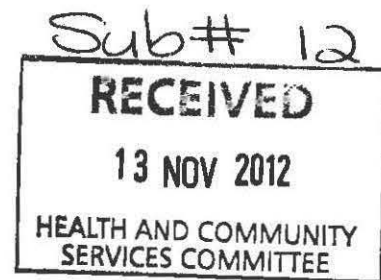


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Please note: This paper was written specifically to provide racing participants with an appreciation of what good governance means for the Thoroughbred racing industry. So whilst issues such as the Separation of Powers have been addressed, the paper nevertheless provides essential background knowledge and as such a rationale for an alternative control board structure. Unfortunately, time constraints have prevented me from tendering a more current response.



Submission: Racing and Other Legislation Amendment Bill 2012

The Queensland Government's initiative to amend the Racing Act (2002) is most welcomed as many of the changes instigated by the previous government were problematic because they led to a system of governance that facilitated a lack of transparency in decision-making and accountability, and enabled the then Chairman of Racing Queensland to rule the industry as a virtual dictatorship.

The initiative to establish the "Queensland All-Codes Board Racing Industry Board" (QACRIB) as a statutory authority, and create separate boards for each of the codes of racing is welcomed. Most welcomed however, is the move to appoint a Racing Integrity Commissioner to ensure the independence of decisions surrounding integrity issues in racing and maintain the highest levels of accountability and transparency in the integrity assurance process.

However, the structure and appointment of members of the control boards for each of the codes of racing is problematic given that the intention is to restore accountability to the Racing Act.

Contents

| | |
|---|-----------|
| 1. Preamble | 3 |
| 2. Introduction | 3 |
| 2.1. Limitations..... | 4 |
| 3. Governance | 5 |
| 3.1. The current governance framework | 5 |
| 3.2. The issue of trainers on the Control Board | 7 |
| 4. Industry development | 12 |
| 4.1. The racing industry as two strategic industry units | 12 |
| 4.2. Production Development | 13 |
| 4.4. Racing Development | 18 |
| 5. Recommendations | 20 |
| 5.1. New Control Board..... | 20 |
| 5.2. Industry structure | 21 |
| 5.2.1. Development matrices | 21 |
| List of References | 23 |
| Appendices | 24 |
| Appendix 1 Proposed Structure for the Control Body of Racing Queensland | 24 |
| Appendix 2 Production development matrix | 25 |
| Appendix 3 Racing development matrix | 26 |
| List of Tables | |
| Table 1 - Impact of wastage in the thoroughbred racing industry..... | 15 |

1. Preamble

In the main, the changes proposed by the Queensland Government to the Racing Act are seen as beneficial in ensuring integrity and an element of autonomy to each of the codes of racing. Issue however is taken with the individual boards established to administer each of codes of racing. It is argued that in order for each of the racing codes to develop, there needs to be a plurality of voices to ensure that each sectional interest is able to meaningfully inform the decision-making process.

This submission makes the case for an alternative governance framework for the Thoroughbred racing code to ensure greater accountability to stakeholders, transparency in the decision-making process, and importantly, provide the stimulus for industry development and enhance the capacity for participants to enhance their value-offering and earning potential.

2. Introduction

Racing in Queensland provides full-time employment for over 43,000 people, but with very few exceptions, the racing industry does not provide its participants with an economic return that is commensurate with their contribution of time, effort and money. Less than 4% of horses provide a net positive economic return for owners. According to Speed and Anderson (2007), trainers are perennially tired, financially stretched, and have little time for leisure, family or friends. Stable workers earn the basic wage (at best) despite starting work at 3.30am, and the vast majority of breeders barely cover the cost of production. The only participants who appear to profit from the industry are the large, top-end commercial breeders (invariably interstate), the owners of thoroughbred auction houses (owned interstate), a relatively very small number of atypical, celebrity trainers (interstate) and professional punters (assumed).

Yet despite the lack of economic returns the industry offers its participants, racing is one of Queensland's largest and most culturally significant industries. Clearly, the motivation for entering the industry and not leaving it, despite not earning a living wage, is non-financial. People participate in the industry because they may have a love for athletic horses, enjoy the thrill of racing and wagering, or enjoy the social occasion that race days provide; indeed, it may be a combination of all four reasons. If economic outcomes were the major motivator for involvement, the industry would be considerably smaller. Clearly, participants are passionate about the industry and enjoy their involvement enough to contribute considerable effort despite the scarce economic return. Indeed, country racing in particular, would not exist without the herculean contributions of time and money by volunteers, who not only conduct race meetings but maintain local training tracks as well. As such, racing may well be considered a leisure industry because people are engaged because they enjoy it and if they no longer enjoyed it, or other financial demands are prioritized, they simply leave.

However, treating the racing industry as a leisure industry is problematic because it absolves the control body from their responsibilities to provide an appropriate organizational configuration that will provide participants with the opportunity to enhance their earning potential. The fact that people enjoy working with their horses should not condemn them to a

life of poverty. Racing's capacity to engage and retain people should be treated as a strength that needs to be capitalized upon, rather than as an opportunity for exploitation by those who may not have the interests of racing participants at heart.

To capitalize on this strength, racing needs an appropriate organizational configuration, which consists of relationships, structures and processes. This submission focuses on the relationship between racing participants and the control body and is expressed through the governance framework. The structural design describes the roles, responsibilities and lines of reporting. Finally, given that industry development is the strategic goal, this report looks at the 'conversations' that need to happen between functional experts and participant groups so that decisions are evidenced-based and focused on meeting the needs of the industry's two sets of customers, owners and punters.

2.1. Limitations

Whilst the structures and processes of all three codes are fundamentally the same, there are sufficient operational differences between them to warrant a considerably more comprehensive report. Time limitations and a lack of detailed knowledge about harness and greyhound racing prevent the author from attempting this. However, the principles and theory that underpin this report are applicable to all three racing codes. Consequently, so while this report focuses predominantly on thoroughbred racing, it does provide a basic model that will require some adjustment to accommodate the operational needs of harness and greyhound racing.

3. Governance

The governance framework describes whom the organization is there to serve and how the purposes and priorities of the organization should be decided (Johnson, Scholes, & Whittington, 2008). The determination of these two aspects then provides the overriding strategic direction and purpose of the organization, and this is traditionally expressed as the organization's mission statement. As such, mission statements clarify the organization's *raison d'être*, and provide a unity of purpose that everyone involved can buy into. It is accepted that fundamental to the role of control bodies in racing is the assurance of integrity and management of the industry's resources for the benefit of racing. But how this is determined and by whom is problematic when just three directors are involved and disparate groups participate for different reasons.

