Fitness, 2011).

### **Best Practices in Bally Total in Relation to its Board**

There are several best practices put in place by Bally Total Fitness when the corporate governance of its Board was formulated. The best practices can be considered the code of corporate governance. This section examines some of these best practices (Bally Total Fitness, 2011).

**Independent Board:** The Board is independent and small in number. Independent directors meaning there is no relationship between the directors and the organization, avoiding any conflict of interest; thus, independent directors provide independent and objective views; additionally, they do not protect interests of investors and have no ownership interests (Bally Total Fitness, 2011).

**Board Structure:** The Board members are given an official letter of appointment to their position. Accordingly their term to serve is fixed. However, they can be reappointed to another term if their work is satisfactory and they are still needed. The Chairperson of the Board is officially chosen (Bally Total Fitness, 2011).

**Powers of the Board:** Best practices dictate that a formal system of issues reserved for the Board should be put in place. At the same time, the Board, management and other stakeholders must agree on policies with regard to the Board's responsibilities. Finally, Bally Total Fitness Board is given power to seek expert advice independent from the company if the Board so wishes (Bally Total Fitness, 2011).

**The Function of the Board:** The Board is responsible for completing measures as required to allow the company to address the regulatory and legal requirements stipulated for its operations. This entails fulfilling the stipulations of the company while ensuring the company maintains its accounting records accurately. In general, the Board focuses called Board meetings

and analyzes the performance of the company. Performing functions as stipulated, assures the company's performance is monitored closely.

#### **Duties of Board Members:**

The Directors are required to put in enough time to effectively complete their duties; each member must abide by the law and the regulations governing Bally Total Fitness. The Directors are able to assure the public that the Company adheres to stipulated regulations during operation (Bally Total Fitness, 2011). As noted by Chandra and Aneja (2004), the Board members are also tasked with: following all operations of the organization; attending Board meetings; and giving their contribution during decision making. The Chairperson of the Board has the additional duty of ensuring that the Board performs its duties effectively; ensuring that all Board members know their roles, and board maintains a close relationship with the organization.

#### **Corporate governance**

Corporate governance, as explained by Chandra and Aneja (2004), is a group of principles and practices applied by the governing board in an organization. This can take place in the private or the public sector; the aim is to assure the principal stakeholders the organization is managed properly and with integrity. Corporate governance gives a framework that allows the organization's objectives to be achieved and monitored. As noted by Chandra and Aneja, the corporate governance framework should provide strategic guidelines for the organization, and enable effective supervision of the organization through the Board (Carroll and Buchholz, 2008).

At the same time, the Board should be accountable to its stakeholders, the government, the financiers and the community.

However, Carroll and Buchholz, (2008) point out that there is no model of corporate governance for companies to follow. Each company must formulate its own corporate governance that suits its operations and management. In light of this, there are numerous accepted practices that enhance quality corporate governance (Carroll and Buchholz, 2008).

The roles and responsibilities of corporate governance have been understood in the context of proper management of organizations (Steinberg and Bromilow, 2000). On the contrary, publicly traded corporations have been considered as organizations that deal with a surplus of funds which increases the need for corporate governance (Carroll and Buchholz, 2008). Dealing with money, ethical issues, environment and handling issues that affect shareholders, organizations must adhere to corporate governance policies. It is evident; therefore, that corporate governance becomes extremely relevant in such companies if they are to meet their objectives (Carroll and Buchholz, 2008).

Learmount (2002) tells us that corporate governance requires companies consider the interests of society by being responsible for the impact of their operations with regard to its affect on the community, the environment and other people. Proper corporate governance is ensures that companies assume requisite obligation to act in accordance with relevant legislation, requiring companies take additional steps, willingly, toward improving the quality of life within the community and for society at large.

### **Corporate Governance Practices of Bally Total Fitness**

Bally Total Fitness is committed to conducting business in a responsibly and ethically. The company believes that governance must start from the top, which forms the core of its company culture. At the same time, Bally believes in governance through actions, not words. Corporate governance at Bally outlines expectations with regard to how employees interact with

each other, with, customers, with shareholders and with business partners of the company (Bally Total Fitness, 2011).

The Board of Directors of Bally is committed to insuring that all business practices of the company conform to the highest ethical levels while serving the interests of all stakeholders. Additionally, the company understands that sound corporate governance practices results in consistent and better communication with employees, partners, clients and shareholders (Bally Total Fitness, 2011).

