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## **POST PRINT – POST PEER REVIEWED VERSION**

# **A History of Machine Gambling in the NSW Club Industry: From Community Benefit to Commercialisation**

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### **Abstract**

This paper documents a history of the NSW club industry, with particular emphasis on its evolution to a major contemporary operator of gaming machines at state, national and international levels. It argues that three conditions of club registration - their not-for-profit status, membership requirements, and social benefit objectives - have been instrumental for clubs in gaining and maintaining dominant rights to machine gambling in NSW. These three features of clubs traditionally have underpinned their legitimacy as major providers of machine gambling, reflecting prevailing government policy that linked legalised gambling to social benefit. However, the substantial revenues that accrued from machine gambling, amidst an absence of competition, fuelled an expansion of the club sector that was neither predicted nor planned, with many clubs growing dramatically in assets, membership and facilities. The original club goals of promoting and pursuing the social purpose and community benefit for which they were established became superseded by an emphasis on expansion, market share and profits. More recently, increased competition for the gambling dollar, reflecting a shift in government policy towards economically driven stimulation and expansion of commercial gambling, has further entrenched the commercialisation of clubs in their machine gambling operations, subordinating their social agenda to economic interests. This change in focus by club management has diminished the social contract that exists for

clubs to operate gambling for community benefit, the very basis of the clubs' legitimacy as major providers of machine gambling. Indeed, the implicit assumption that social benefit was built into club machine gambling has allowed the clubs to exploit their position of market dominance in such a way that exacerbates the negative social impacts of their core product.

## **Introduction**

Since 1956, clubs in the Australian state of New South Wales (NSW) have been legally allowed to operate gaming machines, more commonly known as poker machines in that state. For the year ended 30 June 2003, 1,381 NSW clubs operated 75,214 poker machines, which generated \$AUD33.9 billion in turnover, \$AUD3 billion in club profits and \$AUD414 million in state taxation revenue (NSW Department of Gaming and Racing 2003). This can be compared to the performance of their major competitors, the 1,830 NSW hotels which operate 24,255 gaming machines with a turnover of \$AUD13.8 billion and profits of \$AUD1.4 billion, and the state's one casino which has 1,500 gaming machines and 200 table games contributing to \$AUD540 million in gross gaming revenue (NSW Department of Gaming and Racing 2003). To put this in context, NSW clubs now operate about 75 percent of poker machines in NSW, 40 percent of those in Australia and 8.2 percent share of the estimated 905,354 'high intensity' gaming machines worldwide (Productivity Commission 1999). Clearly, NSW clubs are now major providers of machine gambling at state, national and international levels.

However, this dominance of machine gaming in the club environment has changed the focus of many NSW clubs, from a social and community benefit agenda to aggressive pursuit of the financial returns from machine gambling. This paper documents the historical development of NSW clubs to explain how this increased commercialisation has affected their distinctive relationship with the community, and their legitimacy as major providers of machine gambling. Its broader purposes are twofold – to provide readers with an appreciation of the genesis, development and current status of the industry, and to demonstrate how the introduction and expansion of machine gambling has substantially changed the focus of the industry such that NSW clubs are distinctively different to their overseas counterparts.

This history of the industry is presented chronologically. But first, the next section explains the nature of NSW clubs by identifying key conditions of club registration, and distinctive characteristics significant to their protected role as dominant providers of machine gambling.

### **Distinctive Characteristics of NSW Clubs**

Key features of NSW clubs distinguishing them from profit-based organisations are prescribed in the *Registered Clubs Act 1976 NSW*. Its conditions restrict particular aspects of club management and operations, but are off-set by certain privileges designed to optimise community benefits clubs provide.

Unlike commercial organisations, NSW clubs can be established only for social, literary, political, sporting, athletic or other lawful purposes. Clubs are owned by their members whose membership fees buy a share in the club and contribute to a common fund for the benefit of members. However, the legislation prohibits any distribution of club profits or income amongst members so, unlike commercial organisations, no dividends are paid to these ‘shareholders’. Non-members also can patronise a club, but only if they reside more than five kilometres away, if they are members of another club with similar objectives, or if they are visiting to attend an organised sport or competition the club is hosting.

Thus, clubs are considered not-for-profit organisations as trading profits do not accrue to individuals, but must be channelled into facilities and services that benefit members, promote the purpose for which the club was established, and/or support charitable or community causes. These key features of NSW clubs that distinguish them from their profit-based counterparts, such as hotels and casinos, have been significant in gaining certain concessions

and competitive advantages for the purpose of optimising community benefit. Predominant amongst these have been extended trading hours, taxation concessions and a protected market for poker machines.

However, the not-for-profit status of clubs and accompanying community benefit charter are increasingly at odds with the commercial objectives of many contemporary NSW clubs. While still existing to render a service to members and the broader community, the intensifying competitive environment for gambling has prompted greater adoption of commercial management practices, posing a contradiction between their official and actual agendas. This tension gradually has undermined the clubs' distinctive relationship with the community as a source of community benefit, a linkage that facilitated and legitimised their development as major providers of machine gambling.

Koteen (1991) notes that the fundamental difference between not-for-profit and profit-oriented organisations is one of purpose, as the former aims to make a profit while the latter exists to render a service. He explains that absence of a profit measure in not-for-profit organisations means success is measured by how well the service is rendered rather than in financial terms. Because accumulated revenue is expected to be used to expand or improve services, or reduce price, not-for-profit organisations often receive benefits not accruing to profit-oriented firms and attract criticism when they embark on commercial, revenue-producing activities considered unrelated to their primary purpose.