Racing Queensland's mission statement (2010), "to further enhance the quality and integrity of thoroughbred racing in Queensland", provides a useful starting-point for this investigation given the importance of integrity assurance and the manner in which it is implemented, and the question of what constitutes 'quality' in a racing context. However, before proceeding, it is necessary to determine who the organization is there to serve, and in the process clarify the status of racing participants in the governance framework.

3.1. The current governance framework

3.1.1. Background to the current structure

The administration of thoroughbred racing in Queensland had been the sole domain of the Queensland Turf Club until 1990, when then Racing Minister, Bob Gibbs, instituted a series of reforms that saw other race clubs and stakeholder groups given more power to participate in the administration of the industry. The rationale for the reforms was to 'ensure greater transparency in decision-making, to lessen the likelihood of perceived or real conflicts of interest, and to provide greater accountability back to key stakeholders' (R. Hoye, 2006)

When the TAB was privatized in 2001, the Beattie government instituted further change by establishing an independent board to reflect the changed economic reality and facilitate new commercial relationships. In line with his initiative to 'corporatize' racing, executives from outside the industry have been appointed or elected to the board to provide skills lacking within the industry.

The system of governance instituted by Mr. Beattie for all three racing codes featured a two-tiered, board structure consisting of Class B members, who served as directors, and Class A members who served as member representatives for the various participant groups. As directors, Class B members had direct access to the strategic decision-making process and therefore control of all the code's resources. The inaccurate classification of racing participant representatives as 'stakeholders' reduces the Control Board's obligation to racing participants from a legal imperative, to that of a voluntary nature. Since then, Racing Queensland integrated the control bodies of the three codes of racing and went about trying to liquidate many of the industry's assets such as Albion Park Raceway.

To determine the quality of governance offered by racing administrators, it is useful to critique the former model and system of governance against what is deemed to be 'good governance'; the findings of which, will be useful in the development of the new framework.

3.1.2. *What is 'good' governance?*

According to Okot-Uma (2008):

"Good Governance can also be conceptualised as part of a development process. Whatever definitional format it may assume, there is general consensus amongst practitioners that Good Governance should, among other things, be participatory, transparent and accountable in characteristic. This provides a framework within which political, social and economic priorities are based on a broad consensus in society, and that the voices of the poorest and most vulnerable are heard in the decision-making processes regarding the allocation of resources. In addition, Good Governance has major implications for equity, poverty and quality of life. In particular, Good Governance may be defined as comprising the processes and structures that guide political and socio-economic relationships, with particular reference to "commitment to democratic values, norms & practices, trusted services and just and honest business."

The characteristics of good governance apply regardless of whether the context is national, corporate, non-profit, leisure or sport, and noted sport governance theorists, Hoye and Cuskelly (2007), claim that: "An appropriately functioning governance system assures stakeholders that the organization in which they have invested money, time effort or their reputations, is subject to adequate internal checks and balances and that the people empowered to make decisions on behalf of the organization (the board) act in the best interests of the organization and its stakeholders".

3.1.3. *Accountability*

The move to 'corporatize' racing governance through the introduction of the two-tier control structure has failed to provide the accountability promised by the then Racing Minister, Bob Gibbs, and as stated, racing governance became increasingly autocratic as time went on, until virtually every participant grouping had been estranged. Instead of delegating their decision-making authority to the Control Board, racing participant representatives had been alienated from it. With racing participants as non-directors, they were unable to meaningfully participate in the strategic decision-making process and as such, had no say in how the industry's resources are distributed. As such, the current governance structure cannot be said to be 'good functioning', because the internal checks and balances have been rendered inoperable, and accountability to stakeholders is therefore diminished. The subsequent governance structure dismissed all pretense of accountability, and without, decision-making remains opaque and perceptions about conflict of interests grow stronger as a consequence.

3.1.4. *Directors external to racing*

The theory that management skills, which have proven effective in one industry, can be applied in a different industry with the expectation of similar success has long been

discredited in contemporary management literature. Herbert Simon's (1947) concept of 'bounded rationality' proposes that managerial decision-making is not as informed by a rational process as would be expected. J.C. Spender (1989) built on Simon's work to argue that a manager's rationality in decision-making is bounded by a widely-held perception among industry incumbents regarding the actual rules of the game in the industry, which Spender refers to as the 'industry recipe'. In other words, an industry recipe is a cognitive map about the structure and demands of an industry that is shared by incumbents (De Wit & Meyer, 2004). Such a common understanding of the rules of the game is developed over time and as a consequence of interaction. It would be impossible therefore, for someone to be parachuted into an industry, especially one as idiosyncratic as the racing industry, and expected to make an immediate and positive impact, without any understanding of what makes the racing industry tick. Indeed, without such knowledge, managerial initiatives will be 'rubber-stamped', because the capacity to critique and challenge demands a deep understanding of the problem and its context. This concern is endorsed by the ASX Corporate Governance Council (ASX, 2006), which claims that a board should be structured in such a way that:

- The board member has a proper understanding of, and competence to deal with the current and emerging issues of the business,
- The board exercises independent judgement, and
- The board member can effectively review and challenge the performance of management.

Clearly, this submission advocates a move from the current governance structure and will propose a model that addresses the problems identified above. But before doing so, it is necessary to challenge the traditional practice of precluding trainers from high administrative positions.

3.2. The issue of trainers on the Control Board

As license-holders, trainers are not permitted to hold high-level administrative positions (*The Racing Bill, 2002*) because of concerns about integrity assurance, without which, the confidence of punters will be undermined and the all-important income stream will dry up as a result. The question of why integrity in racing needs to be assured is obvious and widely accepted throughout the racing industry and therefore warrants no further discussion. However, the argument that racing's integrity will be compromised by including trainers in the strategic decision-making process is problematic.

It is argued that the preclusion of trainers from high levels of administration is a vestige of pre-Enlightenment thinking that has no place in modern society and is antithetical to good governance. It is further argued that this practice has effectively thwarted industry development. Given that industry development is one of the Government's strategic goals, this practice must be dealt with in a comprehensive manner.

