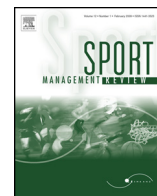




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## Sporting clubs and scandals – Lessons in governance

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## ARTICLE INFO

## Article history:

Received 1 March 2015

Received in revised form 19 July 2015

Accepted 16 August 2015

Available online 29 October 2015

## Keywords:

Drugs in sport

Corporate governance

Sporting clubs

Teaching case

## ABSTRACT

This case study is based on actual events surrounding the 2011–2012 scandals relating to the use of performance enhancing drugs in two high profile sporting clubs in Australia: the Cronulla Sharks Rugby League Club and the Essendon Football Club. Both clubs were handed down sanctions that included fines and suspension of their respective senior coaches and players. The case explores events leading up to the scandal and its aftermath. The case includes a series of questions that can be used to stimulate class discussion in areas of governance, ownership structure, drugs in sport and stakeholders. It also includes ideas for more in-depth discussion of issues relating to the commercialisation of sport and shortcomings in governance with supporting references from academic and practitioner related articles. The case is ideal for any later year undergraduate or postgraduate courses with a business, strategy, sports management, or accounting focus.

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## Teaching note

Educators have a unique opportunity to enhance student learning outcomes in connection with the current spate of corporate governance shortcomings and scandals in sporting clubs. Although several case studies have focused on the corporate governance failings of listed companies (Beattie, Fearnley, & Hines, 2011), it is also important for students to be exposed to corporate governance inadequacies in other contexts. Within the sporting scandal case study, we investigate whether drug use is directly related to the moral hazard issue. Have internal controls broken down leading to individuals or a small team of people running ambiguous programmes involving the use of performance enhancing drugs? This is generally a symptom of poor corporate governance where the three building blocks of corporate governance being leadership, planning, and organisational performance are not well established and linked. Therefore, unless effective steps are taken by clubs' central committees to curtail moral hazard, there will be personnel within the hierarchy that have a financial gain or other incentive to engage in excessive risk-taking. Generally, this type of behaviour often leads to questionable practices.

This case study is designed as a practical assignment where students have an opportunity to apply corporate governance principles to a real-life case. As the sporting scandals were widely covered by the media, students are expected to be

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enthusiastic and familiar with current events reported in the media. Shortcomings in corporate governance identified in the case study are expected to enhance students' ability to critically evaluate and review case study-based situations and identify applicable accounting regulations and financial statement consequences. The case study involves two well-known Australian sporting clubs: the Essendon Football Club (EFC) and Cronulla Sharks Rugby League Club (CS), and the events surrounding their recent scandals relating to the use of performance enhancing drugs. In late 2013, both clubs were rocked by fines and suspensions of senior coaches.

We have implemented this case study successfully in a third-year compulsory undergraduate accounting course over three semesters at a large, public Australian University. The case study highlighted stakeholder needs in sporting clubs and helped students understand governance principles and recommendations for such entities. The case is flexible enough to address the needs of courses in management, sport management, strategy and business. The objectives of the case include: understanding the meaning of corporate governance; understanding the principles of corporate governance applied to sporting clubs; and identifying corporate governance disclosures in financial reports for sporting clubs.

In the following sections, we provide a brief history of the National Rugby League (NRL) and Australian Football League (AFL) structure and a discussion focusing on corporate governance in sporting clubs. These sections should provide students with sufficient knowledge to maximise their learning potential through a case-based approach.

## 1. Background

This case focuses on two sporting clubs: Cronulla Sharks (NRL) and Essendon Football Club (AFL). As students may not be familiar with the two different sporting codes, it is worthwhile to provide some background information. It is also relevant to highlight the various corporate structures of the two clubs amongst the different codes.

### 1.1. NRL and AFL corporate structure

In terms of NRL clubs, corporate structure differs amongst the various clubs within the code. Clubs incorporated as public companies limited by shares include the Brisbane Broncos, which is listed on the Australian Securities Exchange (ASX), as well as the Manly-Warringah Sea Eagles, Gold Coast Titans and South Sydney Rabbitohs, which are unlisted. Clubs incorporated as public companies limited by guarantee include the Cronulla-Sutherland Sharks, Canberra Raiders, Canterbury-Bankstown Bulldogs, Melbourne Storm, Newcastle Knights, New Zealand Warriors, North Queensland Cowboys, Parramatta Eels, Penrith Panthers and Sydney Roosters. Finally, there are private company clubs limited by guarantee which include the St George Illawarra Dragons and Wests Tigers. With the exception of the Brisbane Broncos, all NRL clubs are either unlisted public or private companies.

In terms of AFL clubs, 17 are limited by guarantee (including the EFC), while only one AFL club (the West Coast Eagles) is a company limited by shares. For clubs limited by guarantee, ownership is vested in the hands of members providing certain rights (Foreman, 2006). Club members are defined in the club's constitution as individuals who hold membership tickets. Rights of members are outlined in each club's constitution, the Corporations Act 2001 and Common Law. The club's constitution outlines the right of members to vote at annual general meetings, electing directors to the board. The Corporations Act 2001 states guidelines for requisitioning a general meeting and for proposing a resolution to members.

## 2. Drugs in sport

Stewart, Adair, and Smith (2011) explain that over the past four decades there have been a series of drug use problems in sport (Hunt, 2007; Rushall & Jones, 2007). Much of this has been driven by the financial stakes involved in professional sport, creating powerful incentives for the use of performance enhancing substances (Rapp, 2009). At the same time, however, detection of drug use in sport can undermine the good standing and reputation of sport, bringing it into disrepute and fracturing the relationship it has with sponsors (Senate Standing Committee on Environment Recreation and the Arts, 1988; House of Representatives Standing Committee on Finance and Public Administration, 1990).

Rapp (2009) outlines five main arguments in favour of testing athletes for use of performance enhancing drugs: performance enhancing drugs should be banned in order to 'level the playing field'; player health suffers because of the use of performance enhancing substances; players using performance enhancing substances make poor role models for children who often idolise professional athletes; the blackmarket that sells performance enhancing drugs can use the leverage provided by their knowledge of an athlete's use of drugs to blackmail them into manipulating on-field competition in order to produce ill-gotten gains; and fans cannot enjoy a clean, free and untainted game by players using performance enhancing drugs. All of these reasons provide appropriate ground for imposing harsh sanctions for drug use, hoping to serve as a deterrent for future consumption.

In response to several drug scandals such as those that occurred at the 1996 Atlanta Olympics and the 1998 Festina affair at the Tour de France, athletes' continued use of performance enhancing drugs saw the International Olympic Committee (IOC) in 1999 establish the World Anti-Doping Agency (WADA) (Kirkwood, 2004; Mignon, 2002; Pampel, 2007). Within Australia, the Australian Commonwealth Government (ACG) adopted WADA's 1999 policy statement and in 1999 established the Australian Sports Anti-Doping Agency (ASADA). It was around this time that the NRL implemented its first performance enhancing drug policy (Stewart et al., 2011).

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