As the following history will demonstrate, NSW clubs have evolved in such a way that, in practice, they now violate these essential foundations of not-for-profit organisations. Evolving from the early NSW clubs established to promote a common interest of, and

provide a range of services for, members whose dues provided the main source of revenue, contemporary clubs now emphasise profit-based goals and reward management accordingly. Their main source of revenue is no longer membership dues, but poker machine profits, prompting a shift in strategic management towards a market-oriented approach seeking to maximise customer 'sales', rather than fulfill the community service objectives for which they originally were established. As Koteen (1991) notes, the key to understanding strategic management is the organisation's source of revenue. The ensuing history demonstrates that this shift in club revenue, from being derived principally from membership dues to poker machine profits, has prompted a more commercial approach to the strategic management of NSW clubs. This has fuelled criticism of favourable concessions given to clubs over their profit-based competitors and of the clubs' increased focus on protecting and promoting their poker machine operations to the subordination of their original social purposes. This paper proceeds to illuminate how the industry's exponential growth and success have sown the seeds for such criticism. The historical account that follows is structured in four major sections that broadly reflect stages in the industry's evolution - inception, growth, development and maturity.

### **The Inception Phase: The Establishment of the NSW Club Industry**

NSW clubs were established in the early Australian colonies, with their elitist nature reflecting class-based distinctions drawn by colonial administrators in their attitudes to gambling. While a prohibitionist approach to gambling prevailed for the lower classes, gambling amongst members in clubs and betting on horse racing were tolerated for their contribution to recreational and social purposes, to the consequent benefit of the colonial elite. In this context, early NSW clubs established themselves as not-for-profit organisations

pursuing explicit social objectives, for the benefit of their restricted membership and the wider community.

The first clubs established in the early colonies were modelled on metropolitan British gentlemen's clubs - principally social institutions, established to promote professional, intellectual, artistic and sporting interests and to provide members with collective use of a 'town house' in urban areas (Tildesley 1970). Early Australian clubs, such as the Australian Club, the Union Club, Tattersall's and City Tattersall's, fulfilled a similar function.

These first NSW clubs were prestigious institutions with limited exclusive membership commanding high fees, and selected by referrals and sanctions from existing members. For example, the Australian Club limited membership to 200 and commanded membership fees higher than comparable British clubs 'to preserve for it a colonial aristocratic character' (Cumes 1979:250). A list of the Australian's 137 founding members reads like a 'who's who' of the day, comprising individuals distinguished in government, naval and military services, the professions, and pastoral and commercial pursuits (Williams 1938). Membership of other early clubs also was confined to the elite, although the Australian Club was the most exclusive. The premises of the first NSW clubs also emulated British gentlemen's clubs and appropriately accommodated the style of living to which their members were accustomed. Club entertainment principally consisted of drinking, dining, billiards, card games and a library (Anderson 1985). Betting was common on billiards and cards, particularly poker, whist and bridge (Tildesley 1970), but these involved wagers amongst members and were at no profit to the club. Support of charity and community projects were priorities for early clubs. For example, during World War One, City Tattersalls Club donated nearly all its proceeds to war savings funds, built cottages for disabled

servicemen, and retained beds in many hospitals (Donohoo 1971), while the Queen's Club donated its entire 1918 proceeds to returned soldiers and their dependents (Tildesley 1970).

The generosity of club members and their genuine interest in promoting club objectives were integral to the early survival of the club movement. For example, histories of the Queen's Club (Tildesley 1970) and the Australian Club (Williams 1938) recount numerous occasions when members were levied or gave temporary advances to keep their clubs viable. These histories also suggest that club management was entirely voluntary, with the committee directly involved in daily operations and concerned more with club survival than maximising revenue or profit. Many services such as meals and accommodation were provided free to members (Anderson 1985; Williams 1938). Unlike contemporary clubs, membership was limited and subject to the sanction of existing members, while guests were permitted only at the invitation and in direct company of members, were required to leave at six pm. and could not be served alcohol (Anderson 1971). The social role of elitist clubs also extended to other clubs established early in the 1900s. At more modest sporting clubs, members volunteered time and labour and made financial contributions to construct club houses, clear land, raise money for golf courses and bowling greens and support the war effort (Dwyer 1966; Walker 1996).

Thus, historical accounts of early NSW clubs suggest their management and operations strongly reflected their social, not-for-profit aims and the spirit of mutual benefit and community service for which they were established. Further, various features of the first NSW clubs facilitated later institutionalisation of clubs as major leisure establishments and legitimate gambling venues. First, these clubs were established soon after colonisation in the long-standing tradition of their respected British counterparts, marking commencement of the

relatively lengthy industry history in NSW. Second, their elitist membership and demonstrated social benefits for both members and the wider community meant their existence went unquestioned. Third, their sanctioned position in society allowed the common, albeit illegal, gambling amongst members on club premises to continue. While clubs themselves did not benefit financially from gambling, its tolerance by authorities meant a close association between clubs and gambling from their very inception.

### **The Growth Phase: The NSW Club Industry Prior to the Legalisation of Poker Machines 1900-1955**

During the first half of the 1900s, Australian government policy on gambling shifted from a class-based prohibitionist approach, to selective liberalisation that clearly linked gambling to social benefit (McMillen 1996). Amidst the legalisation of lotteries, and church and charity bingo, both with explicit social welfare purposes, NSW clubs gained a foothold on machine gambling, operating it illegally but with a substantial degree of official tolerance. This was premised on the clubs' not-for-profit agenda, membership restrictions and social objectives, which set them apart from their major rivals, hotels, and gained favourable treatment in both liquor and gambling provision. Expansion of the industry during the early 1900s was also strongly linked with the clubs' role as leisure establishments licensed to serve alcohol. However, while early NSW clubs established the base for industry development, legislative controls on the number of NSW liquor licences hindered further industry growth for many decades. However, social and economic changes during the first half of the century prompted public pressure on the NSW Government to expand the number of club licences, which in turn expanded the number of club premises later able to operate poker machines.