Trainers play *the* central role in developing the racing industry and employ the majority of the industry's workforce. Trainers provide the essential service of conditioning and educating horses and are the primary point-of-entry for new owners. Importantly, trainers seek enduring

relationships and are therefore, the group most responsible for owners choosing to re-invest in subsequent horses because they are responsible for managing the negative post-purchase dissonance that almost invariably results when racing animals fail to live up to owners' expectations; remembering that less than 4% of horses return a net positive economic outcome. As such, they are most responsible for managing the rate of attrition of owners. Despite their strategic importance, racing's governance framework renders trainers powerless to make the necessary changes to enhance their value-adding capacity.

The belief that trainers' involvement in the strategic decision-making process will somehow shake the confidence of punters implies a number of assumptions about the character of trainers that need to be surfaced and challenged.

3.2.1. Racing as 'The Sport of Kings'

The preclusion of trainers (and other license-holders such as jockeys, stable-hands and bookmakers) has been a tradition that stretches back to the origins of organized racing, in the 'pre-Enlightened' days of Queen Anne, over 300 years ago. Racing was then known as the 'Sport of Kings' because the governance system did not just preclude license-holders; all commoners were excluded and high-level administration was the sole responsibility of the aristocracy.

Aristocracy held all the power, which can be defined simply as: 'A's capacity to get B to do something that B would not otherwise do (Dahl, 1957, in, Linstead, Fulop, & Lilley, 2004). To determine why such power is necessary, Ailon (2006) canvasses a number of assumptions as to 'what B would otherwise do'. For example, "B would otherwise do negative things, namely, cheat or go astray" or, that "B would otherwise do positive things, such as, join his fellowmen and rebel".

Applying Ailon's assumption that B would cheat, suggests that commoners were believed to be fundamentally immoral and as such, would prioritize their own self-interest over the interests of the common good, with evil or widespread harm being the result. The assumption that B would go astray is premised on the image of commoners as having an easily-blinded or misguided nature, and as such, would have been easily led astray. In terms of positive outcomes, such as join his fellowmen and rebel, the concern for the aristocracy was that by aligning themselves with the powerless rather than the powerful, commoners may realize their power to overthrow the system to the detriment of the then status quo, the aristocracy.

Thankfully, for the sake of a civilized society, the Age of Enlightenment intervened as commoners realized their power and overthrew the aristocratic system to instigate radical ideas for the time, such as, equality, justice, the rights of citizens, a rule of reason, and notions of a republic 'governed by the consent of the governed'. From this period, the concepts of human rights and democratic systems of governance developed, and to provide safeguards against tyranny and autocratic rule, the 'Rule of Law' and the 'Doctrine of the Separation of Powers' became fundamental tenets of all modern democracies.

Not everyone benefitted immediately. Women had to wait centuries for the right to vote and black people in South Africa even longer. However, as people's *own* enlightenment evolved, ideas that were once deemed totally unpalatable were challenged, and the human rights of the powerless were realized to the extent that they are part of the fabric of everyday life in countries like Australia. Indeed, the notion that the United States would have a black President or that a woman would be Australia's Prime Minister, would have been unthinkable even 50 years ago.

3.2.2. Applying Democratic values to racing

Okot-Uma (2008) argues that a "*commitment to democratic values, norms & practices*" is an essential component of good governance. Democracy is a form of governance whereby supreme power is vested in the people and exercised directly by them or by their elected agents under a free electoral system. The principle that underpins democracy is that power is only just if it derives from the consent of the governed.

It is argued therefore that license-holders have the inalienable right to participate in the process that determines the manner by which they earn their living. Application of the principle that underpins democracy suggests that the power used to make and enforce the rules is unjust, because without the opportunity to participate, it cannot be derived from the consent of the governed.

3.2.2.1. The 'Rule of Law'

The Rule of Law, which means that the law is above everyone and it applies to everyone, is very much accepted as part of the fabric of everyday life. Politicians, as representatives of the general populace, make laws and are expected to abide by them, and no conflict of interest is perceived.

To suggest that integrity cannot be assured if license-holders contribute to racing governance is to suggest that the Rule of Law, which works successfully in our society, cannot apply to racing. Politicians make laws, and society fully expects that they will abide by them. There is no perceived conflict of interest. Therefore, there is no apparent reason why what applies and is fully accepted in the broader community, should not apply and be fully accepted in the racing industry; given that racing participants (including punters) are a microcosm of the broader society. To argue that racing participants are not a microcosm of society and that license-holders are not responsible enough to participate in making the laws that govern them is to suggest that they have lower ethical standards than the broader society.

So unless one ascribes to trainers the same view that aristocrats had of commoners, and characterizes all license-holders as being so immoral or easily led astray that they are unable to contribute responsibly to the good governance of racing, then continued justification for their preclusion from high level administrative positions will be difficult to sustain in a post-Enlightenment society such as ours.

3.2.2.2. The Doctrine of the 'Separation of Powers'

NOTE: THE FOLLOWING WAS WRITTEN TO MAKE A CASE FOR THE INTRODUCTION OF THE DOCTRINE OF THE SEPARATION OF POWERS. TO THIS GOVERNMENT'S CREDIT, THIS MATTER HAS BEEN ADDRESSED IN THE CURRENT BILL. HOWEVER, IT REMAINS IN THIS DOCUMENT TO DEMONSTRATE ITS SIGNIFICANCE AND PROVIDE SOME INSIGHT INTO HOW THIS INDUSTRY HAS BEEN GOVERNED.

The Doctrine of the Separation of Powers is one of the most fundamental tenets of modern democracies like Australia. It argues that the institutions of government must be divided into three branches: legislative, executive and judicial, where the legislature makes the laws; the executive put the laws into operation; and the judiciary interprets the laws. The powers and functions of each are separate and carried out by separate personnel. No single agency is able to exercise complete authority, each being interdependent on the other. Power thus divided into three branches prevents absolutism (as in monarchies or dictatorships where all branches are concentrated in a single authority) or corruption arising from the opportunities that unchecked power offers. Each branch's independence helps keep the others from exceeding their power, thus ensuring the rule of law and protecting individual rights.

In the current governance framework, the Doctrine of the Separation of Powers is said to exist in the form of a 'paper wall' that separates the two branches of power (executive and judiciary). However, while the Chairman continues to appoint the Chief Integrity Officer, absolute power will still be seen to be vested in the Chair and therefore, no separation of power can be said to exist. So even while no wrong may have been done, the perception is that the Chief Integrity Officer may not necessarily act with independence. To understand the importance of the Doctrine of the Separation of Powers in racing, it is necessary to appreciate the powers vested in the stewards to police the industry and the context within which those powers are enacted.