### **Analysis of Bally Total Fitness Corporate Governance**

Corporate governance has helped Bally Total Fitness strengthen its reliability through transparency. It also assures that all company activities strive to realize the mission and vision of the organization. Furthermore, Bally's corporate governance has decentralized corporate authority, providing guarantees that decisions are made at suitable levels and in a timely manner (Bally Total Fitness). Additionally, corporate governance is responsible for formulating a system of regulations and rules for operations. Finally, review methods are designed to insure that the organization's activities are in accordance with the goals and needs of Bally Total Fitness, and implementing same.

Recent challenges at Bally Total Fitness have increased due to high expectations from customers, employees and shareholders (Bally Total Fitness, 2011). Additional challenges facing all for-profit entities today, are pointed out by Krainer (2003), stating: for-profit companies are often conflicted between expanding services or products offered, increased distribution or locations and keeping activities profitable. Bally Total Fitness has experienced difficulty with regard to increased expenditure (operational costs) while maintaining a profit-margin as expected by shareholders. This recurring issue casts a shadow of doubt on long-term sustainability and the

company's health. Good corporate governance performance will help Bally Total Fitness tackle the identified challenges.

For an organization to appreciate the use of appropriate governance, it must ensure that the responsibility for each stakeholder is identified (Steinberg and Bromilow, 2000). As such, since Bally Total Fitness is engaged in health fitness activities, it should identify commitments on the following grounds:

#### **To the Customers**

- i) Provide excellent fitness services at reasonable prices.
- ii) Provide training experts and advisors to educate the customer regarding safe and effective body training, fitness, and post training exercises.
- iii) Provide meritorious service, outstanding conduct and courtesy to its customers.
- iv) Provide constant liaison between the company and the customers.

#### **To the Employees**

- i) To offer all employees the opportunity for meaningful work in adequate facilities, supporting potential for growth with regard to talents and potential through appropriate training.
- ii) To ensure appreciation and acknowledgement for excellent work.
- iii) To support and facilitate improved support for workers regarding decisions related to work surroundings.
- iv) To offer the best possible terms of employment through competitive wages and a superior work environment (Krainer, 2003).

#### **To the Governing Body**

- i) To give thorough, adequate and authentic information regarding the activities of the organization.
- ii) To insure operations are economically viable through exceptional financial policies.
- iii) To ensure uninterrupted growth of operations by investing funds in essential tools, facilities and infrastructure for the organizations' activities.
- iv) To observe proper dissemination of; information, research, and innovation for the expansion of operations into new markets (Krainer, 2003).

Strict adherence to the stated measures is crucial to insuring corporate governance that provides increased responsiveness to its stakeholders.

### **CSR at Bally Total Fitness**

Corporate social responsibility (CSR) has also been called: corporate conscience; responsible business; corporate social performance; or simply corporate responsibility. Bally Total Fitness requires a corporate self-control policy incorporated into a business concept.

As a self-controlling system, Bally Total Fitness's CSR evaluates to be certain that the company promotes regulations, ethical conduct and international standards (Bally Total Fitness, 2011). As a result, the company acts responsibly regarding its impact on the environment, employees, customers, stakeholders and to the community as a whole. In addition, since Bally Total Fitness is CSR-centered it proactively advances the interests of the public by supporting community welfare and growth. The company voluntarily avoids practices that negatively affect the public even if they are legal. As noted by Charles Burdick, chairperson of Nominating and Corporate Governance, CSR entails voluntary incorporation of public interest within the organization's decision making organs and upholding the triple bottom concept: people, planet and profit (Bally Total Fitness, 2011).

People are demanding business to provide more ethical operations and activities. In response to public demands, current marketplaces are becoming more conscience-focused; Moreover, the company is under increased pressure to improve its business ethics, which includes involvement of new public ideas and regulations. However, the company knows that CSR brings positive benefits in various ways, and these benefits are long-term (Bally Total Fitness, 2011).

### **Should Companies Consider a Reward System for Tips Leading to Discovery of Fraud?**

In recent years, on a number of occasions, both private and public companies have been involved in financial reporting discrepancies or fraud, resulting in financial disaster in these organizations and even in the capital markets (Carroll and Buchholz, 2008). Shareholders suffer massive losses, and in a number of cases, the companies collapsed. A number of measures and policies have been formulated by different regulatory bodies. For example, the Sarbanes-Oxley Act of 2002 increased the level of corporate governance, reducing fraud through better financial reporting (Carroll and Buchholz, 2008). Nonetheless, financial reporting fraud is still a serious issue for some companies.