In Australia's early colonies, the social strata was polarised between affluent classes, catered for by gentlemen's clubs, and the working class of convict and free settler origin. For over a century, taverns and pubs were the sole public institutions catering for the leisure and drinking needs of ordinary people (Caldwell 1972). However, proliferation of public drinking houses during the late nineteenth and early twentieth centuries was accompanied by outcries from the media, temperance movement, churches, and growing middle classes. The NSW Government attempted to curb liquor trading through freezing the number of hotel, wine and club licences, authorising local option polls on hotel licence numbers, and introducing requirements for ratepayers to petition for new liquor licences (Caldwell 1972).

World War One brought further restrictions to liquor trading. All Australian states reduced hotel closing times to 9 pm. or 9.30 pm., while a 1916 military riot prompted a referendum supporting 6 pm. closing for NSW hotels (Caldwell 1972). Such was the influence of the temperance movement, the churches and patriotic sentiment in the post-war years, that this wartime measure was retained until 1954 (Caldwell 1972). During and after World War One, drinking conditions in hotels deteriorated. The hour before closing became known as the 'six o'clock swill' when about 90 percent of all alcohol sold was consumed (Caldwell 1972). This destroyed the place of hotels as the centre of community life, encouraging hurried drinking, drunkenness, and remodelling of hotels to accommodate the avalanche of after-work drinkers, at the expense of dining, accommodation and indoor sports areas (Freeland 1966 in Caldwell 1972).

By the end of World War Two, ordinary social drinkers were dissatisfied with hotel drinking conditions, the general shortage of beer, exploitation by the hotels and breweries, and the rampant black market. However, at the same time, NSW clubs had begun to diversify in their

objectives and membership base, away from the elitist gentlemen's clubs of earlier times (Caldwell 1972). Additionally, improved economic conditions during the post-war boom meant the public had more disposable income, some of which they wanted to spend in more comfortable, relaxed drinking venues (Caldwell 1972). Public pressure increased for more licensed clubs, prompting legislative amendments authorising additional licences. By 1950, clubs numbered 350 in NSW (Registered Clubs Association [RCA] 1994).

During the late 1940s and early 1950s, the popularity of NSW clubs continued to increase. Caldwell (1972) identifies the following influential factors. First, the electorate voted overwhelmingly in 1947 to retain 6 pm. closing for hotels (*Liquor Referendum on Hotel Closing Hours*, 1947), while the NSW Supreme Court ruled that clubs could legally serve alcohol outside hotel trading hours. By classifying club members as 'inmates', this decision allowed 24 hour club trading. Second, many hotels were unwilling or unable to match the comfort, service and facilities provided by clubs. By the 1950s, public dissatisfaction with hotel drinking conditions and neglect by country hotels to meet legal obligations to provide meals and accommodation, stimulated the *Royal Commission on Liquor Laws NSW* (1954) to enquire into liquor trade in NSW. The Royal Commission recommended lifting limitations on the number of clubs which, following legislative amendments in 1954, increased to 793 the following year (Caldwell 1972). This was a third factor catalysing expansion of the club industry, as growth of the hotel industry was still impeded by a requirement for new hotels to purchase and transfer an existing hotel licence (Caldwell 1972). Fourth, the NSW Government had tended to ignore illegal club poker machines, operating since the mid 1880s (NSW Department of Gaming and Racing 1996), largely because the clubs had become financially dependent on them and profits provided members with standards of comfort and service which hotels did not match.

In summary, between 1905 and 1955, clubs became firmly institutionalised in NSW, reflected by increased patronage by people from more diverse socio-economic backgrounds and a burgeoning of club licences from 85 to 793. Legislation authorising expansion was mainly demand-driven, catalysed by poor hotel drinking conditions, improved economic standards, and public demand for better leisure facilities. However, the non-profit status, membership requirements and social aims of clubs were instrumental in gaining preferential treatment above hotels by officials and legislators. Considered restricted elitist organisations, rather than publicly accessible mass institutions, police and public officials allowed NSW clubs to serve liquor outside hotel trading hours and operate illegal poker machines (Caldwell 1972). Resulting profits improved club facilities and services, further increasing their social benefit and popular appeal. However, the major competitive advantage of NSW clubs over hotels had yet to be realised with the legalisation of poker machines in 1956. Nevertheless, with the link between gambling and social benefit firmly established in government policy, the way had been paved for the transition to legalised machine gambling in NSW clubs.

### **The Development Phase: Expansion of the NSW Club Industry 1956-1970s**

Between the 1950s and 1970s, government policies on gambling continued to emphasise social benefit, although attention turned to public interest concerns for controlling illegal gambling operations, primarily in bookmaking and poker machine operations (McMillen 1996). State-run totalisators remedied the former, while a lengthy debate ensued over legalisation of the latter.

From the inception of poker machines until their legalisation, official attitudes towards their operation in NSW clubs were ambivalent. While the NSW Supreme Court had declared in

1921 that keeping poker machines contravened the *Gaming and Betting Act 1912 NSW*, this ruling had sufficient ambiguity to permit their continued operation without police interference in clubs (Wilcox 1983; O'Hara 1988).