License-holders are totally dependent on stewards for their license to operate; which in essence means that without the approval of stewards, people can lose their livelihoods. This power is even further enhanced by the 'uncertainty' that surrounds many of the decisions that are part of the nature of racing and fortunes can be won or lost on the basis of what are contentious and ultimately, highly subjective decisions. For example, from a trainers' perspective, the often, highly contentious decision to uphold or dismiss a protest in a major race can mean the difference between having superannuation, and struggling to meet operating costs. Similarly, the difference between getting a fine or a lengthy suspension can mean the difference between a temporary setback and complete devastation because owners leave for other stables, and horses that have been nurtured are lost to other trainers who can readily reap the rewards.

Whether intended or otherwise, the perception is that stewards, and by extension their perceived employer, the Chairman of the Control Board, are able to wield coercive power over license-holders because of their capacity to reward or punish. This is to not to suggest that stewards act improperly; they do not have to. Coercive power is effective because of the

potential to reward compliant behaviour, or punish dissidents. Consequently, license-holders comply with the wishes or directives of racing administrators because doing is most likely to produce positive benefits (Robbins, Judge, Waters-Marsh, & Millett, 2008).

Since 1990, the industry's structure has changed for trainers and jockeys, as their member representatives are now afforded Class A status on the Control Board. However, from a power perspective, the relationship between racing administrators and license-holders continues to be highly asymmetrical; jockeys engage a non-jockey representative and trainers are timid about voicing concerns. In essence, absolutism and tyranny are still possible and will remain so because the powers that determine the livelihood of license-holders are not separate. As will be seen, the powerlessness of trainers to voice concerns and provide valuable feedback has had serious implications in developing the racing industry.

4. Industry development

One of the reasons provided for the integration of racing's three control bodies is to facilitate industry development. Industries develop over time as organizations are forced to adopt ever new technologies just to stay competitive and the value for customers is increased as a consequence. Industries are said to mature when their capacity for adding-value is diminished and they decline when customers leave the industry and demand dries up. To many, the racing industry is an anachronism and is in decline, but it is argued that, despite its 300 year-long history, racing has yet to even reach maturity because its archaic governance framework has created a structure that has impeded development by thwarting the value-adding capacity of those most responsible for the delivery of value to customers. Value is a scarce commodity in racing because trainers, who play *the* central role, are powerless to change their industry and their capacity to add value has stagnated as a result. If the car industry were the racing industry, we would still be getting around in a horse and buggy, because trainers' operating environments have scarcely changed in over a hundred years, particularly in the thoroughbred code.

The creation of value-adding opportunities for customers is the responsibility of all primary participant groups involved in Production and the welfare of breeders, trainers and industry workers is contingent upon all three groups working together towards the common goal. To understand the extent to which these roles are integrated and the importance of focusing on co-operative action instead of controlling resources for their grouping, which has been traditionally the case, it is important to understand their roles in the context of Production. However, a clearer understanding of how the racing industry works is most important in terms of bringing some clarity to the industry and being able to identify the nature of development initiatives.

4.1. The racing industry as two strategic industry units

The racing industry is highly complex because it is the result of the contribution of a myriad of different participant groups, and many individuals take on multiple roles within, and beyond, specific groupings. Nevertheless, in an endeavour to clarify the role that each participant group contributes to the overall industry, it is convenient to separate the industry into two distinct industry units, namely 'producing the racing product' and 'presenting the racing product', herein referred to as 'Production' and 'Racing' respectively. The distinction between the units is made on the basis of the two, distinct end-consumer groups that the industry relies on for its income, owners and punters.

The Production unit involves all the functions involved in getting horses and dogs to the races. As such, it involves the primary participant groups of breeders, trainers, and race clubs, (but only insofar as their role in the provision of training facilities). Stable and kennel hands, work riders, stud workers, track maintenance workers and course rangers etc., are engaged by the above primary participant groups to provide the product (race horses and dogs) and the service (conditioning and education). Owners are the customers of this division.

The Racing unit involves all parties involved in hosting race meetings and as such, involves the primary participant groups of owners, trainers, jockeys, bookmakers, race clubs (but only

insofar as their role in hosting race meetings), and the key stakeholder, UniTAB. Catering staff, raceday attendants, wagering staff and broadcasters etc., are engaged by the above primary participant groups to provide the associated services. Punters are the customers of this division. (It is recognized that race patrons are also customers and that not all race patrons are punters. But because wagering is the source of the vast majority of income from this division, they are deemed to be of much greater strategic importance.)

Identification of the industry as two, distinct units provides clarity into the actual workings of the industry, especially with regard to the role of owners, who are customers of the Production units, but a primary participant grouping of the Racing unit because they own the racehorses. Complications that result from individuals fulfilling multiple roles such as owners breeding horses, jockeys riding trackwork, and breeders having a bet are not a concern in this investigation.

There are also many participants who are engaged in racing, such as veterinarians, farriers and feed merchants. These participant groupings are deemed to provide secondary functions because their products and services are consumed by primary stakeholders. Finally, stewards and administrators assure integrity and organize race fields, but as vital as these services are, they are deemed to support the functional areas rather than primary participant roles.

In light of this, attention will now turn to identify how development can take place in these two strategic units, namely Production and Racing.

4.2. Production Development

4.2.1. Owners' expectations

Before discussing Production development, it may be timely to return to Queensland Racing's mission to enhance quality, which is defined by Pride et al, (2007) as the overall characteristics of a product that allow it to perform as expected in satisfying customer needs. The salient points here are that customers have expectations and if those expectations are not fulfilled, then customers become dissatisfied. This is likely to cause negative post-purchase dissonance and as a result, the customer may not purchase the same product again.

The issue of owners' expectations also warrants some discussion because people buy yearlings in the hope that they become champions, and that their initial outlay will be returned manifold; but that is not their expectation. Except for the most foolishly optimistic, people buy horses knowing that not every investment of time and money will provide financial dividends because not every horse has the inherent capacity to be a champion, and the truth is that the majority will be ordinary at best. However they still hope to snare the next Black Caviar and are willing to try their luck in the racing 'lottery'.