According to Carroll and Buchholz (2008), financial reporting, fraud or manipulation, occur in bits, as “small adjustments”, falsify perceived successes. The need to continue with the manipulation continues until the culpable party loses objectivity, resulting in manipulation of bigger fraud. An employee committing fraudulent accounting often begins with one manipulation. To cover up that first mis-reporting requires further manipulation, and so on and so on. Eventually the culpable parties lose objectivity; as the fraudulent continues, the effects continue to accumulate.

Carroll and Buchholz (2008) point out that many fraudulent practices have been perpetrated by top managers. With the ability to overlook the system of checks and balances, such managers abuse their key positions to commit the crime. Thus, the critical question becomes: should companies consider a reward system for tips leading to discovery of fraud?

According to Bleischwitz (2007), a whistle blowing policy that pin-point fraudulent and other unethical activities in companies must be formulated. This policy should include a hotline as well as other anonymous reporting methods so that fraudulent dealings can be reported safely and discreetly. In observations made by the Association of Certified Fraud Examiners, most fraud cases are discovered through tips or anonymous reporting. Accordingly, a whistleblower's identity must be protected and a company should instate a policy reward system (Bleischwitz, 2007).

On many occasions, frauds are committed by employees within the company. With correct incentives put in place, other employees can reveal the names of the culprits to the suitable authority for further investigation (Carroll and Buchholz, 2008). However, whistle blowing can be dangerous, especially when the perpetrator is in a senior position relative to the whistleblower. Employers should motivate employees for providing tips that result in the discovery of fraudulent activities. This encourages employees to give more tips on fraud. As Bleischwitz (2007) points out, the reward system formulated by a company must be communicated clearly to employees through internal memos or other appropriate channels. Furthermore, companies should consider establishing yearly awards for employees who help fight fraud by offering helpful tips.

Those employees showing exceptional performance should be rewarded as well to enhance loyalty among employees and make them more satisfied. Carroll and Buchholz (2008),

assert that those employees who feel appreciated by the company become adept informers, since they invest in the well being of the company.

### **Improving Organizational Culture**

Parker (2000) states that organizational structure and culture are the most fundamental aspects that leads to an organization's success. Organizational culture should incorporate all cultures with which employees are in contact. Sensitivity is required within an organization to accommodate a diversity of cultural backgrounds as represented by a company's employees. An organization without a universal culture might not be attractive to some employees (Parker, 2000). As Bally Total Fitness currently has a remarkably American ethos, the company must develop a more universal culture. Since Bally now has facilities in other countries, the incorporation of other cultures will ensure that it is more universal; hence this will substantially improve the climate and culture of the company. The results will be better service delivery.

In addition, Bally Total Fitness should fashion a more professional culture and improve on its working environment to generate a professional feeling among its workforce, thus creating effective communication channels. Bally should encourage the sharing of information, ideas and experience between its employees and customers, both internally and externally. Internal communication should relate to and enhance the tenure of the employees. External communication will be used to inform the outside world about what the company is doing. The main objective of both internal and external communication is to inform employees what other stakeholders want. The company would create a strong environment that enhances working relations and openness with improved communication formats.

### **Improving CSR**

Ethical CSR is necessary for Bally Total Fitness to improve its current CSR practices. As explained by Reason, (1993) Ethical theory of Corporate Social Responsibility entails that firms focus on the ethical angle; strategies formulated by these firms are focused on ethical demands that enhance the relationship existing between a company and society (Reason, (1993). Such strategies incorporate values stating that companies have a duty to create a better society.

Bansal (2005) explains that the role of any business is creating value that can enhance and safeguard societal as well as environmental health. Therefore, as claimed by Carroll and Buchholz (2008), ethical CSR is a positive and a broad viewpoint. The positive aspect is its new philosophies and practices, shaping wide responsibilities by modern business in terms of contributing to the society and supporting the natural environment. Thus, ethical theory of CSR actively endeavors for a better balance between ethics and profit in an organization. Bally Total Fitness needs to increase its efforts in CSR to create a culture that can produce the optimum ethical climate.

### **Conclusion**

Bally Total Fitness is one of the leading players in a 14 billion dollar health and fitness industry. Bally Total Fitness has achieved success through proper development of services and products that meet the varying demands of its customers. The company has developed a strong organizational culture and leadership, responsive CSR and solid corporate governance. Effective corporate governance has enabled the company to operate ethically and adhere to both internal and external regulations. The Board of Directors ensures the company's governance is in line with the objectives of various stakeholders.

There is room for improvement, however, by implementing the various suggested measures herein to improve its culture, CRS and corporate governance, driving Bally Total Fitness to new heights.

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