In late 1930, poker machines began to appear in Sydney city hotels, with machine manufacturers securing immunity from prosecution through bribes (Wilcox 1983). The NSW Chief Secretary subsequently ordered police to ignore poker machines in hotels, although this immunity lasted only five weeks after which police removed machines from both hotels and clubs (Wilcox 1983). However, following representations by clubs claiming they would be unable to survive without poker machines, the NSW Chief Secretary allowed their reintroduction into clubs in 1931, although this permission had no legal basis (Wilcox 1983). In early 1932, machine manufacturers presented a scheme to the NSW Hospitals Commission offering a percentage of profits from poker machines if they could legally operate from shops and hotels. The Hospitals Commission granted permits for a two month trial in exchange for 45 percent of gross earnings. However, again there was no legal basis for these permits (Wilcox 1983).

In June 1932, allegations of bribery and corruption of NSW Ministers regarding the granting of poker machine licences prompted the *NSW Royal Commission into Greyhound Racing and Fruit Machines* (1932). However, the Commissioner's report was indecisive, due to non-appearance of key witnesses, and the likelihood that many of them lied (Caldwell 1972; Wilcox 1983). Nevertheless, the Commissioner expressed 'grave suspicion that there was some improper dealing' by the NSW Chief Secretary and Minister for Health (in Wilcox 1983:3.12-3.13). The Royal Commission reaffirmed the illegal status of poker machines in all venues under both the *Gaming and Betting Act 1912 NSW* and the *Liquor Act 1905 NSW*.

Nevertheless, by late 1939, an estimated 2,500 poker machines were still operating in NSW (Caldwell 1972), with many clubs believing the 1921 ruling still valid (O'Hara 1988). Further, many clubs had become financially reliant on machines, collectively gaining up to £20,000 per year in machine profits (O'Hara 1988).

A 1952 announcement by a police official that clubs would soon be notified that poker machines were illegal prompted clubs to lobby for the legalisation of poker machines, offering an annual tax on each machine and claiming financial hardship if they were removed (Caldwell 1972). Although this aroused opposition, mainly from the hotel industry on economic grounds and the NSW Council of Churches on moral grounds, the NSW Government announced in 1956 that poker machines would be legalised in clubs subject to the payment of licence fees directly to the Hospitals Fund, expected to yield between £500,000 and £750,000 per year (Caldwell 1972). The Premier noted that to prohibit poker machines would jeopardise the existence of many clubs and jobs. State Cabinet further noted it was in the public interest to legalise and control the machines, explaining they had previously ignored their illegal use in clubs because:

- 1) of their inaccessibility to the general public and children, 2) profits were used for the development of amenities and club improvement and not for individual enrichment and
- 3) they were basic to the economy of many bowling, golf and Returned Soldiers' clubs.

*(NSW Parliamentary Debates 1956 Third Series Vol, 17:1694 in Caldwell 1972:101)*

After much debate in both houses of Parliament, the *NSW Gambling and Betting (Poker Machines) Bill 1956* was passed on 22 August 1956.

Once NSW clubs had gained exclusive rights to operate poker machines, demand to both establish and patronise clubs increased dramatically, with further legislative changes authorising another 700 clubs which totalled 1,050 by 1958 (RCA 1994). After 1956, the socio-economic environment, favourable legislation and lack of competition for gambling, provided ideal conditions for continued expansion of the NSW club industry. The period 1954 to 1962 was accompanied by a 223 percent increase in the number of clubs, and a doubling of club poker machines from 5,596 to 10,814 (NSW Department of Gaming and Racing 1998).

Rapid expansion of the industry after 1956 and the working-class appeal of poker machines meant clubs were no longer the privileged domain of society's elite. While the range of clubs had broadened during the early 1900s, it was not until the post-war years and the legalisation of poker machines that clubs became major social outlets for ordinary Australians. Mackay (1988) identifies numerous privileges underpinning the appeal of clubs to less affluent social classes. First, more liberal trading hours meant the clubs had exclusive rights to trade on Sundays and Anzac Days, and on other days until 10 pm while hotels were restricted to 6 pm closing. Second, clubs had exclusive rights to operate machine gambling, with their only competition in NSW being on-course betting, the state lottery and, after 1963, off-course TAB betting. Third, clubs were able to introduce a superior form of social drinking, with 'entertainment, carpeted lounges, a place to bring your wife or lady friend' (Mackay 1988:14). Finally, Mackay (1988) contends there was very little legislation controlling clubs. In commenting on the competitive advantages of clubs, Mackay (1988:14) notes that 'demand totally outweighed supply and being the marketing executive in the early days of Clubs (sic) history was just being game enough to open the doors because you could have been killed in the rush'.

However, this growth aroused concern. From newspaper accounts of the day, Caldwell (1972:116-117) identified six questions concerning unlimited club growth:

(1) had private clubs become so diversified in their activities that they are now 'big business', and should they be subject to company and other Federal tax like any other normal commercial enterprises?; (2) had clubs - because of a ruling that a visitor may buy his own drinks - ceased to be private establishments and entered the field of general trading?; (3) was it safe politics to let clubs wax so strong on poker machine money that they dominated local community and business affairs and could sway even members of State Parliament?; (4) should poker machines be more heavily taxed?; (5) should there be a ceiling on the number of clubs?; and (6) should there be a limit on club membership numbers?