It is also noteworthy that whilst financial returns are a factor in buying racehorses, it is not the only factor, and the failure to recoup their outlay does not necessarily result in customer dissatisfaction. Racing horses can be a lot of fun so just by virtue of being engaged in a horse's racing career is a benefit in itself so the outcome in determining customer satisfaction is not just a matter of whether it turned a profit or not. It is proposed therefore that the vast majority of owner's expectations will be met if their horse has the opportunity to race to its

fullest potential, and are willing to accept the associated risk that their horse may be ordinary at best.

Production development in racing must therefore focus on meeting owners' expectations in the belief that owners who are satisfied with their racing experience will buy subsequent horses and this will mean more demand for training services, employment will increase, and so too the demand for more goods and services from secondary participants.

4.2.2. The nature of Production for breeders

To mitigate the risk in buying horses, owners rely on genetics as predictor of racing performance in the expectation that the chances of a horse having athletic capability is enhanced if close relatives also have proven their athletic capabilities. So in Production, owners' expectations are capitalized upon by breeders but delivered by trainers. For example, in the thoroughbred code breeders do not just sell horses, they sell expectations and these are determined by the horse's breeding. A yearling with strong 'black type' can bring millions whilst an equally well-conformed yearling with no black type may be lucky to meet its production costs because of the industry's overwhelming belief that genetics is a reliable predictor of performance.

To test the efficacy of this belief, Gaffney and Cunningham (1988) used the Timeform ratings to examine the effect of controlled breeding in 31,263 horses and found that genetics explains less than 40% of the variance in a horse's racing potential, which implies that more 60% is due to environmental factors such as training and feeding. It could be argued that the 40% could be exaggerated because of the higher expectations placed on what are deemed to be 'well-bred' horses. Because they cost more, there is a greater priority to recoup costs so well-bred horses are given a number of opportunities to succeed, whereas less fashionably-bred horses are often discarded as racing prospects should they fail to demonstrate above average ability in their first preparation.

The use of genetics as a predictor of performance and therefore customer expectations is highly beneficial for breeders with a large band of well-bred mares but disastrous for breeders without such mares because industry assumptions are that their horses do not have ability and must perform above expectations from the outset to be given the same opportunities as horses that are deemed well-bred.

As a consequence, many breeders gravitate to the top of the market and secure mares only with black-type, but the cost of accessing a commercial stallion that will assure entry into the prestige sales is prohibitive. The risks of this strategy are considerable because if the yearling is not well-conformed or injured and therefore misses the sale, significant losses can result. Whereas large top-end, Hunter Valley breeders, such as Coolmore, Darley and Arrowfield, own the commercial stallions so their outlays are significantly reduced. Also, they are able to mitigate the risk because they own large bands of well-bred mares and if some yearlings cannot be sold for whatever reason, there is sufficient profit from the sale of other horses to cover those losses. This problem is exacerbated in Queensland because the lack of access to black-type races (relative to New South Wales and Victoria) means that it is much more difficult for Queensland-bred fillies to secure black-type and thereby assure their worth at

stud. It should come as no surprise then that few commercial Queensland breeders are able to return a net positive economic outcome on their investment.

Breeders' ability to capitalize on the expectations of owners is a double-edged sword. The strict industry policy of caveat-emptor (buyer beware) may benefit breeders when a horse they sell is unable to perform to expectations, but it also means that breeders are not able to develop a relationship with owners and this has serious implications in terms of ensuring that customers are sufficiently satisfied with their racing experience to purchase subsequent horses. The role of delivering those expectations and therefore managing the attrition rate rests firmly with trainers.

4.2.3. The nature of Production for trainers

As stated previously, trainers play *the* central role in Production. As well as providing the essential service of conditioning and educating horses, they are the primary point of entry for new owners. Typically in the thoroughbred code, owners approach trainers to 'check out' a horse they are thinking of buying with a view to having them train it. Alternatively, a trainer is approached and given a budget to buy a horse to train on their behalf. Relatively few owners approach breeders to purchase a horse. As such, trainers typically form the only enduring relationship with owners.

The challenge for trainers is to maintain and build on that relationship so that ideally, they get subsequent horses to train. It has often been stated that the art of good training is about managing expectations and the realization that your horse is ordinary is usually accepted as part of the risk associated with racing (though some owners then seek out a 'more optimistic' trainer for a second opinion). As stated above, owners' expectations then extend to being assured that their horse will be given every chance of racing to its full potential and overall satisfaction with their racing experience hinges on that very subjective assessment. On the basis of that assessment, owners choose to either buy subsequent horses or walk away from the industry. Consequently, the 'health' of the industry is firmly in the hands of trainers and their capacity to satisfy owners by meeting their expectations.

However, as license-holders, trainers have been precluded from the strategic making process and the argument as to whether this should be the case is a governance issue that has been dealt with. It is important nevertheless to consider how this has impacted on the industry with a view to providing an insight as to how to redress this situation. The incapacity of trainers to voice concerns and therefore change their operating environment has serious implications for industry development. Without autonomy, practices become routinized to the extent that the adoption of innovations becomes virtually impossible (De Wit & Meyer, 2004). Under these circumstances, the strategic demand is for managers to adapt the firm to the industry context, which goes a long way to explaining the homogenous service offering by trainers. Where firms do have the ability to manipulate the industry structure, they invariably exercise the freedom of choice to break the industry rules and in such cases, the strategic demand is for managers to try to change the terms of competition in their favour.

Betros (2009) found that for trainers, the thoroughbred racing industry is a total institution where they lack the autonomy necessary for learning and adopting innovation. (This issue is

less of a concern for greyhound and harness racing trainers because they tend to train at their own establishments.) Total institutions are those organizations that share the essential feature of controlling almost the totality of the individual member's day to day life. Such is the control over trainers' lives and the environment within which they operate, it is obvious to the racing fraternity that opportunities to even have a say about their training facilities are strictly limited. Without the autonomy to try new regimes or limit the wastage that occurs because of poorly designed tracks and sub-optimal surfaces, the opportunities to add value become significantly reduced and value stagnates as a consequence.

Consequently, the life of trainers is not an easy one. Speed and Andersen's (2007) report into the health and welfare of Victorian horse trainers and stable employees found that the majority of trainers were financially 'stretched'. It is suggested that trainers typically set their training fees on a 'subsistence' basis, that is, enough to cover the costs of running their stable. They then rely on their 10% share of stake money for their profit and hope for a champion to provide them with superannuation.

Speed also found that many worked in excess of 60 hours per week and a significant number worked in excess of 80 hours per week. Almost two-thirds never, or rarely took a day off from their horse training operations and as few as 2% took annual leave. Despite this, the majority of trainers (70 - 75%) and stable employees (75 - 85%) are, for the most part, happy and satisfied in their work. This positive finding is in contrast to the fact that for a significant number of trainers and stable employees, horse training frequently interferes with their family responsibilities and relationships, their relationships with friends, and with social and leisure activities.

4.2.4. The role of race clubs in Production

Race Clubs at major racing centres are responsible for providing training facilities, to which trainers have access between 3.30am and 8.00am. As such, they are responsible for maintaining tracks for which they are subsidized by racing administrators. Training tracks are significantly important in terms of ensuring customer satisfaction because the high level of wastage that occurs through injury suffered at training. Bailey (1998) (Table 1) determined that:

- The dropout rate for 'elite' yearlings was 55% after two years.
- Although there is considerable emphasis on two-year-old racing in Australia, less than 50% of elite horses raced in this year. The principal reason was the high number of low-grade injuries and disease that occurred during training.
- Lameness is a much more significant cause of wastage than respiratory conditions.
- The most significant causes of lameness were fetlock injuries, shin soreness and knee problems.
- There is substantial evidence to suggest that the high incidence of injuries is more a consequence of training on turning tracks than conformation faults.

Of significant note, the yearlings chosen for Bailey's study were all graduates from the prestigious Sydney Easter Yearling Sales and were at Sydney centres of Randwick, Rosehill and Warwick Farm. As such, it can be assumed that conformation was better than average

and the training tracks at least the standard available in Queensland. In terms of their capacity to add value, good design and careful maintenance of training tracks is most important. Consequently, race clubs play an extremely important role in fulfilling owners' expectations that their horse should have every opportunity to perform to its fullest potential.

Table 1. Impact of wastage in the thoroughbred racing industry

| <i>Injury / disease</i> | Average weeks rested at pasture per case spelled [range] (2 & 3 Y-0) | Weeks rested at pasture after injury as a 2-y-o: % of 2471 horse weeks [rank] | Weeks rested at pasture after injury as a 3-y-o: % of 860 [rank] |
|--------------------------------|--|---|--|
| Fetlock problems | 11 [1-44] | 23.7% [2] | 21.5% [1] |
| Shin soreness | 7 [2-22] | 27.7% [1] | 7.4% [6] |
| Knee problems | 16 [2-31] | 6.7% [4] | 13.3% [2] |
| Cough / nasal discharge | 6.5 [2-30] | 7.0% [3] | 10.3% [3] |
| Miscellaneous lameness | 13 [5-29] | 4.6% [6] | 8.5% [4] |
| Other joint problems | 12 [4-86] | 5.7% [5] | 3.4% [11] |
| Cuts / traumatic injury | 6.5 [2-32] | 4.0% [8] | 7.7% [5] |
| Ligament sprain | 9.5 [3-37] | 4.1% [7] | 4.7% [8] |
| Tendon strain | 35 [33-38] | 2.8% [9] | 4.4% [9] |
| Sesamoid problems | 15 [9-24] | 2.2% [11] | 3.0% [12] |

4.3. Implications for industry structure

The business model for production is clearly flawed and warrants serious review because neither, the vast majority of Queensland breeders, nor trainers (and by extension stable workers), are able to gain an economic return that is commensurable with their often considerable investment of time, effort and money. This appears at odds in an industry where owners are prepared to pay significantly for a competitive advantage, as evidenced by the vast sums of money spent on 'well-bred' yearlings, and despite the lack of financial returns, owners are still willing to purchase horses. This suggests that the industry has significant potential, but a new structure needs to be devised so that the traditional business model is

changed to reflect the needs of participants and importantly those of owners, given that they are the customers of production.

Rethinking production in the industry will take a determined and collaborative effort that warrants a considerably different organizational design to the hierarchies and asymmetrical power relations that have traditionally characterized industry structure. People have to be grouped so that they can have the power, information, knowledge, and rewards that allow them to co-ordinate their efforts and cause them to feel collectively responsible for their performance (Lawler, 1996).

The structure necessary to facilitate such performance-driven outcomes necessitates the need for a level of expertise that is not readily available in the industry given its penchant for relying on traditional responses rather than evidence to address problems. The creation of a new business model demands that assumptions about 'how this industry works' be challenged so that new ways of thinking about the industry can be developed.

The need is therefore to provide the opportunity for participant groups to engage with experts, not just to solve problems, but to help identify problems. For production, the kinds of expertise necessary will probably include marketing, equine exercise scientists, veterinary scientists, and educators in vocational development. Such is the importance of these engagements, there needs to direct high level access to the industry's decision-making process to ensure that the power and funding necessary for the research and implementation of their findings is given due consideration. Consequently, a product development co-ordinator needs to be engaged to oversee the process and ensure that the outcomes of such findings are presented to the control board and reasoned arguments made to ensure that the necessary funding is provided.

It is essential that this take place for all three codes of racing.

4.4. Racing Development

In terms of enhancing the lives of industry workers, the development of Racing is secondary to Production development because the vast majority of industry workers are engaged in Production. However Racing is more important in terms of generating industry funding because it provides the opportunity for wagering, from which virtually all prize money is derived and thereby provides the economic return for owners.

The racing SBU involves the primary participants groups of race clubs, owners, trainers, bookmakers, jockeys, and the key stakeholder, Tatt's. The customers of the Racing SIU are predominantly punters (most of whom are off-course at TAB meetings) and race patrons.

The focus for Racing development would therefore be on developing the presentation of racing so as to engage punters and central to this is an understanding of punters' consumer behaviour. It is proposed that for regular punters, the decision to purchase (have a bet) is a planned, high involvement process, which is referred to in marketing literature as an extended problem solving (EPS) decision-making process. As such, punters will study racing form extensively before making a decision about which horse to back. Once a high-involvement decision has been made and was successful (the horse wins) then, punters will evaluate the

success and determine the critical factors that contributed to the win, for example, the brilliant ride by the jockey. These critical factors become a short-cut in the decision-making process and the jockey becomes a 'brand' from which loyalty may develop, depending on the success of that jockey in subsequent races. To demonstrate the extent of loyalty that a jockey, as a brand, can generate with punters, it is not unheard of for some punters to back a jockey's every subsequent career ride.