The *Liquor (Amendment) Act 1969 NSW* was subsequently passed to limit individual club memberships (although the Licensing Court could increase a club's membership under certain conditions). Caldwell (1972:128-131) identifies numerous factors prompting these limitations. First, some clubs were 'empire-building', going 'far beyond providing immediate benefits for members as envisaged in earlier legislation' and had encroached on community and commercial activity to the detriment of fair competition. Second, in their desire to expand their patronage and influence in community affairs, some clubs were attempting to wield political influence, and greater community benefit would result if power was not 'concentrated in the hands of a very few large clubs making substantial profits'. Third, huge poker machine profits of large clubs and their resulting high standards of facilities and entertainment made it difficult for smaller clubs to compete. Fourth, it was difficult for new

clubs to be established to meet a genuine and substantial need while existing clubs could continuously expand memberships. Finally, for members in large clubs to have due influence in club policy was a 'practical impossibility'.

The structure of the NSW club industry in the 1980s was examined in the *Board of Inquiry into Poker Machines*, conducted to 'inquire into, report on and make recommendations upon whether poker machines should be permitted in (the Australian state of) Victoria' (Wilcox 1983). Wilcox (1983) recognised the increasingly commercial orientation of many NSW clubs, criticising large NSW clubs for operating as 'public houses aggressively marketing food, liquor and entertainment at prices subsidised by poker machine revenue' (1983: Introduction), being 'indistinguishable in their operation from casinos' (1983:20.14). In reviewing their few membership requirements, ease of access to visitors, active pursuit of tourists, the income derived from non-members, lack of door controls to police entry of illegal visitors, aggressive marketing, limited community contributions and meagre charitable support (1983), Wilcox (1983:5.16) concluded that:

...it is very difficult to see the average NSW club, particularly the large social club, in terms of any traditional definition of a club. What is the 'common interest' which causes the members to join? Where no particular interest in any activity commonly associated with a club is required to be demonstrated, or even expressed, and where the annual membership fee is often less than the price of a picture theatre ticket the only distinction between a member and a visitor (legal or illegal) is compliance by the member with a statutorily enshrined ritual of nomination and election to the club - a procedure which must become more meaningless the larger the club becomes. At a certain point the

question must arise as to why the ritual is persisted with. Such a club is, in essence, indistinguishable as a public open facility from a theatre which charges admission.

Vinson and Robinson (1970) also observed changes in club goals from initial devotion to fulfilling a special purpose to later emphasis on increasing organisational size, power and prestige. They observed that, by 1970, clubs in Sydney NSW had tended to replace early goals of informal social interaction within comfortable premises of restricted size, with goals emphasising expansion and improvement, with club policy driven by the twin criteria of membership size and annual income. Caldwell (1972:219) also noted the 'special importance' placed by the directors of his case study club on a healthy balance sheet, large profits and growing membership as indicators of club success. He criticised clubs for over-emphasising physical and membership expansion, contending that 'large clubs must consider whether building bigger and more luxurious clubs is the best way in which they can serve their membership' (1972:346). He concluded that 'Directors of large clubs are too often concerned with growth, efficiency, the difficulties of handling unions and making larger and larger profits, without giving sufficient weight to wider purposes' (1972:343). Thus, evidence suggests that it took less than twenty years after the legalisation of poker machines for large NSW clubs to gain a predominantly commercial orientation (Vinson and Robinson 1970; Caldwell 1972; Wilcox 1983).

In summary, the legalisation of poker machines was a major victory for the NSW club movement, strongly differentiating the perceived role of clubs to that of hotels in terms of social benefits provided, accessibility and disbursement of poker machine profits. The ensuing popular appeal of clubs and the legitimisation of club machine gambling through its links with social purposes cemented the institutionalisation of clubs and club gambling

during this period. However, substantial poker machine revenues began to divert the attention of some club administrators from the social purposes of their clubs towards more commercially-oriented interests. Nevertheless, the implicit acceptance that community support flowed automatically from club poker machine profits meant the growth of the NSW club industry and its machine gambling operations continued largely unchecked.

## **The Maturation Phase: Consolidation of the NSW Club Industry 1970s-**

### **Present**

The 1970s marked the beginning of a shift in Australian government policy on gambling, unshackling its former link with community benefit for more pragmatic, economic ends. A vast array of new gambling options were legalised, substantially intensifying the competitive environment for machine gambling in NSW clubs. Their strategic advantage was eroded further by the legalisation of gaming machines in other states and in NSW hotels and its one casino, diminished tax concessions and the entry of additional gambling operators. These developments prompted more aggressive marketing and expansion strategies in club machine gambling and a further commercialisation of their agendas.

Since the 1970s, continued expansion of the NSW club industry has been accompanied by increased industry concentration, and the emergence of very large clubs with extensive poker machine installations, whose social benefit focus has become increasingly blurred in striving to expand membership and patronage through superior facilities and services. Expanding and improving club assets and services rely on maximising poker machine returns, which in turn encourages subordination of the public interest to more commercially-driven objectives and management. This weakening of the not-for-profit agenda, membership requirements and social objectives of clubs has eroded political and public confidence in the social benefit

which accrues from club machine gambling operations and diminished the historical nexus between clubs, the community and their role as gambling providers.

Increased competition for the gambling dollar has influenced the structure and performance of the contemporary club industry in NSW. The ensuing discussion examines these aspects, which reflect increased importance placed by many clubs on commercial goals of market expansion, product development and profitability.