Jockeys are not the only brand; trainers (e.g., Bart Cummings), horses (e.g., Gunsynd and more recently, Black Caviar) and stallions (e.g., Sequalo's in the wet) also become brands and can engender a high degree of loyalty. Developing quality in Racing should be centered on creating 'brands' so that regular punters will choose the Queensland racing product over others.

Although they are of the most strategic importance, punters are not the only customers of Racing. On-course patrons are also of considerable importance, particularly in the country where racing is regarded as the social glue that holds many remote communities together. It is suggested that the social side of racing may prove instrumental in enhancing customer satisfaction, so race clubs may well regard owners as customers as well as primary participants in Racing.

Development of Racing can be enhanced by creating a process whereby primary participant groups are engaged with the functional expertise of marketers and television and filming technicians with a view to presenting Racing in way so to better engage punters and on-course patrons, including owners.

Ideally, this process should take place for all three codes of racing.

5. Recommendations

5.1. New Control Board

It is argued that because primary racing participants provide the racing function, it is more accurate to describe them as owners of the industry rather than key stakeholders. In their capacity as owners, the Control Board is legally bound by their fiduciary duty to be fully accountable. Because the previous administrators failed to provide accountability, it is proposed that the new Control Board should feature a non-hierarchical structure that will consist of 11 board members, all of whom will be afforded full directorship status.

The Control Board (Appendix 1) will therefore consist of:

- 6 representatives of the primary participant groups, namely, breeders, jockeys, trainers & stablehands and race clubs
- 1 representative of country racing
- 2 development coordinators to facilitate the needs of customers, namely owners (Production) and punters (Racing)
- 1 Chief Integrity Officer
- 1 Chief Executive Officer

5.1.1. Distinctive features of the Control Board

- All Board members are directors and all are afforded a single vote.
- The Control Board consists of two Chief Development Coordinator members to instigate development in both, the Production and Racing units of the industry. All funding proposals presented to the Board must be through the Chief Development Coordinators via the matrix process to ensure all decisions are made on the basis of evidence and are focused on adding value to either owners or punters. These are full-time, paid positions and may be external appointees, who require high-level skills, a strong understanding of the research process across a number of different academic disciplines, and the capacity to prioritize initiatives that will add value to the industry. Applicants must also be capable of presenting convincing arguments to the Board to ensure that important initiatives are appropriately funded.
- The Chief Integrity Officer sits on the Board but is neither appointed by, nor is responsible to the Chairman to affect the Doctrine of the Separation of Powers.
- The only positions available on the Board to non-racing participants or their representatives are the 2 chief development co-coordinators.
- The Board elects the Chairman and the process for recruitment and selection is determined and controlled by the members of the Control Board.
- The trainers' and stablehands' representative will be elected from the ranks of appropriately registered thoroughbred trainers and stablehands, though he or she may not be a registered trainer or stablehand.
- The jockeys' representative will be elected from the ranks of registered jockeys, though he or she need not be a registered jockey.
- The breeders' representative will be elected from the ranks of registered thoroughbred breeders, though he or she need not be a registered breeder.

- The race clubs' representative is elected only by the presidents of the Brisbane Racing Club, The Gold Coast Turf Club, The Sunshine Coast Turf Club, The Ipswich Turf Club, The Toowoomba Club, The Rockhampton Turf Club, The Townsville Turf Club and the Cairns Amateur Turf Club.
- The country racing representative will represent the interests of all three racing codes and will be elected only by the Queensland Country Racing Committee.

5.2. Industry structure

Organizational structures describe the roles, responsibilities and lines of reporting, and as such, 'hard-wires' what happens in organizations and are therefore deemed to be the most significant factor in reaching strategic goals. Racing is a highly complex industry because it involves the contribution of many participant groups and these groups vary considerably in their levels of participation, access to the strategic decision-making, degrees of reliance on the industry for their livelihoods and so on. The complexity of the industry is further exacerbated by virtue of there being two sets of customers (owners and punters) and in this case, three codes of racing.

Given its level of complexity, traditional, hierarchical structures that focus on either functions or divisions will be unsuitable in this instance. Instead, a hybrid structure (Appendix 1.) that involves functional, divisional and matrix structures has been proposed. This will enable three critically important outcomes to be achieved, namely, industry development through better meeting the needs of customers, accountability to racing participants, and a mechanism by which all codes can have meaningful access to the strategic decision-making process. However, the likelihood of factions and illegitimate political maneuvering developing in flat representative structures is high as individual representatives seek to maximize their access to resources for their particular grouping, which can stifle effective decision-making. To counter this, it is proposed that *all* initiatives for funding must be presented to the Control Board via the Chief Development Coordinators. The aim is to provide a screening process for funding initiatives to ensure that decisions will be based on evidence that there will be substantial value-adding to either owners or punters.

5.2.1. Development matrices

Perhaps the most distinctive structural feature is the 6 matrices designed specifically for industry development. It is accepted that organizational structure is a lot more than just 'boxes and lines'; it is the communication that happens between the boxes that really matters. To facilitate discussion about how to best serve customers, a Product development matrix and a Racing development matrix will be established for all three codes of racing, making 6 separate matrices in total. Each matrix will have an assigned coordinator to facilitate engagement between primary participant groups and experts from functional areas that are deemed to be of strategic importance in the meeting the needs of customers of that area.

It is proposed that the Production matrix (Appendix 2) will consist of the primary participant groups of breeders, trainers, and race clubs, who will engage with experts in marketing, equine exercise science and education. The coordinator's role is to instigate engagement between the parties and ensure that the all initiatives are focused on ways to enhance the

value-offering for owners. It is proposed that a similar matrix be established for Production in harness racing and greyhound racing.