### **The Contemporary Structure and Performance of the NSW Club Industry**

Today, 53 percent of the NSW adult population or more than 3 million people are members of the 1,560 clubs in NSW, holding about 3.5 million memberships between them, while 82 percent of adults in NSW have visited a club in the past 12 months (RCA 1998a; Clubs NSW 2004). The industry employs over 49,000 people, with at least another 15,000 directors involved on an honorary basis (RCA 1999; Clubs NSW 2004). As noted earlier, over 75,000 poker machines now provide substantial club profits.

However, poker machine profits are not shared equally amongst contemporary clubs. In fact, the top 200 NSW clubs by poker machine profit represent only 14 percent of all NSW clubs operating poker machines, but they operate over half of all club poker machines (NSW Department of Gaming and Racing 1998). Further, they earn over 70 percent of total club poker machine turnover and net profit and enjoy average turnover and profits per machine substantially higher than the average for all NSW clubs (NSW Department of Gaming and Racing 1998). Thus, the contemporary industry is characterised by a small proportion of very large clubs, usually returned services, leagues and workers clubs, often with some hundreds of poker machines on which they rely for some two-thirds of their revenue and which earn

far greater total poker machine profits than machines operated by their smaller counterparts. In fact, 44 NSW clubs have over 200 poker machines, with some of the largest installations being at Panthers League Club with 1,262 machines, Twin Towns Services Club with 770, Canterbury-Bankstown League Club with 643, and South Sydney Juniors with 579 machines. However, the bulk of the industry is comprised of many smaller clubs, predominantly bowling, golf and a range of general clubs which tend to operate far fewer machines, in turn yielding far less revenue. Consequently, smaller clubs usually rely on more diverse income sources, but also exist on a much smaller revenue base. Nevertheless, poker machine revenue accounts for about 60 percent of collective NSW club income (Productivity Commission 1999).

Further, while the number of NSW clubs operating poker machines rose steadily after their legalisation in 1956 peaking at 1,553 in 1984, 120 clubs have since closed due to surrender or cancellation of registration and amalgamations, attributed mainly to economic reasons (NSW Department of Gaming and Racing 1998). In terms of industry evolution, the industry appears in the maturity stage, characterised by industry concentration and slowing overall growth, in turn fuelling a more commercial approach to club management and operations. These changes are discussed below, with the goals and functioning of clubs tending to diminish their previous emphasis on social aims to an increasingly economic focus. This shift is reflected in their changing memberships, organisational structure, management reward systems, facilities and services, and community support, as well as their more commercial marketing and expansion strategies and political defence of their strategic advantage.

### **Membership Structure**

In contrast to the original clubs, membership to most contemporary clubs is no longer exclusive. Although clubs must still be founded on a common interest, membership is generally open to anyone of age, given nomination by two existing members and payment of the required membership fee, often as low as two dollars per year. A category of ‘social membership’ means that all, or indeed most, club members are not required to participate in or pursue the common interest for which the club was established, but may use the club’s main facilities and services, including poker machines. As Wilcox (1983:5.25) has noted, ‘when clubs grow the proportion of people who are fanatical about a particular purpose which brought them together ... gets diluted by members who come to enjoy the social facilities’. In addition, non-members usually have unrestricted access to clubs, provided they sign a visitors’ book and live more than five kilometres away (*Registered Clubs Act 1976 NSW Part 3*). Thus many clubs actively encourage visitors and tourists.

### **Organisational Structure**

The organisational structure of many clubs also has changed. While a relatively flat, informal structure was appropriate for the small, exclusive clubs, large contemporary clubs are generally structured along functional lines, with clear hierarchies of decision-making and responsibility. Drawing on Mintzberg’s classic configurations of organisations (1979), the early clubs could be described as ‘missionary’ organisations, coordinated by shared values of members, strong ideology, loose organisational structure and decentralised decision-making, all appropriate for the relatively simple, stable environment in which the clubs operated and their shared purpose amongst members. Today’s clubs however approach Mintzberg’s ‘machine’ organisations, with centralised decision-making, functional structure, narrow job specialisation and standardised work practices, aimed primarily at operational efficiency and

profit maximisation. In larger clubs, involvement of members in determining club policy to any meaningful extent is unlikely (Caldwell 1972; Productivity Commission 1999).

### **Management Reward Systems**

Management reward systems in many clubs also appear to promote profit maximisation. For example, the Club Managers (State) Award NSW bases salary rates partially on annual poker machine taxation levels (RCA 1998b). Thus, the award provides an indirect incentive through proportionately higher base salaries for club managers to attain larger poker machine profits. However, many clubs pay above award rates to attract more professional managers, in recognition that successful financial club performance relies on the implementation of commercial management practices.

### **Facilities and Services**

Clubs now cater mainly for middle and working classes and all but the smallest provide an extensive array of services and trade for long hours<sup>1</sup>. Rather than providing the close-knit social environments apparent in earlier clubs, large clubs tend to be large and ‘glitzy’ venues, filled with the flashing lights and noise of poker machines, horse and greyhound racing on television, keno updates on electronic screens and regular entertainment. Gambling and drinking are the main activities. Numerous Australian studies have found that gaming machines have their greatest appeal to people from lower-middle socio-economic

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<sup>1</sup> As an example of the scale and diversity of club operations now reached in NSW, the largest club, Penrith Rugby League Club, is today unrecognisable from its ‘pokey single storey building with eight poker machines, one pool table, one bar and a small dedicated membership’ when it was founded in 1956. In 1995, the club had 52,000 members, 900 staff and boasted 800 gaming machines, six bars, five restaurants, a nightclub, a cinema, tennis courts, a golf driving range, cable skiing, waterslides, a miniature railway and more than 200 four-star motel rooms set on its 81 hectares. On a busy day, some 6,000 patrons visited the club, contributing to the \$72 million turnover the club reported in 1994-95. Some \$40 million of this came from the club’s poker machines (Martin, 1996:16), with the club providing about \$650,000 a year for community charities and sporting

backgrounds (for example the State Government of Victoria 1994; DBM Consultants 1995; Prosser, Hing, Breen and Weeks 1996; Productivity Commission 1999; Roy Morgan Research 2000; Livingstone 2001), so it makes economic sense for clubs to work hard at attracting and catering for the market providing most revenue. As discussed later, aggressive marketing strategies encourage and reward poker machine play and ongoing analysis of the popularity and profitability of individual poker machines is serious business for both club management and poker machine manufacturers.

### **Community Support**

Because clubs cannot distribute their profits, excess gambling revenues are used to finance facilities and services, donations to charities, and community projects such as sporting and other facilities. However, much of this support is spent in-house to improve club facilities rather than for charitable and community causes. For example, an independent study of club contributions (Verrender 1996) found that, while NSW clubs claimed charity and community donations of \$700 million, most of this funded club renovations, with only \$56 million in external donations. However, the RCA estimated the value of community support, excluding capital investment, provided by the NSW club industry in 1996-97 at \$155 million (RCA 1998a). Nevertheless, even in 1983, the *Wilcox Report* noted 'whilst some clubs have provided significant community benefits, for most, including many of the most wealthy clubs, the record is poor when the enormous profit they derive from poker machines is taken into account' (1983: Introduction).

### **Expansion Strategies**

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organisations other than football (Verrender, 1996:39). The club has recently expanded its gaming machine installation to 1,262 machines (*Sydney Morning Herald*, 28 August 1998, p. 41).

Club poker machines have certainly become more widely accessible. For example, there has been a twelfold increase in the total number of poker machines in NSW since their legalisation in 1956, representing an increased average from 5.8 to 54.5 machines per club, with the largest rate of increase since 1992 (NSW Department of Gaming and Racing 1998; 2003). In addition, the number of NSW clubs with poker machines has increased over the same period from 952 to 1,381, although the machines have become more concentrated in the larger clubs. In terms of diffusion theory, widespread participation in machine gambling has been enhanced by the ease with which the machines can be observed, tried, used and accessed by patrons, as well as their compatibility with other leisure activities found in clubs (Cook and Yale 1994). Thus, placement of machines in popular social venues has enhanced their appeal, along with increased accessibility.

### **Machine and Game Design**

The club industry also has been instrumental in enhancing structural inducements in poker machine play, with many recently introduced machine features designed to increase both the rate of play and the average bet, thereby increasing gross machine profits. The club industry has been instrumental in pressuring governments to approve many such technological advancements in machine and game design. Further, most clubs undertake extensive and ongoing machine replacement programs to ensure their machines remain up to date, often upgrading at least 25 percent of their machines per year to accommodate technological advances and new game enhancements.

In terms of prizes, lobbying from both the NSW club industry and machine manufacturers in the last twenty years has been successful in raising the maximum bet and prize money on poker machines. In 1982, manufacturers submitted successful requests to licence both multi-

coin and multiplier machines with jackpots up to \$5,000 (NSW Department of Gaming and Racing 1996b). In 1986, the maximum jackpot for stand-alone machines was raised to \$10,000, while in 1988 \$1 and \$2 machines were introduced and the maximum bet raised to \$10 per play (NSW Department of Gaming and Racing 1996a). In-house linked systems with jackpots up to \$100,000 were introduced in 1988, while the 1990s has witnessed the advent of note acceptors on poker machines (NSW Department of Gaming and Racing 1996b) which tend to increase poker machine turnover and, therefore, profits (Productivity Commission 1999). Statewide jackpot systems, multi-terminal machines and cashless technologies have also been introduced in recent years.

### **Price of Machine Gaming**

Increasing player percentage returns from poker machines above the 85 percent required by law in NSW is a further attempt to enhance the appeal of poker machines. For example, the return to players averaged 90.6 percent over all NSW clubs in the 1996-97 fiscal year, increasing from an average of 90.4 percent the previous year and 86.9 percent five years earlier (NSW Department of Gaming and Racing 1998). While increasing percentage returns would appear to reduce gross profits for clubs, it instead appears to enhance the appeal of the machines by lengthening playing time as most players 'recycle' their winnings (Lynch 1985; Daley 1986).

### **Poker Machine Promotions**

Most clubs undertake extensive promotions to both attract players and reward high spenders. These include complimentary tickets for meals or entertainment when a certain level of poker machine change is purchased, vouchers for coin purchases redeemable for prizes or for entry into a draw to win major prizes, computer linked promotions, and player tracking where the

expenditure of individual players is monitored and rewarded if sufficiently high. Such promotions operate in nearly all clubs and have been criticised as encouraging people to stay on club premises for long periods of time and for the strong inducements to gamble that they offer (Hing 2003).

### **The Gambling Environment**

Because clubs cannot distribute profits, many use surplus revenue to improve physical facilities and services in gaming rooms. Attention to continual improvement of physical facilities in gaming areas (Hing 1996) and the casino-type atmosphere, particularly in large and crowded club gaming rooms, where the noise and lights contribute to excitement (Caldwell 1972) have been noted. Dickerson (1996:157) notes that ‘although the timeless divorce from reality achieved in contemporary theme casinos in Las Vegas may not be achieved’, club poker machines are typically in large, purpose built rooms increasingly advertised as ‘casino’ areas, which often have no exterior windows and are open for long hours. Many properties have themed gaming areas, while additional services such as call buttons on machines for purchasing drinks and payment of manual jackpots, free tea and coffee, and projection of other club entertainment onto large screens in gaming machine areas all represent attempts to keep patrons playing.