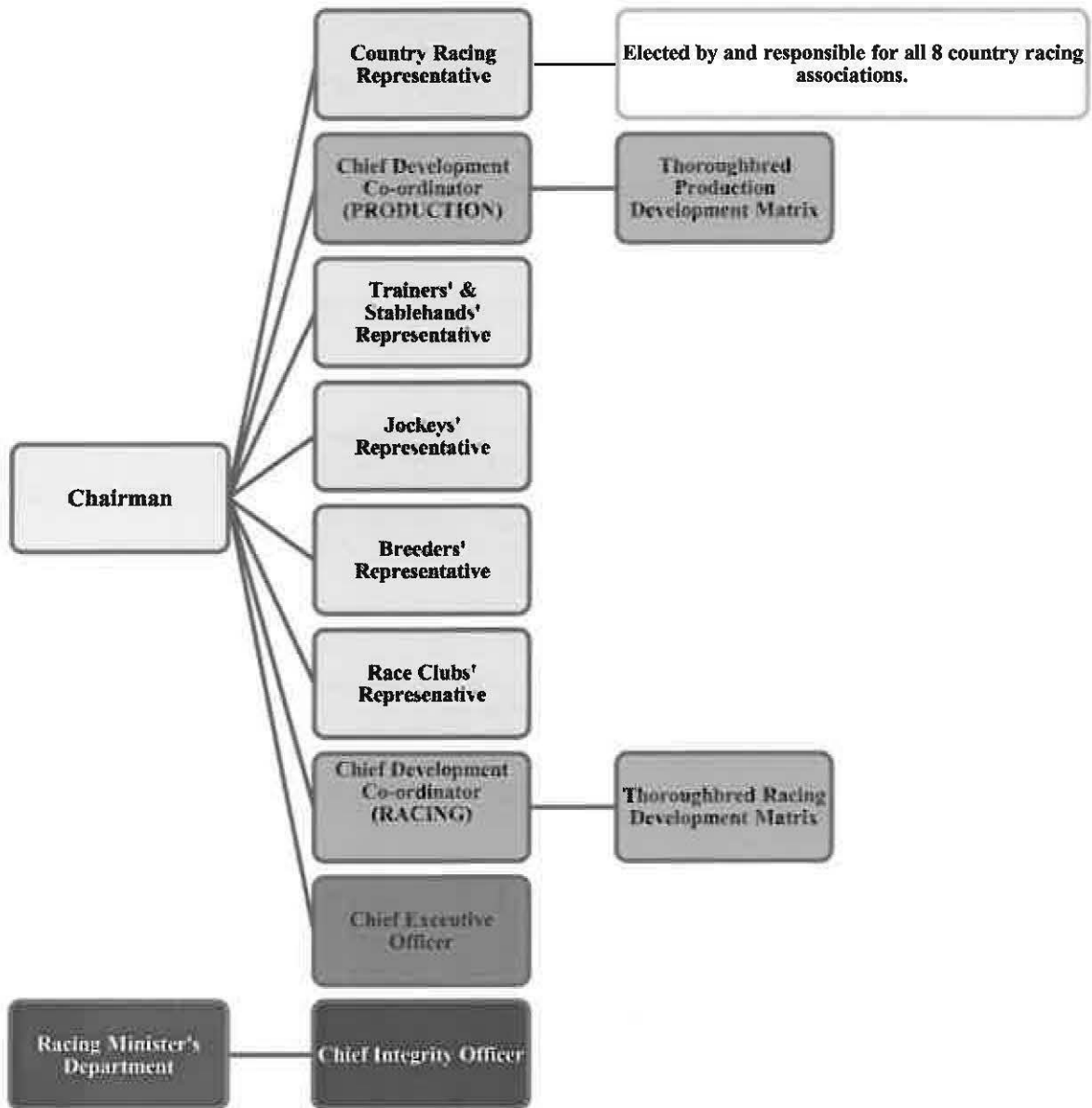
The Racing matrix (Appendix 3) will follow the same format as the Production matrix and will consist of the primary participant groups of race clubs, owners, trainers, jockeys, bookmakers and the key stakeholder, Tatt's, who will engage with experts in marketing and cinematography. Again, the coordinator's role is to instigate engagement between the parties and ensure that the all initiatives are focused on ways to enhance the value-offering for Racing's end-consumers, punters.

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Appendices

Appendix 1 Proposed Structure for the Control Body of Racing Queensland



| Board Member Responsibility | Colour Code | Board Member Responsibility | Colour Code |
|--------------------------------------|-------------|-----------------------------|-------------|
| Industry Development | | Country Racing | |
| Participant Representation | | Chairman | |
| Primary Function Area Representation | | Chief Executive Officer | |
| Integrity Assurance (Independent) | | | |

Appendix 2 Production development matrix

| Production Development Coordinator (Thoroughbreds) | | | |
|--|--|---|--|
| | Marketing | R & D (Equine Exercise Physiologists and Veterinarians) | Skills Development |
| Trainers | How can we enhance our relationship with owners? | How can our training practices be enhanced? | How can we improve the training skills of industry workers? |
| Possible Outcomes | Receivables management to improve cash flows. Managing expectations of owners. Establish relations with breeders to purchase horses when owners are most interested. | Introduction of more-refined, scientifically informed training regimes. | Facilitate the transfer of knowledge through the introduction of equine exercise physiology through action learning. |
| Breeders | How can we alter our relationship with owners and trainers? | How can we develop a better business model? | How can we improve the horse husbandry skills of our workers? |
| Possible Outcomes | The development of a more appropriate selling system that better suits the needs of trainers and owners. | The development of a more reliable 'talent identification' system to reduce the lottery feeling associated with purchasing horses and dogs. | The development of a better skilled workforce. |
| Training Centres | How can we be more 'trainer friendly'? | How can we enhance our facilities to reduce the incidence of lower leg injuries? | How can enhance the industry's capacity to attract workers? |
| Possible Outcomes | Less 'monopolistic' behaviour and responding more maturely to trainers' input. | Better designed training tracks. | Greater access to training tracks will improve working conditions considerably and 'lower the threshold' in attracting industry workers. |

Appendix 3 Racing development matrix

| Racing Development Coordinator (Thoroughbreds) | | |
|--|--|------------------------|
| | Marketing (Event Management) | Cinematography Experts |
| Trainers | How can we develop our 'brand' to enhance wagering outcomes? How can we use the event to engage potential owners? | Not Applicable |
| Possible Outcomes | Possible increase of wagering. Turn punters and race patrons into owners. | |
| Jockeys, Race Clubs and UniTAB | How can racing be presented so that the riding skills of jockeys can be highlighted to better develop the 'brand'? | |
| Possible Outcomes | Increased wagering | |
| Race Clubs and Bookmakers | How can we be more effective in attracting race day patrons? | Not applicable |
| Possible Outcomes | Increased race day patrons | |
| Owners | How can we enhance the racing experience of owners, win or lose? | Not applicable |
| Possible outcomes | Enhanced racing experience by owners will reduce attrition rate | |