### **Political Lobbying**

Erosion of competitive advantages for many clubs in their machine gambling operations has attracted increasingly vocal opposition from the industry. In NSW, proposals to establish the Sydney Harbour Casino (now Star City Casino), to introduce and expand hotel machine gambling in NSW, to increase the taxation rates on club poker machines in 1997 and again in 2004 prompted extensive political lobbying by the clubs, and the formation of the Registered

Clubs Party in mid 1997. While these campaigns gained some concessions that marginally offset these competitive threats, they also drew public and political attention to the clubs' massive poker machine profits, poor track record of community support and commercially driven agenda.

## **Summary**

In the context of increased competition for the gambling dollar since the 1970s and erosion of their competitive advantages, NSW clubs became more aggressively commercial in machine gambling operations and more politicised in attempts to protect their main revenue source. The marketing and expansion strategies commonly adopted in machine gambling operations, the industry's contemporary structure and performance, the emergence of many large clubs with extensive poker machine installations, and the goals and functioning of these clubs, reveals that many have increasingly pursued the usual commercial goals of profit-oriented organisations. These include increasing market share, attracting maximum patronage, improving and diversifying their product mix, and generating substantial profits. Moreover, this pursuit of commercial goals subordinated the various common interests and community benefits for which clubs were established. This increased commercialisation undermined the role of many contemporary clubs as not-for-profit organisations existing for the benefit of members and pursuit of social purposes.

Historically, these factors had been instrumental for NSW clubs in both gaining and maintaining their competitive position. Erosion of these factors has weakened their legitimacy as dominant providers of gambling in the state, attracted public and political scepticism of their community focus, and raised community concern for problem gambling. The community has responded by becoming increasingly vocal in calling for greater social

responsibility in the provision of machine gambling by the clubs (IPART 1998; Productivity Commission 1999; IPART 2003), while the NSW Government has imposed more rigorous requirements to enhance community benefit from machine gambling operations and to address one of its costs, problem gambling. These requirements have aimed to help re-establish the distinctive relationship between clubs and the community, a linkage on which their original rights to machine gambling was based, but whose unhinging has emanated from unrestrained growth of the clubs, their commercialisation, their increased political power, and the liberalisation of government policies on gambling. Since 1998, the requirements introduced have included:

- a statewide cap of 78,020 machines for clubs and 25,980 for hotels;
- venue caps of 450 machines for clubs and 30 for hotels, with an exception provided for 18 large-scale clubs which are to shed 10% of their machines over a five year period;
- that clubs can receive a tax rebate of up to 1.5% of their gaming machine profits over \$1 million if an equivalent amount has been spent on community development and support;
- substantial tax increases on poker machine profits for clubs with large poker machine profits;
- responsible gambling legislation for clubs that requires they: provide information to patrons on counselling services, the use and operation of gaming machines, the chances of winning and the problems caused from excessive gambling; limit the cashing of cheques; limit the payment of prizes by cash to \$1,000; locate cash dispensing facilities away from poker machine areas; avoid gambling-related advertising; limit prizes from gambling-related promotions or competitions to \$1,000; provide self-exclusion to patrons who request it; and ensure their managers and gambling-related employees undertake an approved training course in the responsible conduct of gambling.

These legislative changes to date reflect growing government and community concern over machine gambling in NSW. Further, a recent NSW Government inquiry into harm minimisation measures in gambling (IPART 2004) has made over 100 additional recommendations for change. If these recommendations are adopted in government policy, then further adjustments will need to be made by NSW clubs to better promote the level of informed choice by gamblers and to better protect gamblers to discourage risky behaviours and reduce the prevalence and negative consequences of problem gambling (IPART 2004). It remains to be seen whether these recent and future changes will be sufficient to re-establish the distinctive historical links between clubs and the community, to soften public criticism of their role as major providers of machine gambling and its social fallout, and to address the public relationship challenges the industry faces. Additionally, given the market competition faced by clubs from the hotel and casino industries, the NSW club industry has challenging times ahead.

## **Conclusion**

The purpose of this paper has been to demonstrate how the historical development of NSW clubs as major providers of machine gambling has been facilitated by their not-for-profit status, membership requirements and social benefit objectives. These three features provided the basis for the clubs' legitimacy as dominant poker machine operators. However, increased commercialisation of NSW clubs gradually has undermined their distinctive relationship with the community, which stemmed from their role in pursuing and promoting the common interests of their members in sporting, recreational, social, cultural and community arenas. This change in focus from social to economic imperatives has aroused public and political scepticism about the clubs' actual distinctiveness from profit-based organisations, the concessions they receive, and the costs and benefits of club machine gambling. The clubs'

increasingly aggressive pursuit of commercial, revenue-producing activities has been accompanied by criticism that they have exploited their favourable treatment to protect their machine gambling monopoly and other competitive advantages, to the subordination of their original social role. Thus, while contemporary NSW clubs generally operate within the letter of the law, serious questions have been raised about whether they still operate within the spirit of the relevant legislation.

Further, the implicit assumption that community benefit is built into club machine gambling has been seriously questioned. This apparent weakening of the clubs' fulfillment of their social contract to operate machine gambling for community benefit invites calls for greater social responsibility in club gambling operations. Indeed, community expectations for clubs to be good corporate citizens may be heightened due to their not-for-profit status and community benefit charter and as a trade-off for their competitive privileges.

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